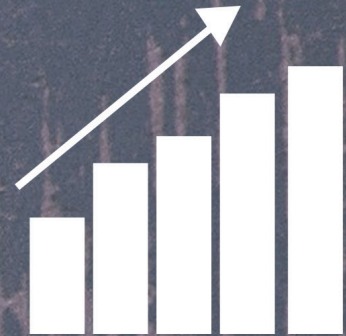



# Further Education and Training Grade 12 (FET) BRIGHT IDEAS ECONOMICS Revision Booklet



**basic education**

Department:  
Basic Education  
REPUBLIC OF SOUTH AFRICA





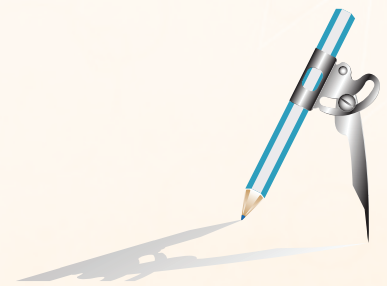




# ECONOMICS

## Grade 12

# REVISION BOOKLET



32%



History

Mathematics

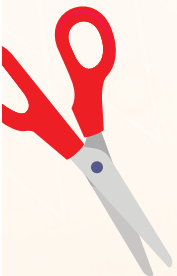
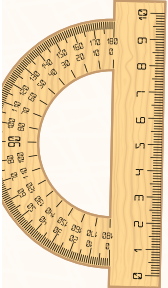


Physics

Accounting



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# 1 FOREWORD

## Message from the Minister of Basic Education

### Message to Grade 12 learners from the Minister of Basic Education



“Matric” (Grade12) is perhaps the most important examination you will prepare for. It is the gateway to your future; it is the means to enter tertiary institutions; it is your opportunity to create the career of your dreams.

It is not easy to accomplish but it can be done with hard work and dedication; with prioritising your time and effort to ensure that you cover as much content as possible in order to be well prepared for the examinations.

I cannot stress the importance and value of revision in preparing for the examinations. Once you have covered all the content and topics, you should start working through the past examination papers; thereafter check your answers with the memoranda. If your answers are not correct, go back to the *Mind the Gap Series* and work through the content again. Retest yourself. Continue with this process until you get all the answers right.

The ***Bright Idea....getting exam ready Booklet*** will allow you to do this in a systemic way. It has been developed to assist you to achieve a minimum of 40% in the examinations, if you work hard and follow the advice and guidance provided in the book. I also urge you to continue with the next section that deals with an additional 20%, which will ensure you have covered the basics to achieve 60%.

Use this valuable resource which has been developed especially for YOU, work hard, persevere, work every day, read and write every day to ensure that you are successful.

I have faith that you can do this. Remember “SUCCESS” depends on the second letter, “U”.

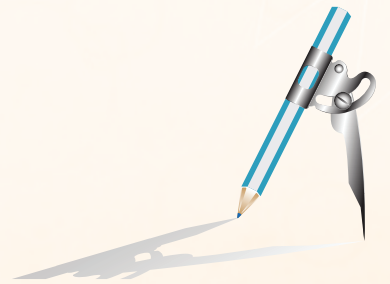
Best Wishes



**MRS AM MOTSHEKGA, MP**

**MINISTER OF BASIC EDUCATION**

**DATE: 24/02/2017**





## 2 HOW TO USE THIS REVISION BOOKLET

This booklet should be used as a “pocket book”, because it is simple, easy to carry, easy to use and understandable.

The aim of this pocket book is to highlight some simple questions where candidates can earn about 60% of their marks.

It guides candidates on the important aspects to consider under each topic, such as concepts/ diagrams/ illustrations/ cartoons.

It should be used in conjunction with other prescribed textbooks and sources, where detailed information is provided, before answering the questions included in the pocket book.

The Economics Mind the Gap (MTG) study guide is an important source to use to study the summary of topics and how answers are to be crafted.

Learners should understand all action verbs, in order to ensure they respond appropriately to questions, e.g. mention, comment, demonstrate. Refer to Economics MTG (2014 page xvii) for an explanation of action verbs commonly used in examinations.

The Revision Booklet does not cover the entire CAPS curriculum; rather, it focuses on questions where you can earn easy marks.

Topics that are included in this Revision Booklet are:

Paper 1: Macro-economics and economic pursuits

- Circular flow
- Business cycles
- Public sector
- Foreign exchange markets
- Protectionism and free trade
- Economic and social performance indicators

(Note: Economic growth and development and industrial policies are Excluded, but are important and examinable topics.)

Paper 2: Micro-economics and contemporary economic issues

- Perfect markets
- Imperfect markets
- Inflation

**Note:** Market failure, tourism and environmental sustainability are excluded from this booklet, but are important and examinable topics.)

It is important to study all topics in the Economics curriculum to pass the subject, because all topics assessed carry the same weight in the examination. Ensure you understand all the relevant concepts, formulae, etc.





**Section A is compulsory.** Types of questions posed include multiple-choice, matching of terms and description of concepts. This is where you will can score easy marks.

**Section B** has questions that carry 1 to 8 marks. For this section, it is important to understand current information in Economics. A number of easy marks can be earned here.

Section A and B is the 40% where you will earn easy marks, start by understanding questions asked in these two sections.

**Section C:** These are essay questions. Study the topics thoroughly so that you are able to earn marks by naming and discussing concepts. This is where you will earn an extra 20% of the easy marks.

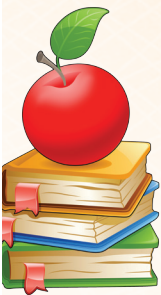
It is important to learn all key concepts and understand them, so that you are able to answer any question asked.

Use the MTG study guide to study the topic, answer questions asked against answers given. When you are confident that you understand the topic, attempt to answer the questions set in Chapter 3 of the Booklet, without looking at the answers.

Then find other past question papers, go through similar questions and check the memoranda to ensure that you get them right.

You will then be ready to answer 60% of the question paper.





## CIRCULAR FLOW

### OBJECTIVES

- The open economy circular flow model
- The markets
- The national accounts aggregates and conversions
- The multiplier

### Basic concepts you should know:

Circular flow model

Households

Business sector

Government

Foreign sector

Factor market

Goods market

Financial market

Foreign exchange market

Leakages

Injections

Real flow

Money flow

Basic prices

Factor prices

Market prices

Marginal propensity to save

Marginal propensity to consume

Gross domestic product (GDP)

Gross domestic income (GDI)

Gross domestic expenditure (GDE)

Multiplier

At the end of this section, you should be able to:

- Define concepts.
- Draw, label, analyse, interpret and illustrate the open economy circular flow diagram.
- Define and explain the National Accounts Aggregate concepts used.
- Discuss the three GDP methods.
- Analyse, interpret and derive national accounts aggregates.
- Describe the concepts multiplier and multiplier process.
- Graphical representation and application of the multiplier.

### 3.1 THE OPEN ECONOMY CIRCULAR FLOW MODEL

3.1.1 Give two examples of participants in an open economy. (2x1) (2)

3.1.2 What role do financial institutions play in the circular flow model? (1x2) (2)





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

Component	R billion
Government spending	50
Savings	50
Exports	50
Taxes	40
Imports	55
Investments	55

- (a) Give TWO examples of injections in the circular flow. (2)
- (b) Give an example of a leakage and an injection seen in the table. (2)
- (c) Distinguish between leakages and injections. (2x2) (4)
- (d) Would you say this economy is in equilibrium? Justify your answer. (4)

3.1.4 Explain the interaction between households and firms in the circular flow model. (8)

3.1.5 Tabulate the differences between goods and factor markets. (8)

3.1.6 Differentiate between real flows and money flows in the circular flow model. (8)

### 3.2 NATIONAL ACCOUNTS AGGREGATES AND CONVERSIONS

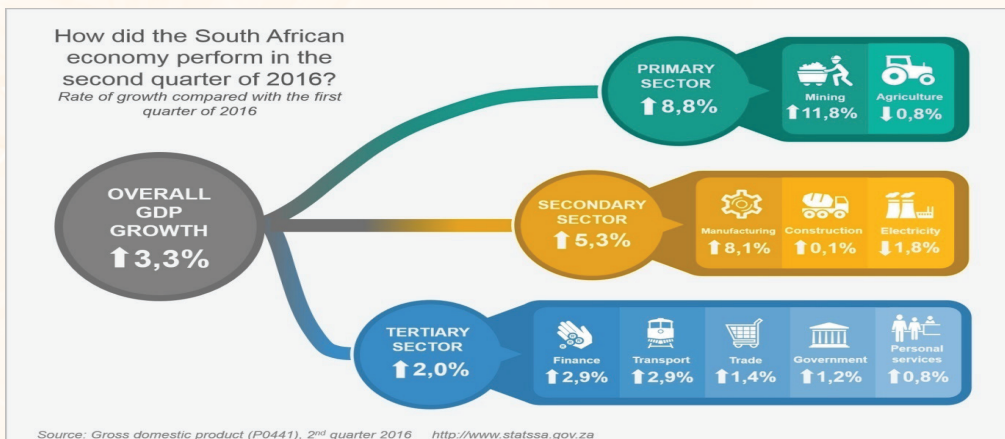
In order for you to understand this topic, you should study the following material:

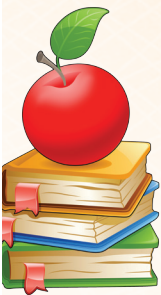
- Derive national accounts aggregates
- National accounts conversions

3.2.1 Give any two methods used to calculate GDP. (2x1) (2)

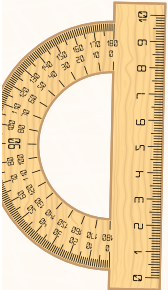
3.2.2 Why are subsidies subtracted when calculating GDP? (1x2) (2)

3.2.3 Study the diagram below and answer the questions that follow.





- (a) Identify the sector that processes raw materials into consumer goods. (1)
- (b) Which sector contributed most to overall GDP growth? (1)
- (c) Define the concept GDP. (2)
- (d) How to convert the GDP at market prices to GNI at market prices. (2)
- (e) Calculate the percentage of the Gross Value Added (GVA) at basic Prices. (4)
- 3.2.4 Distinguish between basic prices and market prices. (8)
- 3.2.5 Study the table below and answer the questions that follow.



Gross value added by type of economic activity	2014 (R millions)
<b>At current prices</b>	
<b>Primary sector</b>	<b>371 268</b>
Agriculture, forestry and fishing	84 662
Mining, quarrying	286 606
<b>Secondary sector</b>	<b>C (c)</b>
Manufacturing	452 326
Electricity, gas and water	125 377
Construction	138 917
<b>Tertiary sector</b>	<b>2 316 605</b>
<b>GVA @ basic prices</b>	<b>3 404 493</b>



Source: [SARB Quarterly Bulletin 2015]

- (a) Identify any two activities in the primary sector. (2x1) (2)
- (b) Which method is used in the table to calculate GVA. (1)
- (c) Determine the value of (C). (2)
- (d) Tabulate the TWO differences between nominal and real figures. (2x2) (4)

### 3.3 The multiplier

In order for you to understand this topic, you should study the following:

- Define and explain the concept and the multiplier process.
- Calculation and application using the basic formula
- Analyse graphical representation of the multiplier

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







The government of Valspar has decided to expand the national road network by R200 million this year. The tendency of households is to save 20 per cent of their income.

Source: DBE March/Feb 2016

- (a) What percentage of their income do households spend? (2)
- (b) Explain the term multiplier. (2)
- (c) What impact will a tax increase have on the multiplier? (2)
- (d) Calculate the size of the multiplier. Show ALL calculations. (4)

**SECTION C – ESSAY**

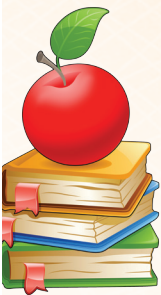
The circular-flow model shows how the economy works via the various markets.

Discuss the role of the various markets in the circular flow model, without the use of a diagram. (26 )

Explain the multiplier concept with the aid of a well-labelled graph. (10)

(40)





### 3 BUSINESS CYCLES

#### OBJECTIVES

- Composition and features
- Keynesian (endogenous) and Monetarist (exogenous) explanation
- Government policies: Fiscal and Monetary policies
- The new economic paradigm
- The features that underpin forecasting (indicators; length; amplitude; trend line)

#### Basic concepts you should know:

Business cycle

Recession

Depression

Recovery

Boom / prosperity

Peak

Trough

Economic growth

Trend line

Endogenous approach

Exogenous approach

Fiscal policy

Monetary policy

Upswing / expansion phase

Downswing / contraction phase

Business cycle indicators

#### SECTION A (COMPULSORY)

1.1 Various options are provided as possible answers to the following questions. Write down only the letter of the correct answer next to the question number (1.1.1–1.1.8)

1.1.1 **The severity of cyclical fluctuations in business cycles is indicated by ...**

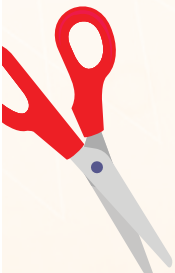
- A amplitudes
- B moving averages
- C extrapolations

1.1.2 **Exogenous factors such as ... can cause fluctuations in the level of economic activity.**

- A weather patterns
- B inflexibility of markets
- C demand patterns

1.1.3 **An example of a fiscal policy instrument is ...**

- A money supply
- B government spending
- C interest rates







1.1.4 This shows strong forces and severe expansion or contraction of economic activities.

- A low amplitude
- B trend line
- C high amplitude

1.1.5 The combination of inflation and unemployment rate is known as ...

- A Laffer curve
- B Phillips curve
- C Inflation rate

1.1.6 Monetary policy focuses on ... and the aggregate money supply.

- A income
- B interest rates
- C taxation

1.1.7 The length of a business cycle is measured from ...

- A peak to trough
- B trough to peak
- C peak to peak

1.1.8 Business cycles are in the shape of a ...

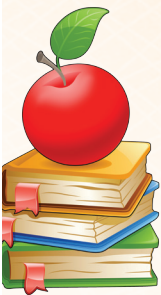
- A circle
- B wave
- C a line graph



(8 x 2)

(16)

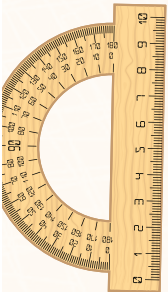




1.2

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

- |        |                      |  |
|--------|----------------------|--|
| 1.2.1  | Leading indicators   | A. Assumptions about the future using the given information.                                       |
| 1.2.2  | Peak                 | B. High economic growth rate for an extended period without being held back by supply limitations. |
| 1.2.3  | Monetary policy      | C. Give advance warning of a change in economic activity.  |
| 1.2.4  | Depression           | D. The upper turning point of the business cycle.  |
| 1.2.5  | Kuznets cycle        | E. Uses interest rates to influence the level of expenditure.                                      |
| 1.2.6  | Demand side approach | F. Caused by changes in the building and construction industry.                                    |
| 1.2.7  | Prosperity phase     | G. The use of fiscal policy to stimulate spending in the economy.                                  |
| 1.2.8  | Repo rate            | H. The portion where the level of economic upswing accelerates.                                    |
| 1.2.9  | Extrapolation        | I. Production levels, employment levels, income and expenditure decrease even more.                |
| 1.2.10 | Economic paradigm    | J. The interest rate that the Reserve Bank charges financial banks.                                |



1.3

**GIVE ONE TERM FOR EACH OF THE FOLLOWING DESCRIPTIONS. WRITE ONLY THE TERM NEXT TO THE QUESTION NUMBER (1.3.1–1.3.6) IN THE ANSWER BOOK.**

- |       |   |
|-------|---|
| 1.3.1 | A fluctuation in economic activity over a period of time (business cycle).                        |
| 1.3.2 | The distance from the trend line to the peak and the trough.                                      |
| 1.3.3 | THE TURNING POINT IN THE BUSINESS CYCLE, WHERE THE LEVEL OF ECONOMIC ACTIVITIES IS AT ITS LOWEST. |
| 1.3.4 | ECONOMIC STATISTICS THAT ARE PRODUCED WHEN ANALYSING THE PERFORMANCE OF AN ECONOMY.               |
| 1.3.5 | THESE ARE CALCULATED OVER A CERTAIN TIME TO SMOOTH OUT MINOR FLUCTUATIONS IN THE DATA.            |
| 1.3.6 | THIS INVOLVES BUYING OR SELLING STATE SECURITIES.<br>(6 X 1)                                      |

(6)

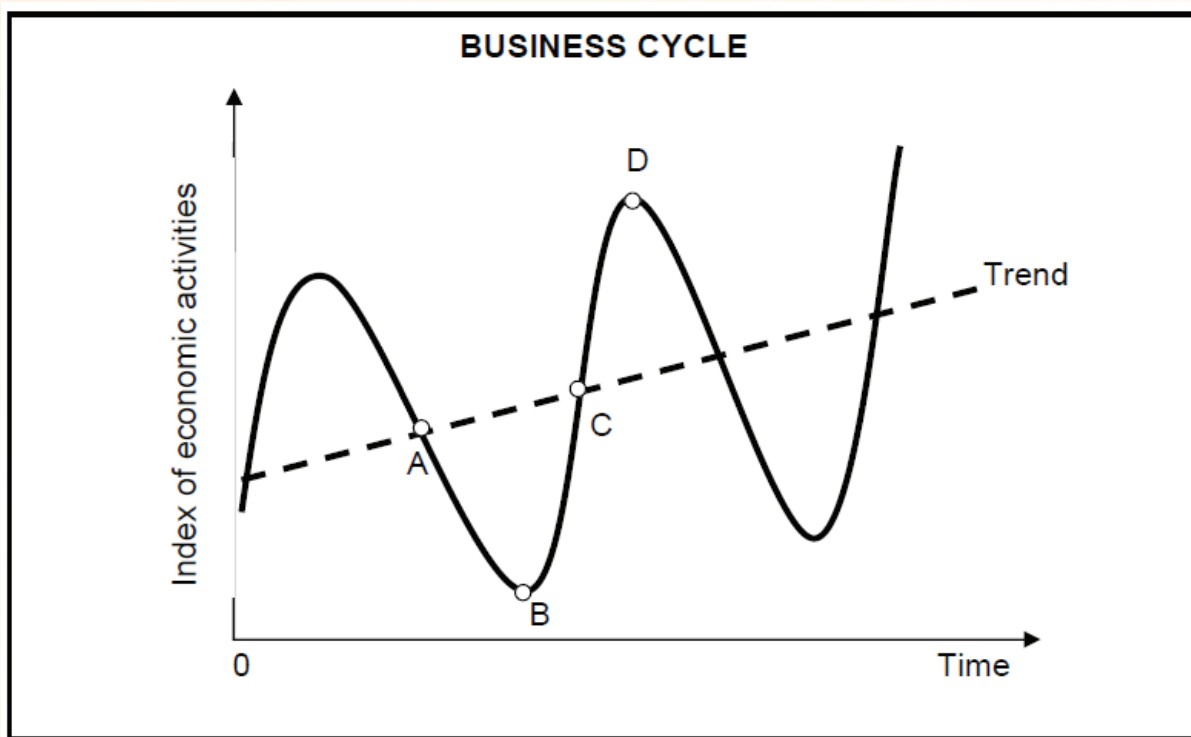




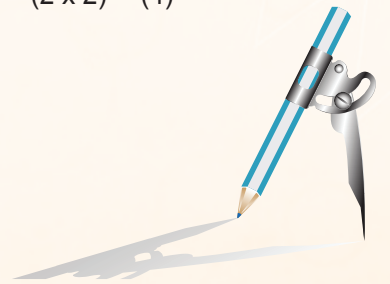


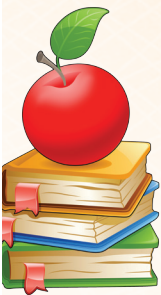
**SECTION B**

- 4.1 Composition and features: (2)
- 4.1.1 **Mention TWO types of turning points in a business cycle.** (2  
x 1) (2)
- 4.1.2 **What is the purpose of a trend line?** (2)  
(1 x 2) (2)
- 4.1.3 Study the graph below and answer the questions that follow.



- a) Identify the label for a recovery stage. (2)
- b) According to the diagram, what is indicated by the trend line? (2)
- c) Define the concept business cycle. (2)
- d) What impact do you think heavy rainfall will have on the economy, especially in the agricultural sector? (2 x 2) (4)





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

**SA ECONOMY CLOSING IN ON A RECESSION**

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

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

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

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

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

[Adapted from *Fin24*, February 2016]

- a) Identify TWO factors in the extract that contributed to the poor performance of the South African economy. (2)
- b) When is a country officially in a recession? (2)
- c) Explain the impact a downgrading of South Africa's credit rating will have on the economy. (2)
- d) In your opinion, what can government do to stabilise the downswing in the business cycle? (2 x 2) (4)

**4.2 Explanations:**

- 4.2.1 Name TWO types of business cycles. (2 x 1) (2)
- 4.2.2 Why should the state would intervene in the economy? (1 x 2) (2)
- 4.2.3 Distinguish between *exogenous approaches* and *endogenous approaches* to business cycles. (2 x 4) (8)

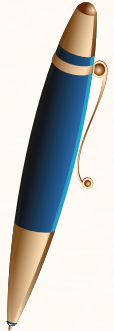
**4.3 Government policies:**

- 4.3.1 Mention any TWO instruments of the monetary policy. (2 x 1) (2)
- 4.3.2 What effect will a decrease in government spending have on the economy? (2)

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







- a) Name the government policy represented by the cartoon above. (1)
- b) What is the meaning of the term *tax hike* in the cartoon. (1)
- c) Briefly explain the impact an increase in income tax will have on the consumption of goods and services by households. (2 x 2) (4)
- d) Is the government spending enough to create job opportunities? Motivate your answer. (2 x 2) (4)
- 4.3.4) Briefly discuss state intervention through monetary policy to stimulate a depressed economy. (4 x 2) (8)
- 4.3.5) How possible will it be for the state to make use of monetary policy to slow down an overheated economy. (8)
- 4.4 The new economic paradigm:**
- 4.4.1 Without the aid of a Phillips curve, discuss demand and supply side policies. (26)



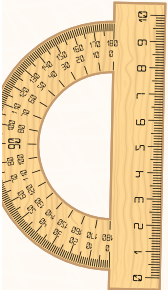


4.5 Features underpinning forecasting:

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

**Composite business cycle indicators for South Africa**

The composite **leading** business cycle indicator *decreased* by 0,9 per cent on a month-to-month basis in December 2014. The largest negative contribution to the movement in the composite leading indicator in December resulted from a decrease in the number of residential building plans passed. The largest positive contributions in December came from acceleration in the twelve-month percentage change in the number of new passenger vehicles sold, as well as acceleration in job advertisement space. The composite **lagging** business cycle indicator *increased* by 1,2 per cent on a month-to-month basis in November 2014.

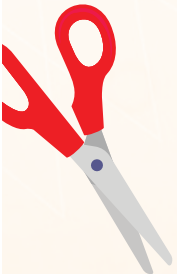


Adapted from SARB: 24 February 2015

- a) Identify the reason for the decrease in the composite leading indicator. (1)
- b) What was the percentage of composite lagging indicator? (1)
- c) Define the term business cycle? (2)
- d) Distinguish between a leading and lagging indicator. (2 x 2) (4)
- e) What impact do you think a decrease in a leading indicator will have on the country's economy? (2)



- 4.5.2 Discuss the following features that underpin forecasting: (9)
- a) trend line
  - b) amplitude
  - c) length (3 x 3)







## PUBLIC SECTOR

### OBJECTIVES

- Composition and necessity of public sector
- Problems of public sector provisioning
- Objectives
- Budgets and fiscal policy, including the Laffer curve
- Reasons for public sector failure

### CONCEPTS

Public sector	Privatisation
Parastatals	Nationalisation
Economic growth	Full employment
Exchange rate stability	Price stability
Budget	Economic equity
Medium Term Expenditure Framework	Fiscal policy
Medium Term Budget Policy Statement	Incentives
Laffer curve	Disincentives
Income distribution	Economic instability
Efficiency	Public goods
Outsourcing	Subsidy

At the end of this section you should be able to:

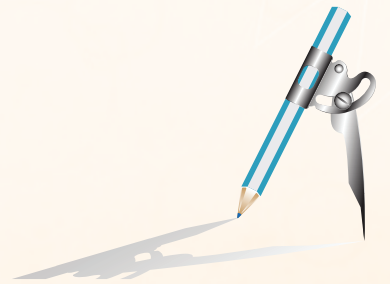
- Define, identify and understand concepts.
- Draw, label, analyse, interpret and illustrate the **Laffer curve**.
- Answer multiple-choice, matching and data response questions on the public sector.

### **SECTION A: COMPULSORY QUESTIONS**

5.1. Various options are provided as possible answers to the following questions. Write down the question number (5.1.1-5.1.6), choose the answer and make a cross (X) over the letter (A–D) of your choice in the ANSWER BOOK.

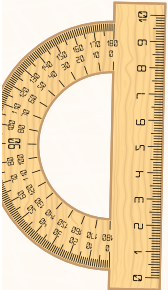
5.1.1 This is NOT one of the problems of public sector provisioning:

- A pricing policy
- B privatisation
- C nationalisation
- D public goods





- 5.1.2 The curve that illustrates the relationship between tax rates and income tax is known as the ...curve.
- A Lorenz
  - B Laffer
  - C Gini
  - D demand



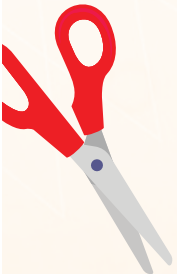
- 5.1.3 Government income and expenditure estimates for a three-year period are reflected in the ...
- A. provincial budget.
  - B. main budget.
  - C medium-term expenditure framework (MTEF).
  - D additional budget



- 5.1.4 South African Defence Force services is provided by ... government
- A central
  - B local
  - C provincial
  - D federal

- 5.1.5 The state aims for a more equal distribution of income by using a ... personal income tax system.
- A. proportional
  - B. regressive
  - C. progressive
  - D equitable

- 5.1.6. An example of a positive externality is ...
- A. pollution.
  - B. tobacco smoking.
  - C. education.
  - D littering







5.2 Choose a description from COLUMN B that matches a concept in COLUMN A. Write only the correct letter (A–I) next to the corresponding question number (5.2.1–5.2.10) in the ANSWER BOOK.

COLUMN A	COLUMN B
5.2.1 Fiscal policy	A. The best possible allocation and use of resources with the least waste.
5.2.2 Economics equity	B. Transfer of state-owned businesses to the private sector, usually by selling them.
5.2.3 MTBPS	C. Government spending and taxation.
5.2.4 Privatisation	D. The delegation of a non-core operations or jobs from internal production within a business or government to an external person or firm that specialises in that specific operation.
5.2.5 State-owned enterprises	E. Is expressed as a reasonable division of income among the population.
5.2.6 Efficiency	F. Goods and services provided by the state for use by all members of society.
5.2.7 Public goods	G. Consists of three-year rolling expenditure and revenue projections.
5.2.8 Outsourcing	H. The part of the economy that consists of national, provincial and local governments and all entities owned by the government.
5.2.9 Public sector	I. Businesses owned by the state.
5.2.10 Subsidy	J. A market for goods and services.
	K. A form of financial assistance or grant that the government provides to another entity, like a business or industry.



5.3 Give the economic term/concept for each of the following descriptions. Write only the term / concept next to the question number (5.3.1–5.3.11) in the ANSWER BOOK.

5.3.1 It occurs when the free market is not able to allocate resources and/ goods and services efficiently.

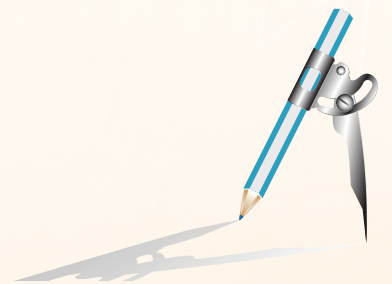
5.3.2 Consequences of a decision by one party that leads to unintended costs for a third party, who is not part of a transaction.

5.3.3 When government takes ownership and control of an existing enterprise in the free market.

5.3.4 is when you exploit your position for personal gain.

5.3.5 An increase in real GDP.

5.3.6 This is levied on the gains earned on the sale of capital goods.

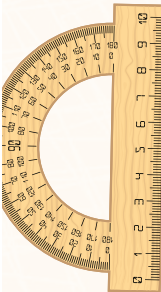




- 5.3.7 is a duty of an individual or organisation to explain their decisions and actions and accept responsibility for their behaviour.
- 5.3.8 A form of financial assistance that the government provides to another entity, like a business or industry.
- 5.3.9 People in higher income groups pay a higher tax rate than people in lower income groups.
- 5.3.10 It decides on the country's monetary policy.
- 5.3.11 The largest contributor to government revenue.

**SECTION B**

- 5.4 Problems of public sector provisioning:
  - 5.4.1 Name TWO macroeconomic objectives of the state. (2 x 1) (2)
  - 5.4.2 What does the acronym MTEF stand for? (2 x 1) (2)
  - 5.4.3 Give TWO reasons for public sector failure. (2 x 1) (2)
  - 5.4.4 Describe the term Public Sector. (1 x 2) (2)
  - 5.4.5 List TWO examples of incentives. (2 x 1) (2)
- 5.5 Read the following extract and answer the questions that follow:



**PRIVATISING ESKOM 'NOT ON THE CARD'**

ANC general secretary Gwede Mantashe has denied that the party wants the government to privatise ESKOM but he said the ANC is considering alternative models to solve South Africa's energy crisis.

Eskom is a state owned entity, there is no privatisation, he said on Monday.

ANC top leaders contradicted each other on the future of cash strapped utility.

*By Lebogang Seale , IOL business*

- (a) Define the term privatisation. (2)
- (b) List any TWO methods of privatisation. (2 x 1) (2)
- (c) In your opinion, what are the alternative models to solve the energy crisis. (2)
- (d) Why is Eskom regarded as a strategic industry? (2 x 2) (4)

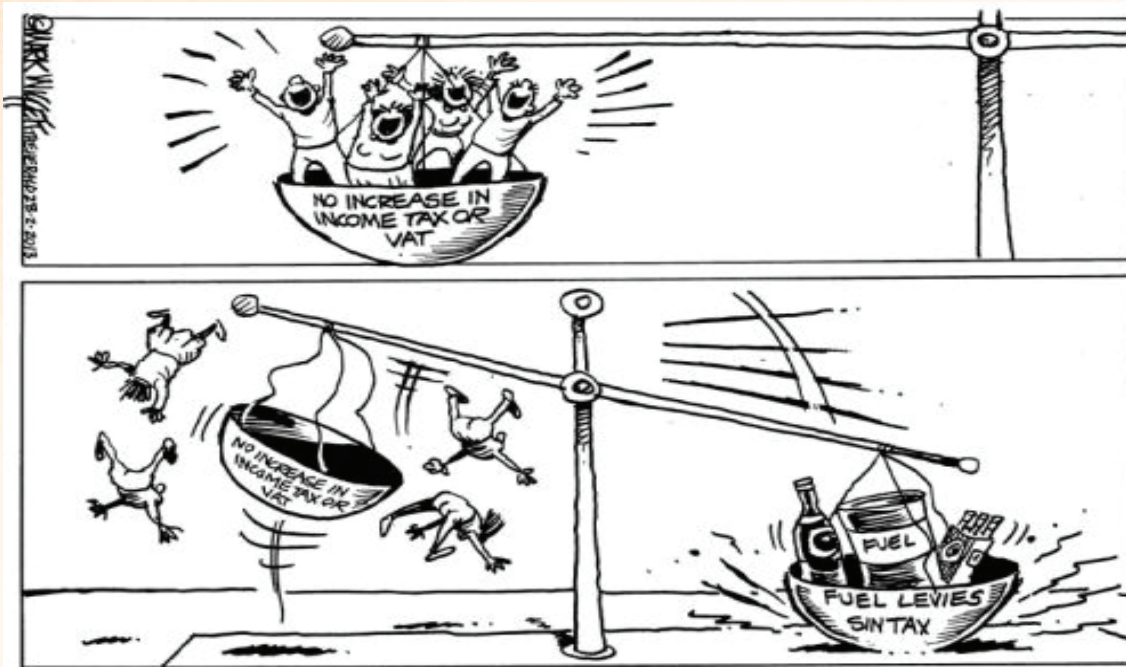
- 5.6 Budgets and fiscal policy:
  - 5.6.1 Name TWO instruments of fiscal policy. (2 x 1) (2)





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

**WHAT A SURPRISE!**

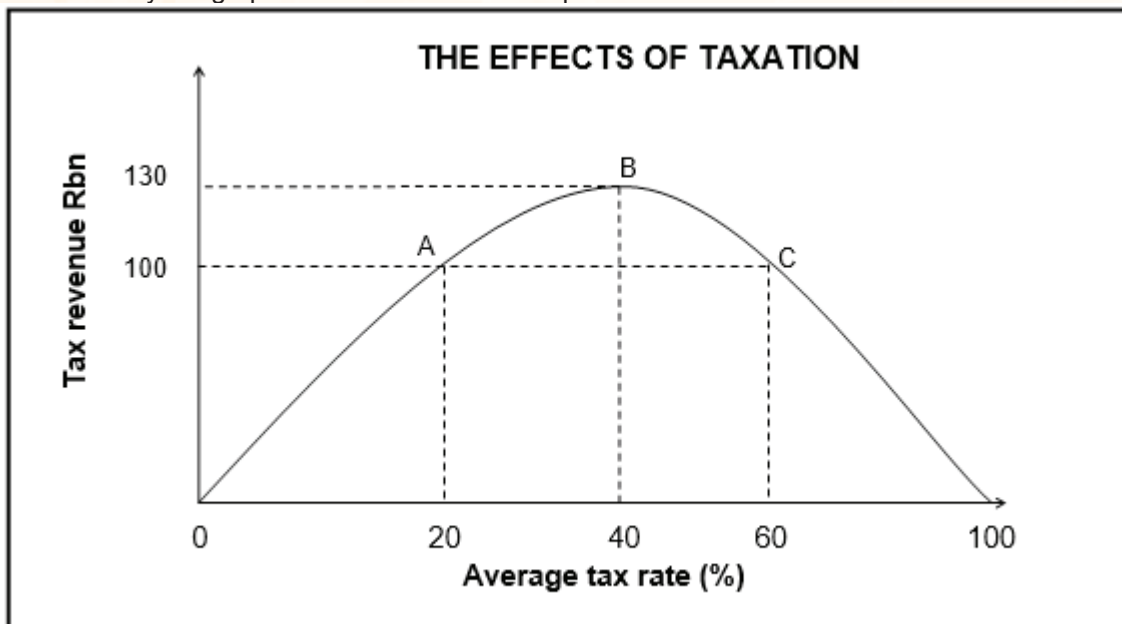


**NO INCREASE IN INCOME TAX OR VAT**

[Source: *Business Times*, February 2016]

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

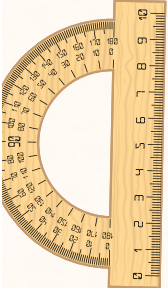
5.7 Study the graph below and answer the questions that follow.





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

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



### E-TOLL IS HERE TO STAY!

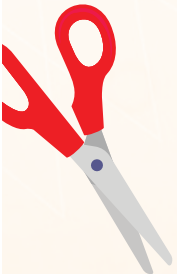


E-toll tariffs will be adjusted downwards but government remains committed to the principle of road users funding improvements to keep Sanral solvent, the National Treasury said on Wednesday.

In his 2015/16 budget speech in the National Assembly, Finance Minister Nhlanhla Nene said. "Concerns regarding the socio-economic impact of toll tariffs have been heard, and revised monthly ceilings will shortly be proposed."

(Adapted from National budget 2015)

- (a) What does the acronym SANRAL stand for? (2)
- (b) Describe the term e-toll. (2)
- (c) What negative socio-economic impact can e-toll tariffs have in South Africa? (2)
- (d) In your opinion, what is the most important cause of public sector failure in South Africa? (Motivate your answer.) (4)







## INTERNATIONAL TRADE

### OBJECTIVES

- The main reasons for international trade
- Balance of payments (BoP)
- Corrections made to the BoP surplus and deficit
- Foreign exchange markets
- Establishment of foreign exchange rates
- Export promotion
- Import substitution
- Protectionism
- Free trade
- A desirable mix
- South African trade policies



### Basic concepts you should know:

International trade	Depreciation
Absolute advantage	Revaluation
Comparative advantage	Devaluation
Demand reasons	Foreign exchange rate
Supply reasons	Free floating exchange rates
Balance of payments	Managed exchange rates
Current account	Fixed exchange rates
Capital transfer account	Terms of trade
Financial account	Trade balance
Direct investment	Transfer payment
Portfolio investment	Free trade
Other investments	Protectionism
Special Drawing Rights (SDR)	Export promotion
Foreign exchange market	Import substitution
Appreciation	Import controls
	Trade protocols





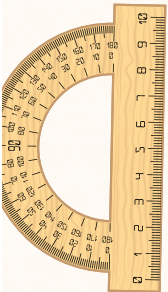
At the end of this topic you should be able to:

- Define and briefly describe the key concepts.
- Discuss in detail the demand and supply reasons for international trade.
- Briefly discuss the effects of international trade.
- Explain the composition of the BOP in terms of different accounts.
- Draw, label, analyse, interpret and illustrate supply and demand of the foreign exchange market.
- Broadly outline, analyse and interpret data on the composition of SA's trade and trading partners.
- Discuss export promotion, import substitution, protectionism, free trade and a desirable mix.

**SECTION A: COMPULSORY**

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

- 6.1.1 The supply reasons for international trade are ...  
 A. climate conditions  
 B. migration of people  
 C. changes in income
- 6.1.2 The exchange of goods or services across borders is termed ...  
 001. trade balance  
 002. transfer payments  
 003. international trade
- 6.1.3 The trade between countries without any restrictions is termed ...  
 A. free trade  
 B. international trade  
 C. terms of trade
- 6.1.4 The value of visible exports minus visible imports is termed ...  
 A. exchange rate  
 B. trade balance  
 C. net balance
- 6.1.5 A statement of all the money transactions made by a country with the rest of the world is termed ...  
 A. the budget  
 B. Balance of payment  
 C. Transfer account
- 6.1.6 Portfolio investments refers to investments in ...  
 A. property  
 B. banks  
 C. shares
- 6.1.7 Withdrawal of capital investment from a company or a country is termed ...  
 A. investment  
 B. sanctions  
 C. disinvestment
- 6.1.8 A penalty applied by one or more countries on another country is termed ...  
 A. embargo  
 B. sanctions  
 C. disinvestment







- 6.1.9 The organisation that facilitates globalisation is ...  
 A. BRICS  
 B. WTO  
 C. SADC

- 6.1.10 The Component of the current account is ...  
 A. Service receipts  
 B. Liabilities  
 C. Portfolio investments

(10 x 2) (10)

- 6.2 Choose the description from Column B that matches the item in Column COL  
 A. Write only the letter (A-I) next to the question number (1.2.1).



	COLUMN A	COLUMN B
6.2.1	Special drawing rights	A The process by which the whole world becomes a single market.
6.2.2	Terms of trade	B It provides for regional cooperation and integration among African states.
6.2.3	Transfer payments	C Where the rates of exchange are fixed in value to US dollar.
6.2.4	New Partnership for African Development	D A decision by the government to deliberately decrease the value of the currency.
6.2.5	Trade liberalisation	E The financial instrument distributed among member countries of the IMF.
6.2.6	Fixed exchange rate system	F The abolishment of government intervention in trade flows on both the import and export side.
6.2.7	Devaluation	G The relationship between export prices and import prices.
6.2.8	Globalisation	H Money that enters the country is offset against money that leaves the country.
		I Money received without any productive service rendered.



(8 x 1)

(8)

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

- 6.3.1 The market for international currencies.  
 6.3.2 Incentives such as subsidies.  
 6.3.3 Goods that were imported are replaced with locally produced goods.  
 6.3.4 Reducing the barriers to free international trade.  
 6.3.5 The country's deliberate decrease in the value of its currency.  
 6.3.6 A situation in which one country produces a product at a lower opportunity cost than another country.  
 6.3.7 The ratio between the country's export prices and its import prices.  
 6.3.8 An increase in a currency due to market forces.





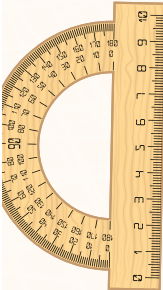
## 6.4 THE MAIN REASONS FOR INTERNATIONAL TRADE

- 6.4.1 Name TWO main reasons for international trade. (1 x 2) (2)
- 6.4.2 Discuss supply reasons for international trade. (26)
- 6.4.3 Briefly explain the four effects of international trade. (4 x 2) (8)

## 6.5 The composition of the Balance of Payments (BoP)

- 6.5.1 Name TWO items in the financial account of the balance of payment. (1 x 2) (2)
- 6.5.2 Define the term trade balance. (2 x 1) (2)
- 6.5.3 Study the Balance of Payment Current account and answer the questions that follow.

	2015
Balance of Payments Account	R billions
Merchandise exports	974
Net gold exports	68
Merchandise imports	-1076
Trade Balance	-34
Net service, income and current transfer payments	-140
Balance on current account	<b>A</b>

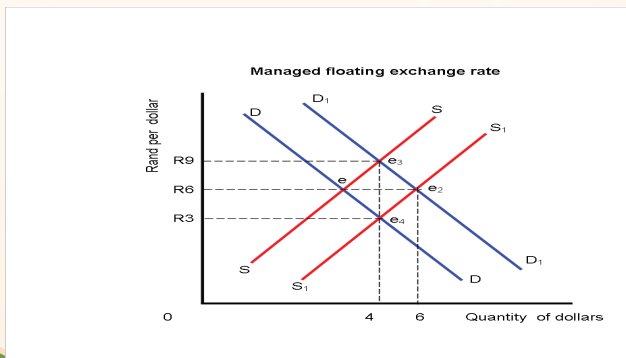


  
Source: SARB Quarterly Bulletin June 2016

- (a) Calculate the Balance on the Current Account for 2015 (A)  
Show ALL calculations. (4)
- 6.5.4 How can imports be targeted to reduce the deficit on the balance of trade in South Africa? (4 x 2) (8)
- 6.5.5 In your opinion, how can *the Reserve Bank* reduce the deficit in the balance of payments? (4 x 2) (8)

## 6.6 Foreign exchange markets and foreign exchange rates

- 6.6.1 Study the graph below and answer the questions that follow.







- (a) What market is depicted in the graph above? (1)
- (b) What currency is used in South Africa? (1)
- (c) Describe the term exchange rate. (2)
- (d) If the original equilibrium point is e, identify the equilibrium point where the value of the rand has depreciated against the dollar. (2)
- Motivate your answer. (2 x 2) (4)
- (e) Discuss factors that will affect the demand for foreign exchange in South Africa. (4 x 2) (8)
- (f) Differentiate between *depreciation* and *appreciation*. (4 x 2) (8)
- (g) Explain the term “managed exchange rate”. (2)
- (h) What effect did the change in demand have on the value of the rand? Motivate your answer. (2)
- (i) How can the Central Bank of South Africa intervene in the foreign exchange market to influence the exchange rate? (2 x 2) (4)

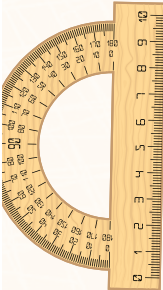


6.6.2 Study the table below and answer the questions that follow.

SOUTH AFRICA : TERM OF TRADE			
Year	Index of Import prices	Index of Export prices	Term of Trade
2011	153	191	124.8
2012	163	200	122.7
2013	179	214	(A)
2014	191	225	117.8

Source SARB Quarterly Bulletin, March 2016





- (a) Identify the institution responsible for publishing the data above. (1)
- (b) Describe the term *terms of trade*. (2)
- (c) In your opinion, what is the cause of the decreasing trend in the term of trade? (3)
- (d) Calculate the term of trade for 2013, labelled (A) on the table. (4)  
Show all your calculations. (4)

6.6.3 Why is the *term of trade* important to South Africa's economy. (4 x 2) (8)

6.7 Protectionism and free trade

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







- (a) Identify one trade protocol in the cartoon. (1)
- (b) Which form of assistance is demonstrated in the cartoon? (1)
- (c) Define the term protectionism. (2)
- (d) Briefly describe ONE reason for import substitution. (2)
- (e) Briefly describe any TWO arguments against free trade. (4)

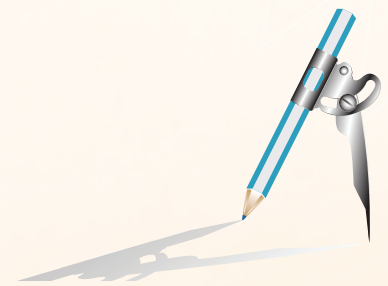
6.7.2 Discuss the arguments in favour of protectionism with regard to *industrial development* and *employment*. (8)

**SECTION C - ESSAY**

To be internationally competitive, a country needs to have suitable trade policies in place. They have to grow their industries if they want to increase the standard of living in the country.

Discuss, in detail, the arguments in favour of protectionism. (26)

In your opinion, how can the government use subsidies to ensure that local industries are protected against unfair competition from abroad? (10)





## ECONOMIC PURSUITS

### 7. Indicators

#### Objectives

- The performance of an economy
- Economic indicators
- Social indicators
- International comparisons

#### Basic concepts you should know:

Standard of living	Interest rate
Literacy rate	Inflation rate
Developing country	Consumer price index (CPI)
Census	Producer price index (PPI)
Economic indicator	CPI headline
Social indicator	Productivity
Repo rate	Labour productivity
	Terms of trade

#### Activity 1

- 7.1 Name an economic indicator relating to production. (2)
- 7.2 List any THREE uses of the per capita income figure. (3 x 2) (6)
- 7.3 Read the extract below and answer the questions that follow.

#### Life expectancy continues to rise as South Africa's population breaks 54 million

Life expectancy at birth stands at 61 years, having increased from an estimated 52 years in 2005. The rise in life expectancy can be attributed to two important trends: first, the number of AIDS related deaths is estimated to have decreased. This can be associated with the increased rollout of antiretroviral therapy (ART). Second, the infant mortality rate (IMR) has fallen.

[www.statssa.gov.za](http://www.statssa.gov.za): 2016

- a) Identify one reason given in the extract for the increase in life expectancy (1)
- b) Define the concept life expectancy. (3)
- c) Which institution provides an analysis of the South African population? (2)
- d) Is the government doing enough in ensuring that health services are accessible to all citizens? Motivate your answer. (4)





7.4 Discuss GDP and employment as economic indicators.

(4x2) (8)

7.5 Answer the following example of the main part of the essay (Section C):

Economists use different indicators to help with decision-making.

Discuss, in detail, the following economic indicators that are used to assess the performance of the economy:

- Inflation rate
- Employment





**MEMORANDUM FOR PAPER ONE**

**3. CIRCULAR FLOW MODEL**

**3.1 The open economy circular flow model**

3.1.1 Give two examples of participants in an open economy (2 x 1) (2)

- Household✓
- Firms/business sector✓
- State/public sector✓
- Foreign sector✓

3.1.2 What role do financial institutions play in the circular flow model? (1 x 2) (2)

- Financial institutions act as agents to facilitate the lending and borrowing of funds.✓✓

3.1.3 (a) Give TWO examples of injections in the circular flow model. (2)

- Investments✓
- Government expenditure✓
- Export income✓

(b) Give an example of a leakage and an injection from the table. (2)

- **Leakage:** Savings✓/taxes✓/imports✓
- **Injection:** Investments✓/government spending✓/exports✓

(c) Distinguish between leakages and injections. (2 x 2) (4)

Leakages refer to the outflow (subtraction) of money from the economy✓, for example when citizens buy goods from other countries the money is taken out of the circular flow to pay for imports. ✓ Injections refer to an inflow of money into the economy. ✓ For example, when goods are sold to foreign countries, the receipts for exports are added to the circular flow. ✓

(d) Would you say this economy is in equilibrium? Justify your answer. (4)

For an economy to be in equilibrium: leakages = injections✓

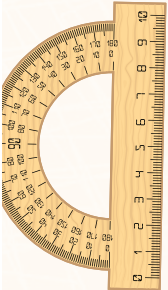
Leakages = Savings + Taxes + Imports = R50 + R40 + R55 = R140✓

Injections = Investments + Government spending + Exports = R55 + R50 + R50 = R155✓

The economy is not in equilibrium, because leakages are not equal to injections.✓

3.1.4 Explain the interaction between households and firms in the circular flow model. (8)

- Households provide production factors to firms.✓✓







- Households receive an income in return. ✓✓
- Households purchase goods and services from firms. ✓✓
- Firms receive income from households in the form of sales revenue. ✓✓

3.1.5 Tabulate the differences between goods and factor markets. (8)

Goods Market	Factor Market
These are markets for consumer goods and services. ✓✓	These are markets for trading factors of production. ✓✓
These deal with the buying and selling of goods that are produced in markets. ✓✓	These deal with trading natural resources, labour, capital and entrepreneurship. ✓✓



3.1.6 Differentiate between real flows and money flows in the circular model. (8)





- The flow of goods and services between the various participants is called real flow. ✓✓

This includes:

- Factors of production from household to firms. ✓✓
- Goods and services from firms to households. ✓✓
- Goods and services from the government. ✓✓
- Goods and services from the foreign sector to households, businesses and the government (imports). ✓✓
- Goods and services to the foreign sector (exports). ✓✓ (2 x 4) (4)

Money flows:

- The flow of money earned and spent between the various participants. ✓✓

This includes:

- Payment for factors of production in the form of rent, profit, wages and salaries, and interest from firms to households. ✓✓
- Payment for goods and services from households to firms. ✓✓
- Payment for goods and services from households to the foreign sector. ✓✓
- Payment for goods and services by households. ✓✓
- Payment of taxes by households and firms to government. ✓✓
- Payments for exports by the foreign sector. ✓✓ (2 x 4)

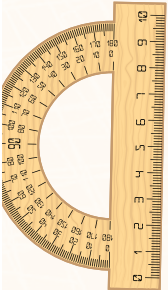
### 3.2 National accounts aggregates and conversions

In order for you to understand this topic, you should study the following sections:

- Derive national accounts aggregates
- National accounts conversions

#### 3.2.1 Give any two methods used to calculate GDP:

- Production method
- Income method **PIE**
- Expenditure method (Any 2 x 1) (2) (8)







3.2.2 **Why are subsidies subtracted when calculating GDP?**

Subsidies are financial incentives / grants / assistance provided by the state to help struggling industries to produce, as well as direct subsidies payable to encourage exports. / This amount is subtracted because it is paid by the state. (2)

3.2.3 Data response (diagram):

(a) **Identify the sector that processes raw materials into consumer goods.**

- Primary sector (1)

(b) **Which sector contributed the most to overall GDP growth?**

- Secondary sector (1)

(c) **Define the concept Gross Domestic Product.**

- GDP refers to the total value of all final products produced within the borders of a country over a certain period, usually a year. (2)

(d) **How to convert GDP at market prices to GNI at market prices.**

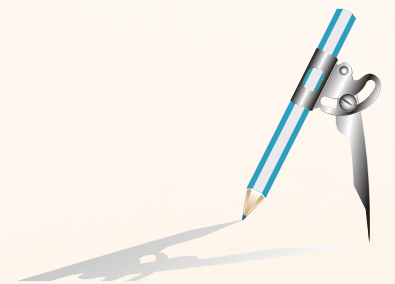
GDP @ market prices  
 Plus: factor income earned abroad by South Africans√  
Less: factor income earned in South Africa√  
 = GNI @ market prices (2)

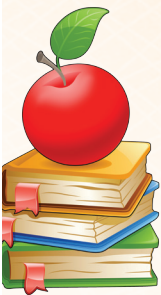
(e) **Calculate the percentage of the Gross Value Added (GVA) at basic Prices.**

**GVA @ basic prices = primary sector + secondary sector + tertiary sector√**  
 = 8.8% + 5.3% + 2.0%√  
 = 16.1%√√ (4)

3.2.4 **Distinguish between basic prices and market prices.**

- **Basic prices** – This is used when GDP is calculated according to the production method√√ and it represents the production costs of firms√√.





- **Market prices** – These are the prices paid by consumers for goods and services√√ plus all taxes and less subsidies√√. These are calculated according to the expenditure method.

$$(2 \times 4) (8)$$

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

**Gross value added by kind of economic activity**

**2014 (R millions)**

**At current prices**

**Primary sector**

**371 268**

Agriculture, forestry and fishing

84 662

Mining, quarrying

286 606

**Secondary sector**

**C (c)**

Manufacturing

452 326

Electricity, gas and water

125 377

Construction

138 917

**Tertiary sector**

**2 316 605**

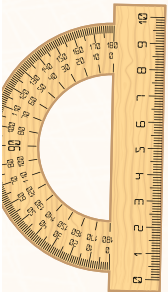
**GVA @ basic prices**

**3 404 493**

**Source: [SARB Quarterly Bulletin 2015]**

(a) **Identify any two activities of the primary sector.**

- Agriculture







- Forestry
- Fishing
- Mining quarrying  
(Any 2 x 1) (2)

(b) Which method is used in the table to calculate GVA?

- Production method (1)

(c) Determine the value of (C).

**Secondary sector**

**C = R716 620m**

Manufacturing

452 326

Electricity, gas and water

125 377

Construction

138 917

(2)

(d) Tabulate TWO differences between nominal figures and real figures.

**Nominal figures**

**Real figures**

Also known as market or money value.

Also known as national product at constant prices.

Also known as national product at current prices.

Inflation rate is expressed as Consumer Price Index (CPI) has been taken into account.

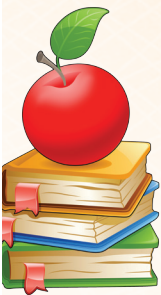
This is calculated by multiplying the volume of the final goods and services by their prices.

Real value of production is the nominal values of national product adjusted for price increase.

Inflation has not yet been taken into consideration.

Real national product is the national product expressed in prices that applied in a certain base year.





(2x2) (4)

### 3.3 The multiplier

In order for you to understand this topic, you should study the following topics:

- Define and explain the concept and the multiplier process
- Calculation and application using the basic formula
- Analyse a graphical representation of the multiplier.

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

The government of Valspar has decided to expand the national road network by R200 million this year. The tendency of households is to save 20 per cent of their income.

**Source: DBE March/Feb 2016**

(a) What percentage of their income do households spend? (2)  
Income equals consumption plus saving. Households spend 80% of their income. ✓✓

(b) Explain the term multiplier. (2)  
It occurs when a small increase in spending produces a larger increase in national income. ✓✓

(c) What impact will a tax increase have on the multiplier? (2)

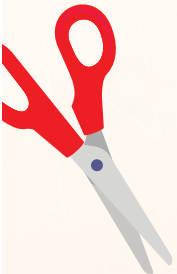
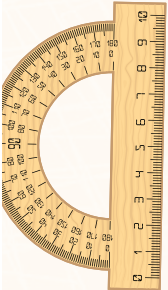
- Implementation of a tax (VAT) effectively means that less money will be available to spend ✓✓
- The expectation is that the multiplier will decrease and thus the total value the multiplier amount will decrease as well. ✓✓

(d) Calculate the size of the multiplier. Show ALL calculations. (4)

$$\partial = \frac{1}{1 - mpc} \quad \checkmark \quad \text{OR} \quad \begin{aligned} &1/mps \quad \checkmark \\ &= 1/0.2 \quad \checkmark \\ &= 5 \text{ PP} \end{aligned}$$

$$\partial = \frac{1}{1 - 0,8} \quad \checkmark$$

Thus, the multiplier is 5. ✓✓ (4)







### SECTION C ESSAY TYPE QUESTIONS

Discuss the role of the various markets in the circular flow model, without the use of a diagram.

Introduction

- The circular flow model is a simplified representation of the interaction between the participants of the economy. ✓✓
- Markets coordinate economic activities and determine prices for goods and services. ✓✓

(Accept any other relevant introduction.)

Max (2)

#### Goods/Product/Output markets ✓

- These are markets for consumer goods and services. ✓✓

In economics, a distinction is made between goods and services:

- Goods are defined as any tangible items - such as food, clothing and cars - that satisfies a human want or need. ✓✓
- Buying and selling of goods that are produced in markets, e.g.:
  - Capital goods market for trading buildings and machinery. ✓✓
  - Consumer goods market for trading durable consumer goods, semi-durable consumer goods and non-durable consumer goods. ✓✓
- Services are defined as non-tangible actions, including wholesale and retail, transport and financial markets. ✓✓

#### Factors/Resources/Input markets ✓

- Households sell factors of production on the markets: rent for natural resources, wages for labour, interest for capital and profit for entrepreneurship. ✓✓
- The factor market includes the labour, property and financial markets. ✓✓

#### Financial markets: ✓

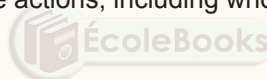
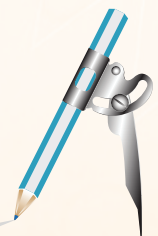
- They are not directly involved in the production of goods and services, but act as a link between households, the business sector and other participants that have surplus funds. ✓✓
- Examples: banks, insurance companies and pension funds. ✓

#### Money markets ✓

- In the money market, short term loans and very short term funds are saved and borrowed by consumers and business enterprises. ✓✓
- Products sold in this market are bank debentures, treasury bills and government bonds. ✓✓
- The SARB is the key institution in the money market. ✓✓

#### Capital markets ✓

- In the capital market, long term funds are borrowed and saved by consumers and business enterprises. ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market. ✓✓





- The products sold in this market are mortgage bonds and shares. ✓✓

#### Foreign exchange markets ✓

- On the foreign exchange market, businesses buy/sell foreign currencies to pay for imported goods and services. ✓✓
- These transactions occur in banks and consist of an electronic money transfer from one account to another. ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The SA Rand is traded freely in these markets, ✓✓ e.g. when a person buys travellers cheques to travel abroad ✓  
(26)

#### 4. BUSINESS CYCLES

##### SECTION A [COMPULSORY]

##### 1.1 Multiple-choice:

1.1.1 A (amplitude)

1.1.2 A (weather patterns)

1.1.3 B (government spending)

1.1.4 C (high amplitude)

1.1.5 B (Phillips curve)

1.1.6 B (interest rate)

1.1.7 C (peak to peak)

1.1.8 B (waves)

(8 x 2) (16)

##### 1.2 Match columns:

1.2.1 C (Give advance warning of change in economic activity.)

1.2.2 D (The upper turning point of the business cycle.)

1.2.3 E (Uses interest rates to influence the level of expenditure.)

1.2.4 I (Production levels, employment levels, income and expenditure decrease even more.)

1.2.5 F (Caused by changes in the building and construction industry.)

1.2.6 G (The use of fiscal policy to stimulate spending in the economy.)

1.2.7 H (That portion where the level of economic upswing accelerates.)

1.2.8 J (The interest rate that the Reserve Bank charges financial banks).

1.2.9 A (Assumptions made about the future using the given information.)







1.2.10 B (High economic growth rate for an extended period without being held back by supply limitations.)  
(10 x 1) (10)

1.3 Give one term for each of the following statements:

1.3.1 Business cycle

1.3.2 Amplitude

1.3.3 Trough

1.3.4 Indicator

1.3.5 Moving averages

1.3.6 Open market transactions

(6 x 1) (6)




SECTION B

4.1 Composition and features:

4.1.1 Mention TWO types of turning points in a business cycle.

- Peak
- Trough

(2)

4.1.2 What is the purpose of a trend line? 

- To measure the general performance of the economy.
- To indicate the general direction of the economy.

(2)

4.1.3 Data response:

a) The recovery stage is indicated by BC.

(2)

b) According to the diagram, what is indicated by the trend line?

- The trend line is upward sloping.
- It shows positive economic growth.
- It shows that economic activities are increasing.

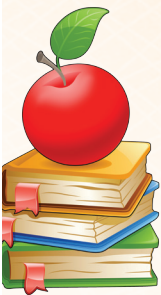
(2)

c) Define the concept business cycle.

- It refers to the periods of fluctuation in the economy.
- It refers to the periods of increasing and decreasing economic activity.

(2)





d) What impact do you think heavy rainfall will have on the economy, especially in the agricultural sector?

- If the crops do not need heavy rainfall, they will be damaged, e.g. wheat.
- Less crops will be harvested than expected.
- The price of goods will increase and less will be consumed.
- This will lead to job losses, which will increase poverty levels. (Any 2 x 2) (4)

4.1.4 Data response (extract):

a) Identify TWO factors in the extract that contributed to the poor performance of the South African economy.

- a slump in commodity prices
- weakening demand from China
- the worst drought in more than a century
- the plunging value of the rand (Any 2 x 1) (2)

b) When is a country officially in a recession?

- When the country experiences negative economic growth for two consecutive quarters. (2)

c) Explain the impact downgrading of South Africa's credit rating will have on the economy.

- negative impact
- economy will fall / decrease
- decrease in GDP
- lower standard of living / poverty / unemployment
- less money available for spending
- loss of investor confidence (2)

d) In your opinion, what can government do to stabilise the downswing in the business cycle?

- Apply fiscal policy – increase government spending and decrease taxation.
- apply monetary policy – decrease interest rates to influence the aggregate demand / consumer spending.
- apply both expansionary fiscal policy and monetary policy. (2 x 2) (4)

4.2 Explanations:

4.2.1 Name TWO types of business cycles.

- Kondratieff
- Kuznets
- Jugler
- Kitchin (Any 2 x 1) (2)

4.2.2 Why would the state intervene in the business cycle?





- To reduce periods of fluctuations.
- To stabilise the economy.
- To reduce uncertainties / insecurities of consumers.
- To restore consumer / investor confidence. (Any 2 x 1) (2)

4.2.3 Distinguish between exogenous and endogenous approaches to business cycles.

**Endogenous approach:**

- This follows the belief that economic growth is primarily the result of endogenous forces and not external forces.
- This is often called the Keynesian view. This approach holds the view that markets are inherently unstable and therefore government intervention may be required
- The price mechanism fails to co-ordinate demand and supply in markets and this gives rise to upswings and downswings.
- Prices are not flexible enough (e.g. wages).
- A business cycle is an inherent feature of a market economy.
- Indirect links or mismatches between demand and supply are normal features of the economy. (Max 4)



**Exogenous approach:**

- Independent factors that can influence business cycles and which originate outside the economy.
- Some economists believe that business cycles are caused by exogenous factors such as those described below.
- Monetarists believe markets are inherently stable and disequilibrium is caused by incorrect use of policies, e.g. monetary policy.

The following are examples:

- Weather conditions and shocks cause upswings and downswings.
- Governments should not intervene in the market.
- The sunspot theory is based on the belief that increased solar radiation causes changes in weather conditions.
- Technological changes.

(Accept any other correct relevant response.)

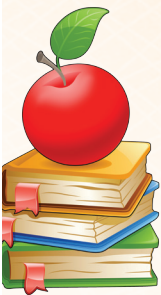
(A maximum of 1 mark for examples per approach.) (Max 4) (8)

4.3 Government policies

4.3.1 Mention any TWO instruments of monetary policy.

- Interest rates
- Open market transactions
- Moral suasion





- Exchange rate policy
- Cash reserve requirement (Any 2 x 1) (2)

4.3.2 What effect will a decrease in government spending have on the economy?

- Less income for consumers.
- Consumer spending will decrease.
- Fewer job opportunities available.
- Less revenue for the state.
- A decrease in production / a decrease in economic growth. (2)

4.3.3 Data response: cartoon

a) Name the government policy represented by the cartoon above.

- Fiscal policy (1)

b) According to the cartoon, what is the meaning of the term *tax hike*?

- *Tax hike* refers to a tax rate increase. (1)

c) Briefly explain the impact an increase in the income tax rate will have on the consumption of goods and services by households.

- Disposable income will decrease and this will result in a decrease in consumption spending. (2 x 2) (4)

d) Is the government spending enough to create job opportunities? Motivate your answer.

- No - the unemployment rate is still high / high illiteracy rate / dependency on social security / shortage of resources (textbooks, furniture, etc.)
- Yes – there are more educated and qualified youth / people can afford basic services such as health care, education, water, electricity, etc.

(Accept any other relevant motivation) (2 x 2) (4)

4.3.4 Briefly discuss state intervention through monetary policy to stimulate a depressed economy.

- Expansionary monetary policy should be used.
- It can be utilized effectively to stimulate a depressed economy that is suffering severe inflationary pressures.
- For example, increase money supply or decrease interest rates
- With a lower interest rate, demand for goods and services will increase.
- This will then cause total spending to increase and the level of economic activity to increase.
- If they need to increase the supply further they can decrease the amount banks must keep in reserve.
- They can also sell government securities on the open market, thus bringing money into the economy.
- This increase in the supply of money increases aggregated demand, thus improving the expansion of the economy. (8)







#### 4.3.5 How possible will it be for the state to make use of monetary policy to slow down an overheated economy?

- If demand is too high, the SARB will apply a restrictive monetary policy.
- At a higher interest rate, the demand for goods and services will decrease.
- Total spending as well as production will decrease.
- This will discourage consumption on credit / will make the consumption of goods and services expensive.
- Increase reserve requirements of banks to minimise the availability of credit.



#### 4.4 The new economic paradigm

4.4.1 Without the aid of a Phillips curve, discuss demand and supply side policies.

##### Demand-side policies:

- Expansionary monetary and fiscal policy used **at the trough**, e.g. decrease interest rates, decrease taxes, increase government expenditure.
- Contractionary monetary and fiscal policy used **at the peak**, e.g. increase interest rates, increase taxes, decrease government expenditure.
- **ONE mark each for mentioning a monetary instrument**, e.g. cash reserve requirement, moral suasion, open market transactions, interest rates.
- **ONE mark each for mentioning a fiscal instrument**, e.g. tax and government expenditure.



##### 1. Automatic stabilisers:

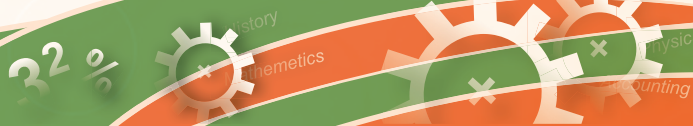
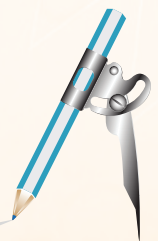
- They are characterised by built-in flexibility.
- An example of an automatic stabiliser is the progressive tax system.
- Example: when the economy enters a boom, the average tax rate will increase.

##### 2. Discretionary stabilisers:

- Sometimes called active stabilisers.
- Policy makers watch trends carefully, and study the stages of business cycles and change policies.
- Used when the economy needs to be cooled down.
- These stabilisers include public works and other expenditure programmes, changes in tax rates and public employment projects.

##### 3. Inflation:

- Aggregate demand and supply are in equilibrium.
- When demand increases, supply will react in the same way.
- If supply does not react to an increase in demand, prices will increase (a new equilibrium).
- This will lead to inflation.





#### 4. Unemployment

- Demand side policies are effective in stimulating economic growth.
- Economic growth increases the demand for labour and reduces unemployment.
- A decrease in unemployment results in an increase in inflation, because more people are employed, which causes an increase in demand for labour.
- The relationship between unemployment and inflation can be illustrated using the Phillips curve.

(2 x 13) (26)

#### 4.5 Features underpinning forecasting

##### 4.5.1 Data response (extract):

a) Identify the reason for the decrease in the composite leading indicator.

- A decrease in the number of residential building plans passed. (1)

b) What was the percentage of the composite lagging indicator?

- 0.9% (1)

c) Define the term business cycle.

- Business cycle refers to fluctuations in the economy / refers to the periods of decrease and increase in economic activity in the country. (2)

d) Distinguish between leading and lagging indicators.

- Leading indicator – gives consumers, firms and the state a glimpse of the direction in which the economy is going.
- Lagging indicator – does not change direction until the business cycle changes direction. (2 x 2) (4)

e) What impact, do you think, a decrease in a leading indicator will have on the country's economy?

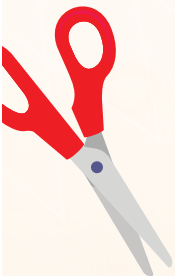
- The economy will decrease. (2)

4.5.2 Discuss the following features that underpin forecasting:

a) Trend line: is used to show the direction in which the economy is going.

b) Amplitude: is used to show the vertical (height) distance between a trough and the next peak/

c) Length: is measured from trough to trough or from peak to peak (3 x 3) (9)







## PUBLIC SECTOR MEMO

### SECTION A

#### 5.1. MULTIPLE-CHOICE QUESTIONS

- 5.1.1. C nationalisation ✓✓
- 5.1.2. B Laffer ✓✓
- 5.1.3. C medium-term expenditure framework (MTEF) ✓✓
- 5.1.4. A central ✓✓
- 5.1.5. C progressive ✓✓
- 5.1.6. C education ✓✓



#### 5.2 MATCHING ITEMS

- 5.2.1. C. Government spending and taxation.
- 5.2.2. E. Is expressed as a reasonable division of income among the population.
- 5.2.3. G. Consists of three-year rolling expenditure and revenue projections.
- 5.2.4. B. Transfer of state-owned businesses to the private sector, usually by selling them.
- 5.2.5. I. Businesses that are owned by the state.
- 5.2.6. A. The best possible allocation and use of resources with the least waste.
- 5.2.7. F. Goods and services provided by the state for use by all members of society.
- 5.2.8. D. The delegation of a non-core operations or jobs from internal production within a business or government to an external person or firm that specialises in that specific operation.
- 5.2.9. H. The part of the economy that consists of national, provincial and local governments and all entities owned by the government.
- 5.2.10. K. A form of financial assistance or grant that the government provides to another entity, like a business or industry.



#### 5.3 GIVE THE TERM

- 5.3.1 market failure
- 5.3.2 negative externalities
- 5.3.3 nationalisation
- 5.3.4 corruption
- 5.3.5 economic growth





5.3.6 Capital gains tax

5.3.7 accountability

5.3.8 subsidy

5.3.9 progressive tax

5.3.10 Monetary Policy Committee

5.3.11 personal income tax

### SECTION B Exemplar questions

#### PUBLIC SECTOR

5.4 Problems of public sector provisioning

5.4.1 Name **TWO** macroeconomic objectives of the state.

- Economic growth ✓

Full employment ✓

- Exchange rate stability / Balance of Payment stability ✓
- Price stability ✓
- Economic equity ✓

(Accept any explanation of the above mentioned objectives)

(2 x 1) (2)

5.4.2 What does the acronym **MTEF** stand for?

- Medium Term Expenditure Framework (Any 2 x 1)

(2)

5.4.3 Give **TWO** reasons for public sector failure:

- Ineffective ✓
- inefficient ✓

(2 x 1) (2)

5.4.4 Describe the term **Public Sector**.

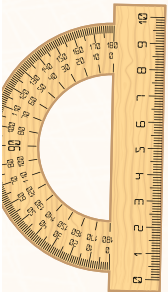
The part of the economy consisting of national, provincial and local governments and all entities owned by the government.

(1 x 2) (2)

5.4.5 List **TWO** examples of incentives:

- Research on new international markets. ✓
- Export exhibitions ✓
- Technical support ✓

(2 x 1) (2)







**DATA RESPONSE**

5.5 Read the following extract and answer the questions that follow

(a) Define the term privatization.

Transfer of ownership or control of an enterprise from government to private

Sector. ✓ ✓ (2)

(b) List different methods of privatization

- Sale of public assets. ✓
- Contracting out/outsourcing. ✓
- Public-private partnership. ✓
- State stops providing services. ✓
- Deregulation. ✓ (any 2 x 1) (2)

(c) In your opinion, what is the alternative model to solve energy crisis.

- Deregulation ✓ ✓
- Public Private Partnership model ✓ ✓
- More power stations ✓ ✓
- Foreign direct investments ✓ ✓
- Public awareness to reduce the use of electricity and make pay on time. ✓ ✓
- Recruit people with relevant skills. ✓ ✓ (2 x 1) (2)

(d) Why is Eskom regarded as a *strategic industry*?

- It provides essential services. ✓✓
- It earns revenue for the state. ✓✓
- Poor people can afford electricity when it is provided by the government ✓✓
- Provision of electricity by Eskom leads to job creation. ✓✓ (2 x 2) (4)

5.6 Budget and fiscal policy

5.6.1 Name TWO instruments of fiscal policy.

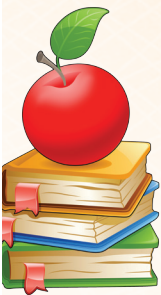
- Government spending ✓
- Taxation ✓ (2 x 1) (2)

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

(a) Identify TWO indirect taxes in the cartoon above.

- Value-added tax (VAT) ✓
- Fuel levy ✓
- Sin tax ✓ (2 x 1) (2)





((b) Name the fiscal instrument represented by the scale in the cartoon above

- Taxation ✓✓ (2)

(c) What is the 'surprise' depicted in the cartoon above?

The Minister of Finance did not increase income tax and VAT as expected; but the impact of the increase in fuel levies and excise duties were such that it cancelled out the decision not to increase income tax and VAT. ✓✓ (2)

(d) In your opinion, why did the Minister of Finance decide to keep income tax and VAT at the same levels?

- After the increase in income tax in 2014/15, he didn't want to over-burden the tax payers. ✓✓
- To prevent a negative reaction from the labour force, which is constantly demanding higher wages. ✓✓
- VAT is a regressive type of taxation and it remained the same to prevent the poor from becoming poorer. ✓✓
- To prevent loss of income through tax evasion and disincentives to work. ✓✓
- To stimulate consumer spending and economic growth. ✓✓

(2 x 2) (4)

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

(a) Which curve is depicted in the graph above?

- Laffer curve ✓✓ (2)

(b) What tax rate will generate maximum revenue for the government?

- 40% ✓✓ (2)

(c) What is the correlation between a tax rate of zero and a tax rate of 100% for the government?

- In both scenarios, government will receive no income. ✓✓ (2)

(d) Explain the implication of a tax rate of 60% on the taxpayer.

- Tax evasion or tax avoidance will occur, because too much tax is levied on the taxpayer. ✓✓
- The taxpayer's burden will increase (by 20%). ✓✓
- Some taxpayers will stop working due to the increased tax load. ✓✓ (2 x 2) (4)

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

(a) What does the acronym SANRAL stand for?

- South African National Roads Agency ✓✓ (2)

(b) Describe the term e-toll.

- Tariffs that must be paid to make use of certain roads. ✓✓ (1 x 2) (2)

(c) What negative socio-economic impact can e-toll tariffs have in South Africa.







- Not all people have access to e-tolling. ✓✓
- People pay more on travelling expenses. ✓✓

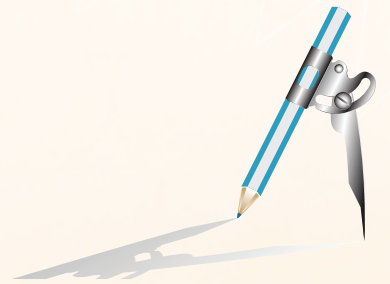
(Any 2 x 1)

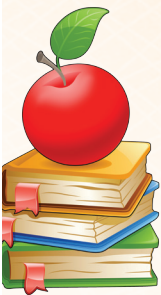
(2)

(d) **In your opinion, what is the most important cause of public sector failure in South Africa? Motivate your answer.**

- Corruption. ✓✓
- Government does not use resources to produce the right goods at the right volumes. ✓✓

(2 x 2) (4)





## INTERNATIONAL TRADE

### SECTION A COMPULSORY

6.1 Multiple-choice:

6.1.1 A

6.1.2 C

6.1.3 A

6.1.4 B

6.1.5 B

6.1.6 C

6.1.7 C

6.1.8 B

6.1.9 B

6.1.10 A

(10 x 2) (20)

6.2 Matching:

6.2.1 E

6.2.2 G

6.2.3 I

6.2.4 B

6.2.5 F

6.2.6 C

6.2.7 D

6.2.8 A

(8 x 1) (8)

6.3 Concepts

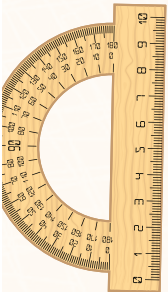
6.3.1 Foreign exchange market

6.3.2 Export promotion

6.3.4 Import substitution

6.3.5 Free trade

6.3.6 Devaluation







6.3.7 Terms of trade

6.3.8 Appreciation (8 x 1) (8)

**6.4 The main reasons for international trade**

6.4.1 Name TWO main reasons for international trade. (1 x 2) (2)

- Supply ✓
- Demand ✓

6.4.2 Discuss supply reasons for international trade. (26)

6.4.3 Briefly explain the four effects of international trade. (4 x 2) (8)

- Specialisation✓: increases the standard of living, especially when the area of specialisation is in great demand due to a shortage of supply. ✓
- Mass production ✓ becomes possible if domestic demand is added to foreign demand. For example, manufacturing cell phones. ✓
- Globalisation✓ is driven by international trade. For example, trade in cars and technology products. ✓
- Efficiency✓ increases when there is competition. Lower income means that the same income can buy more goods and services. ✓

6.5 The composition of the Balance of Payments (BoP).

6.5.1 Name TWO items in the financial account of the Balance of Payments.

- Direct investments ✓
- Portfolio investments ✓
- Other investments ✓
- Derivatives ✓
- Assets ✓

(2 x 1)

6.5.2 Define the term trade balance. (2)

Trade balance is the value of visible exports minus visible imports. ✓✓

6.5.3 (a) Calculate the Balance on the Current Account for 2015 (A).

Show ALL calculations. (4)

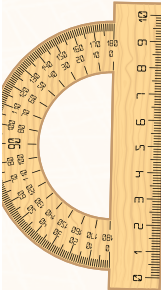
Merchandise exports	R 974
Add: Net gold exports	R 68
<b>Total exports</b>	<b>R 1 042</b> ✓✓
Less: Merchandise imports	(R 1076)





Trade balance	(R 34)
Less: Net services and current transfers	(R 140)
Balance on current account	(R 174) ✓✓

**6.5.4 HOW CAN IMPORTS BE TARGETED TO REDUCE THE DEFICIT ON THE BALANCE OF TRADE IN SOUTH AFRICA?**



- South Africa can use import substitution as part of their international trade policy. ✓✓
- Tariffs can be imposed on imported goods, which will increase the price of imported goods for domestic consumers. That will tend to shift demand from imports to domestic products, ✓✓ e.g. customs duties, ad valorem tariffs, specific tariffs. ✓
- Quotas can be imposed to limit the quantity of goods and services imported. ✓✓
- Subsidies will make local producers more competitive and switch from imported goods to locally produced goods. ✓✓
- Through exchange control, government can reduce imports by limiting the amount of foreign exchange made available to those who wish to import. ✓✓
- Physical control may put a complete ban or embargo on the import of certain goods from a particular country. ✓✓
- Trade can be diverted through monetary deposits, time-consuming customs procedures and high-quality standards that are imposed to make it more difficult to import goods. ✓✓

(4 x 2) (8)

**6.5.5 In your opinion, how can the Reserve Bank reduce the deficit on the Balance of Payments?**

- Countries experiencing a deficit will **borrow money** from other countries. That is why developing countries have so much foreign debt. PP
- In the event of a fundamental disequilibrium, member countries may borrow from the International Monetary Fund (IMF). PP
- Borrowing is nevertheless not a long-term solution for fundamental balance of payments disequilibrium. PP
- South Africa will decrease imports by **depreciating the currency**. Exports will become cheaper for foreign buyers. PP
- **Increasing interest rates** will decrease spending, including on imports. PP
- Increasing FDI in the country with the higher interest rate. PP
- There are domestic regulations that allow central banks to ration foreign exchange. PP Those who require foreign exchange have to apply to the central bank. PP

(Accept any other relevant response.)

(4 x 2) (8)

**6.6 Foreign exchange markets and foreign exchange rates.**

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

(a) What market is depicted in the graph ? (1)

The foreign exchange market / Currency market. ✓







(b) What currency is used in South Africa? (1)

South African Rand / ZAR ✓

(c) Explain the term exchange rate. (2)

Exchange rate is the rate at which one country's currency can be exchanged for that of another country. ✓✓

(d) If the original equilibrium point is e, identify the equilibrium point where the value of the rand has depreciated against the dollar.

Motivate your answer. (2 x 2) (4)

The value of the rand has depreciated at equilibrium point E3. ✓✓

This is caused by the increase in the amount demanded for dollars. This will have a negative impact on the SA economy, as imports will be expensive. ✓✓

(e) Discuss factors that will affect the demand for foreign exchange in South Africa. (4 x 2) (8)

Demand Factors:

- Importing goods.
- Payment for services provided by foreign countries.
- Buying shares from another country.
- Tourists spending money overseas.
- Repayment of debt borrowed from foreign countries.

(2 x 4) (8)

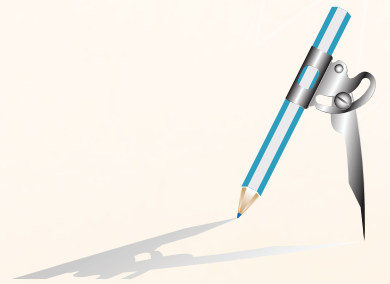
(f) Differentiate between *depreciation* and *appreciation*. (4 x 2) (8)

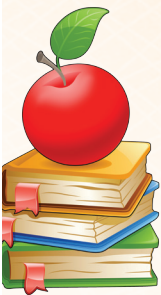
Depreciation of a currency is a decrease in the price of the currency in terms of another currency, due to market forces. ✓✓ For example, if the dollar goes from \$1=R9 to \$1=R8 ✓✓

Appreciation of a country's currency is an increase in the price of the currency in terms of another currency, due to market forces. ✓✓ For example, when the dollar goes from \$1 =R10 to \$1=R11. ✓✓

(g) Explain the term "managed exchange rate". (2)

These are exchange rates that are allowed to respond to market forces, within certain limits. ✓✓





(h) What effect did the change in demand have on the value of the rand? Motivate your answer.

(2)

The rand depreciated. ✓

It has become more expensive to acquire dollars. ✓

(i) How can the Central Bank of South Africa intervene in the foreign exchange market to influence the exchange rate?

(2 x 2) (4)

In the case of devaluation, the Central Bank will sell foreign exchange. ✓✓

In the case of revaluation, the Central Bank will buy foreign exchange. ✓✓

(j) Which demand curve indicates an increase in the demand for dollars?

**D1D1** ✓ (1)

(k) What type of exchange rate system is currently used in South Africa?

A free floating exchange rate system. ✓

(1)

(l) State one factor that could have led to an increase in the supply of dollars.

An increase in the number of US tourists visiting South Africa. ✓✓

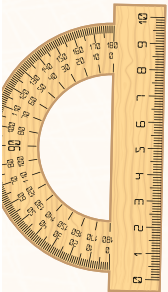
An increase in imports from SA to the US. ✓✓

(2 x 1) (2)

(m) How can appreciation of the rand affect the export of goods and services?

- There will be a reduction in exports.
- It makes goods and services more expensive. ✓✓

(1 x 2)







**6.6.2 DATA RESPONSE**

(a) Identify the institution responsible for publishing the data above. (1)  
SARB✓

(b) Explain the term *terms of trade*. (2)

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

(c) In your opinion, what is the cause of the decreasing trend in the terms of trade?  
A decrease in export prices.✓  
An increase in the price of imports.✓  
There may be a deficit in the trade balance.✓

(d) Calculate terms of trade for 2013, labelled (A) in the table.

Show all your calculations. (4)

$$\begin{aligned} \text{Terms of trade} &= \text{Index of export/index of import} \times 100 \checkmark \\ &= 214/179 \checkmark \times 100 \checkmark \\ \text{A} &= 119.5 \checkmark \end{aligned}$$

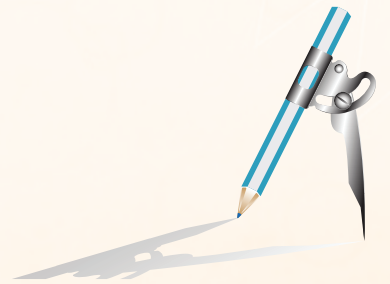
6.6.3 Why is the *terms of trade* important to South Africa's economy? (4 x 2) (8)

The terms of trade compares a country's export prices with its import prices using indexes. ✓✓

- An improvement in the terms of trade may indicate an increase in the export prices and a decrease in the import prices✓✓, which has a positive impact on the balance of payments.✓✓
- A deterioration in the terms of trade may be the result of a decrease in export prices and an increase in import prices,✓✓ which has a negative impact on the balance of payments.✓✓

6.7 Protectionism and free trade.

6.7.1 DATA RESPONSE CARTOON





(a) Identify one trade protocol in the cartoon. (1)

EU✓

(b) Which form of assistance is demonstrated in the cartoon. (1)

Farm subsidies✓

(c) Define the term protectionism. (2)

Protectionism refers to government policies and regulations used by the state to discourage the importing of certain goods and services, in order to protect local industries against unequal competition from abroad. ✓✓

(d) Briefly explain ONE reason for import substitution. (2)

- Diversification – When goods that we
- Industrialisation is protected
- Balance of payments problems
- Trade

(e) Briefly explain any TWO arguments against Free Trade.

- Free trade does not take into consideration environmental labour or safety regulations that might limit profit.✓✓
- Individual governments cannot make their own decisions about their market – this prevents countries from providing incentives in the form of subsidies for innovations.✓✓
- Foreign companies can sue government for losses – this essentially allows foreign companies to prevent the development of any effective labour or environmental legislation.✓✓
- Job loss and outsourcing - free trade allows firms to move production to countries that offer cheap labour costs.✓✓
- Leads to globalisation and increased activities – global footprints of goods are much larger than that of locally produced goods and often leads to global warming.✓✓

(2 x 2 = 4)

(e) How does the government protect local businesses from international competition? (4)

6.7.2 Briefly explain any TWO advantages of import substitution. (4 x 2) (8)

- Increased employment✓✓

More workers will be employed to produce goods that can be substituted for foreign goods.✓✓

- Improvement in GDP✓✓

Increased employment and production of goods will stimulate the economy.✓✓

- More choice✓✓

Because goods are locally produced, more foreign exchange will be available for importing other goods.✓✓

- Diversification✓✓

Local producers will produce a variety of goods.✓✓ (maximum = 8)





### SECTION C - ESSAY

To be internationally competitive, a country needs to have suitable trade policies in place. The country will have to grow its industries if it wants to increase the standard of living in the country.

- Discuss, in detail, the arguments in favour of protectionism. (26 marks)
- In your opinion, how can the government use subsidies to ensure that local industries are protected against unfair competition from abroad? (10 marks)

#### INTRODUCTION

Protectionism refers to a deliberate policy on the part of the government to erect trade barriers, such as tariffs and quotas, in order to protect domestic industries against international competition. ✓✓

(Accept any other relevant definition.)

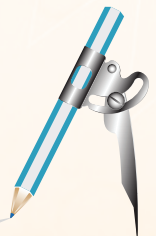
(Maximum = 2)

#### BODY

#### MAIN PART

Arguments in favour of Protectionism:

1. Raising revenue for the government ✓
  - Import tariffs raise revenue for the government. ✓✓
  - In smaller countries, the tax base is often small, due to the low income of individuals and businesses. ✓✓
  - Low incomes do not provide much in the form of income taxes, ✓✓ therefore customs duties on imports is a significant source of income or revenue. ✓✓
2. Protecting the whole industrial base ✓
  - Maintaining domestic employment. ✓✓
  - Countries with high unemployment are continuously pressured to stimulate employment creation and therefore resort to protectionism in order to stimulate industrialisation. ✓✓
  - It is thought that by using protectionism, the country's citizens will be forced to purchase more domestic products, which will raise domestic employment. ✓✓
  - These measures on domestic employment creation at the expense of other countries, led to such measures as 'beggar-my-neighbour' policies ✓✓
  - Applying import policies is likely to reduce the ability of other countries to buy a country's exports and may provoke retaliatory measures. ✓✓
3. Protecting workers ✓
  - It is argued that imports from countries that pay relatively low wages represents unfair competition ✓✓ and threatens the standard of living of the better paid workers in local industries in a country. ✓✓
  - Local industries would therefore be unable to compete, because higher wages push up the price of goods. ✓✓
  - Protection is thus necessary to prevent local wage levels from falling ✓✓ or even to prevent local businesses from closing down due to becoming unprofitable. ✓✓
  - Competition from low-wage countries may also reflect the fact that those countries have a comparative advantage in terms of low-skilled labour-intensive industries. ✓✓
4. Diversifying the industrial base ✓
  - Over time, countries need to develop diversified industries to prevent over-specialisation. ✓✓







- A country that relies too heavily on the export of one or a few products is very vulnerable. ✓✓
- If a developing country's employment and income is dependent on only one or two industries, there is a risk that fluctuations in world prices and demand and supply-side problems could result in significant fluctuations in domestic economic activity. ✓✓
- Import restrictions could be imposed on a range of products in order to ensure that a number of domestic industries develop. ✓✓

#### 5. Develop strategic industries ✓

- Some industries, such as the iron-ore and steel, agriculture, (basic foodstuffs, such as maize), energy (fuels) and electronics (communication) industries, are regarded as strategic industries. ✓✓ Developing countries may feel that they need to develop these industries in order to become self-sufficient. ✓✓

#### Protecting specific industries

#### 6. Dumping ✓

- Foreign industries may engage in dumping behaviour because government subsidies permit them to sell at very low prices ✓✓ or because they are attempting to raise profits through price discrimination. ✓✓
- The reason for selling products at lower prices may be to dispose of accumulate stocks of the goods; ✓✓ as a result, consumers in the importing country stand to benefit. ✓✓ However, the long term objective may be to drive out domestic producers and gain control of the market, ✓✓ and consumers are likely to lose out because of a reduction in choice ✓✓ and higher prices that the exporters will be able to charge in the future. ✓✓

#### 7. Infant industries ✓

- Usually newly established and find it difficult to survive due to their average costs being higher than that of their well-established foreign competitors ✓✓ However, if they are given protection in their early years, they may be able to grow and thereby take advantage ✓✓ lower their average costs and become competitive ✓✓ and at this point protection can be removed ✓✓

#### 8. Declining industries/sunset industries ✓

- Structural changes in the demand and supply of good could affect an industry severely. ✓✓ Such industries should be permitted to go out of business gradually. ✓✓ Declining industries are likely to be industries that no longer have a competitive advantage. ✓✓ However, if they go out of business quickly, there may be a sudden and large increase in unemployment ✓✓
- Protection could ensure an industry declines gradually, thereby allowing time for resources (including labour) to move to other industries. ✓✓
- Protecting domestic standards, ✓✓ domestic regulations of food safety, ✓✓ human rights, ✓✓ and environmental standards are increasingly acting as trade restrictions. ✓✓ (Maximum 26)

(Accept any other relevant facts.)

#### ADDITIONAL PART

In your opinion, how can the government use subsidies to ensure that local industries are protected against unfair competition from abroad?







South Africa promotes exports through subsidies.

Direct subsidies: Strict screening measures should be put in place when companies apply for financial assistance. ✓✓ Government funding could provide direct financial support to domestic producers for their exports, ✓✓ e.g.:

- Cash grants offered to South African exhibitors to exhibit their products at exhibitions overseas / explore new markets. ✓
- Foreign trade missions to explore new markets Imposition of tariffs on imports
- Funds provided for the formation of formal export councils. ✓
- Subsidies for training or employing personnel. ✓
- Funds for research on export markets. ✓
- Product registration and foreign patent registrations. ✓

Indirect subsidies: Government could refund companies certain taxes to promote exports. ✓✓ These types of indirect subsidies are:

- General tax rebates. (Part of the cost of production can be subtracted from the tax that has been paid.) ✓
- Tax concessions on profits earned from exports or on capital invested to produce export goods. ✓
- Refunds on import tariffs in the manufacturing process of exported goods, companies often use – custom duties are paid on these goods and the government refunds them ✓

(Maximum 10)

(Allocate a maximum of 2 marks for examples.)

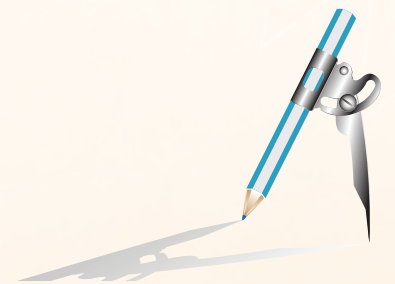
#### CONCLUSION

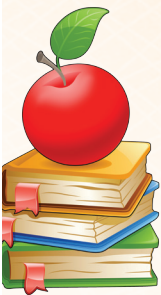
Most countries agree that protectionism is harmful to the economy if it is not well managed. My opinion is that protectionism is needed in certain areas of importance, especially where young industries come into existence. ✓✓

(Accept any other relevant higher order conclusion.)

(Maximum 2)

[40]





## 4 ECONOMIC PURSUITS MEMO

### INDICATORS MEMO

7.1 Real GDP

7.2 THREE uses of the per capita income figures are: (2)

- to indicate economic development
- to indicate living standards / prosperity levels / poverty levels
- to compare living standards (3x2) (6)

7.3 Data response (extract):

a) Identify one reason from the extract for the increase in life expectancy.

- A decrease in the infant mortality rate (ART).
- Increased rollout of anti-retroviral therapy (ART). (1)

b) Define the concept life expectancy.

- It refers to the number of years a person is expected to live. (3)

c) Which institution provides an analysis of the South African population?

- Stats SA / Statistics South Africa (2)

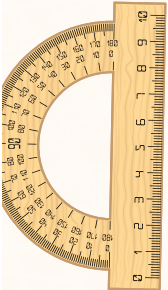
d) Is the government doing enough in ensuring health services are accessible to all citizens? Motivate your answer.

- Yes – there are health care clinics / hospitals in all communities.
- Community members are no longer walking long distances to access health care facilities.
- The unemployed and adults (pensioners) receive free health care services.
- Medication is issued free of charge, including for HIV positive people.
- A large portion of the budget is set aside each financial year to cater for these services. (Any 2 x 2) (4)

7.4 Discuss GDP and employment as economic indicators. (4 x 2) (8)

GDP:

- GDP is the total value of all final goods and services produced within the borders of a country in one year.
- Measures the total production of an economy.
- Formula:  $\frac{GDP_t - GDP_0}{GDP_0} \times 100$
- Increased GDP will cause economic growth.
- Gives an indication of:
  - Economic growth.







- The relative importance of different sectors of the economy.
- South Africa's economic growth in relation to the growth of other countries.
- Real GDP measures the growth performance of an economy / GDP adjusted with price increases.
- Real GDP is used in forecasting and to describe business cycles.
- Per capita real GDP is used to indicate economic development, to indicate living standards and to compare living standards. (Any 2 x 2) (4)

Employment:

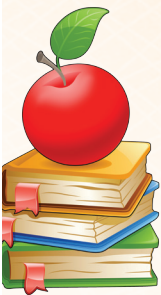
- Full employment refers to everyone who is willing to work at the current wage rate having a job.
- Increase employment to decrease loss of production – produce more goods and services.
- Unemployment is calculated by expressing the number of people who are willing and able to work, but do not have a job, as a percentage of the total number of people who are willing and able to work (EAP).
- Employment rate is calculated by expressing the number of employed people as a percentage of the EAP / labour force participation rate.
- Employment is important in forecasting trends – employment in the various sectors.
- As well as the calculations of productivity / unemployment / employment rate.
- To ascertain economic successes. (Any 2 x 2) (4) (8)

7.5 Answer the following example of the main part of an essay:

Economists use different indicators to help with decision-making.

- Discuss, in detail, the following economic indicators that are used to assess the performance of the economy:
  - Inflation rate
  - Employment





**ECONOMICS PAPER 2: MICRO ECONOMICS AND CONTEMPORARY ISSUES**

**Perfect and Imperfect Markets**

**Objectives**

Perfect market	Imperfect market
Perfect competition Individual business and industry Market structure Output Profits Losses and supply Competition policies	The dynamics of imperfect competition with the aid of costs and revenue curves Monopolies Oligopolies Monopolistic competition

**Basic concepts you should know**

Perfect market	Imperfect market
Market structure Perfect competition Price taker Price maker Market power Normal profit Economic profit Shut-down point Competition policies Collusion	Imperfect competition Monopoly Oligopoly Monopolistic competition Non-price competition Price discrimination Cartel Allocative efficiency Technical efficiency

**SECTION A QUESTIONS**

1.1.1 An example of a variable-cost item

- A Electricity
- B Rent
- C Insurance

1.1.2 The slope of the demand curve of an individual firm under perfect market conditions

- A is vertical
- B is horizontal
- C slopes downwards from left to right

1.1.3 The profitability of a monopolist depends on the cost of production and ...

- A savings
- B the number of competitors







C demand

1.1.4 The supply curve of a perfect competitor is represented by that part of the MC curve that is above the ... curve

A total cost

B average variable cost

C average cost

1.1.5 The most likely barrier for a firm wanting to compete with firms in the cellphone industry, such as Vodacom, is ...

A licensing

B capital

C technical superiority

1.1.6 Oligopolies do not have as much control over prices as monopolies because of ...

A policies

B advertising

C competition



1.1.7 The perfect competitor charges a price that is equal to the ...

A average cost

B marginal revenue

C average variable curve

1.1.8 The supply curve of a perfect competitor is represented by that part of the MC curve that is above the ... curve

A total cost

B average variable cost

C average cost

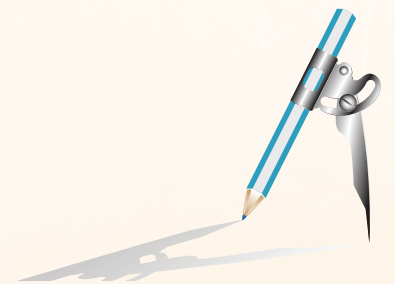
1.1.9 A business that CANNOT influence the price is a ...

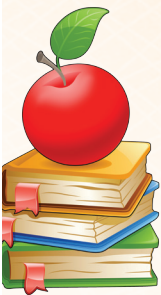
A price-taker

B price-maker

C monopolist

1.1.10 A perfect competitor will make ... in the long run.





- A economic profit
- B economic loss
- C normal profit

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A–J) next to the question number (1.2.1–1.2.10) in the ANSWER BOOK, for example 1.2.11 Z.

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.7) in the ANSWER BOOK.

- 1.3.1 The profit that the producer receives over and above the normal profit.
- 1.3.2 The duration (period) during which at least one factor of production is fixed.
- 1.3.3 Where buyers and sellers of goods and services interact for trading purposes.
- 1.3.4 The additional cost incurred when production increases by one more unit.
- 1.3.5 Prices that are set by authorities above the equilibrium price to benefit the producer.
- 1.3.6 Businesses working together in an oligopoly market to fix prices.
- 1.3.7 The prices of a wide range of goods and services decrease continuously over an extended period.
- 1.3.8 A situation where one dominant firm sets the price and others follow.
- 1.3.9 It occurs when a firm produces at the output level at which marginal revenue is equal to marginal cost.
- 1.3.10 A price set above the equilibrium price/market price to allow producers to make a fair profit.

SECTION B

2.1 Answer the following questions.

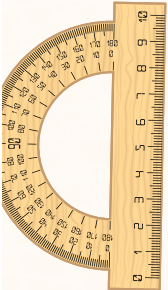
2.1.1 List TWO types of economic costs. (2 x 1) (2)

2.1.2 What is the purpose of patents in monopolies? (1 x 2) (2)

2.1.1 Name any TWO institutions that regulate unfair competition in South Africa. (2 x 1) (2)

2.1.2 How will producers benefit from minimum prices that are implemented by the government? (1 x 2) (2)

2.1.1 Name TWO characteristics of monopolistic competition (2 x 1) (2)







2.1.2 What will the effect be if one firm in a perfect market decides to increase the price of a product? (1 x 2) (2)

2.1.1 Give TWO characteristics of public goods. (2 x 1) (2)

2.1.2 Why are oligopolists reluctant to compete with each other on price in order to get a greater share of the market? (1 x 2) (2)

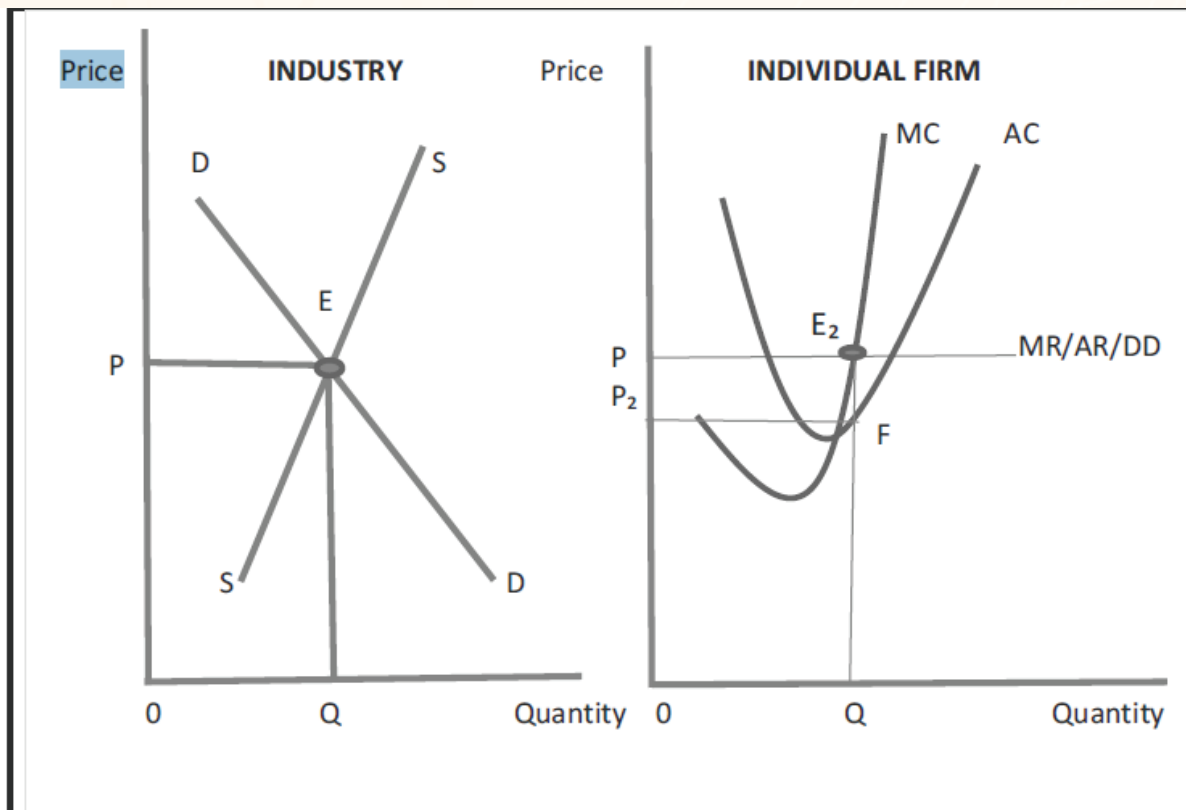
2.1.1 Name TWO examples of artificial barriers to entry that a monopolist can enjoy. 2 x 1 = (2)

2.1.2 Why is it important for the economy to achieve allocative efficiency in a perfectly competitive market? (1 x 2) (2)

2.1.1 List TWO examples of products that are typical from a monopolistic competitive market. (2 x 1)

2.1.2 Why are oligopoly firms reluctant to decrease their prices? (1 x 2) (2)

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



2.2.1 Identify the profit maximisation point (label) of the individual firm. (1)

2.2.2 At what point or label will the industry be in equilibrium? (1)

2.2.3 Explain the concept price taker. (2)

2.2.4 Identify whether the individual has made an economic profit or loss and write down the area for

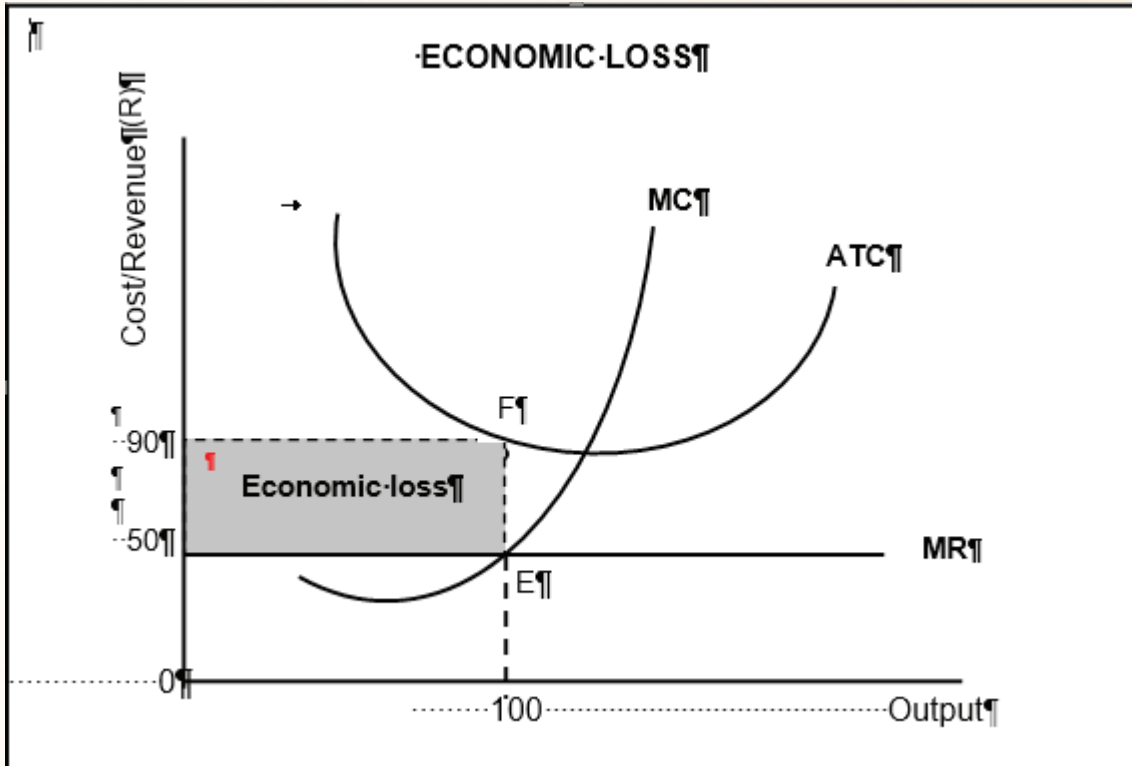


profit/loss.

2.2.5 Explain the slope of the demand curve of the individual firm. (2 x 2) (4)

[10]

Study the graphs below and answer the questions that follow.



2.2.1 Identify the market structure in the graph above. (1)

2.2.2 Give the value of the market price depicted above. (2)

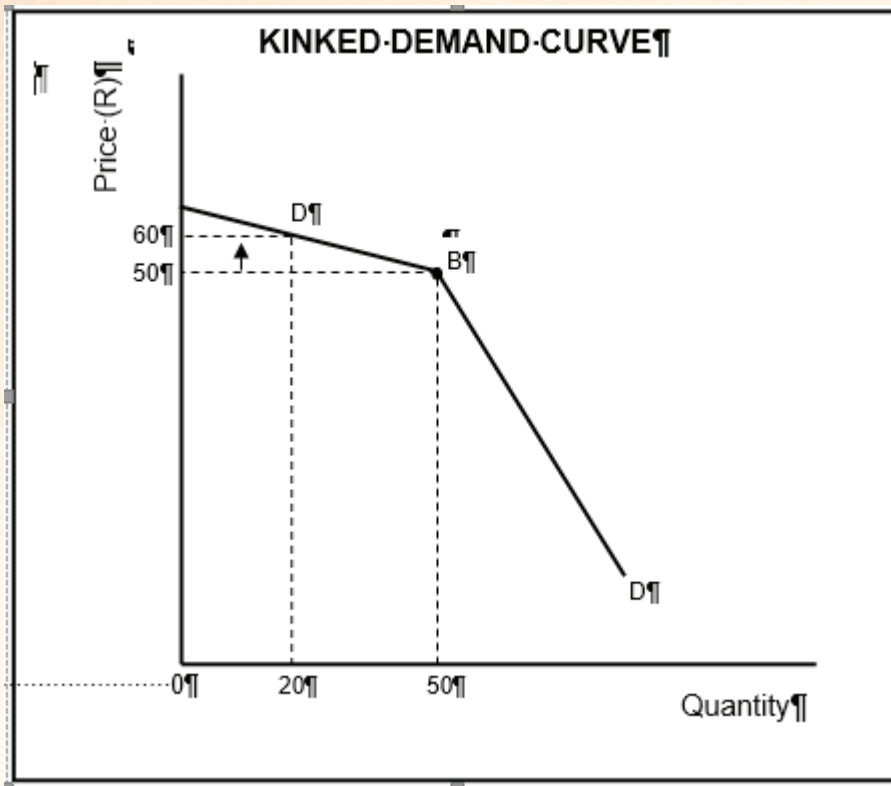
2.2.3 How will this equilibrium position change in the long run (long term)?

2.2.4 What conditions must exist for this firm to shut down? (2)

2.2.5 Calculate the economic loss faced by this firm. (4)

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





- 2.3.1 To which market structure is the kinked curve related? (1)
- 2.3.2 What is the output level in the graph above? (1)
- 2.3.3 What would the effect be on total revenue if the oligopolist increased his price from R50 to R60? Show all calculations. (4)
- 2.3.4 Advise the oligopolist on how to increase his market share in this particular industry.(4)
- 2.3 Study the extract below and answer the questions that follow.

**OLIGOPOLY – COCA-COLA AND PEPSI**

Coca-Cola and Pepsi are in an oligopoly market. They are selling a homogeneous product so they have control over price. They will consider their action when they would like to change the price of their goods. Normally, both of the firms will use low-price strategy at the same time to maximise the market share. Especially when summer holidays arrive, both of the firms will use cut-throat price competition to increase their sales.

[Source: <http://cokevspepsi.net>]

- 2.3.1 Define the term *oligopoly*. (2)



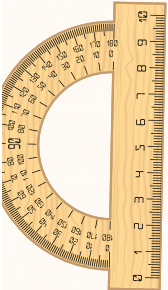
2.3.2 What message is depicted in the picture above? (2)

2.3.3 What is meant by *cut-throat price competition*, as used in the extract? (2)

2.3.4 Explain the ways in which Coca-Cola and Pepsi can gain market share. (2 x 2) (4)

2.4 Briefly examine the role played by the Competition Commission and the Competition Tribunal. (2 x 4) (8)

2.5 With the aid of a table, explain the slope of the demand curve in a monopoly.







## CONTEMPORARY ECONOMIC ISSUES

### 1. INFLATION

#### OBJECTIVES

- Define and measure inflation
- Types and characteristics of inflation
- Causes and consequences of inflation
- The inflation problem in South Africa
- Measures to combat inflation

#### CONCEPTS

Inflation	Administered prices inflation
Consumer Price Index	All inclusive inflation
Producer Price Index	Hyper inflation
Inflation rate	Stagflation
Inflation targetting	Demand-pull inflation
Headline inflation	Cost-push inflation
Core inflation	

At the end of this session, you should be able to:

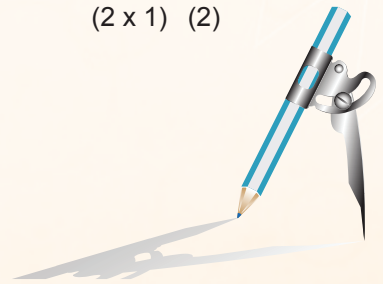
- Define and describe all key concepts.
- Distinguish between the different characteristics of demand-pull and cost-push inflation.
- Discuss in detail the causes of demand-pull and cost-push inflation.
- Outline the inflation problem in South Africa.
- Examine the measures to combat inflation.
- Explain the success of inflation targetting.

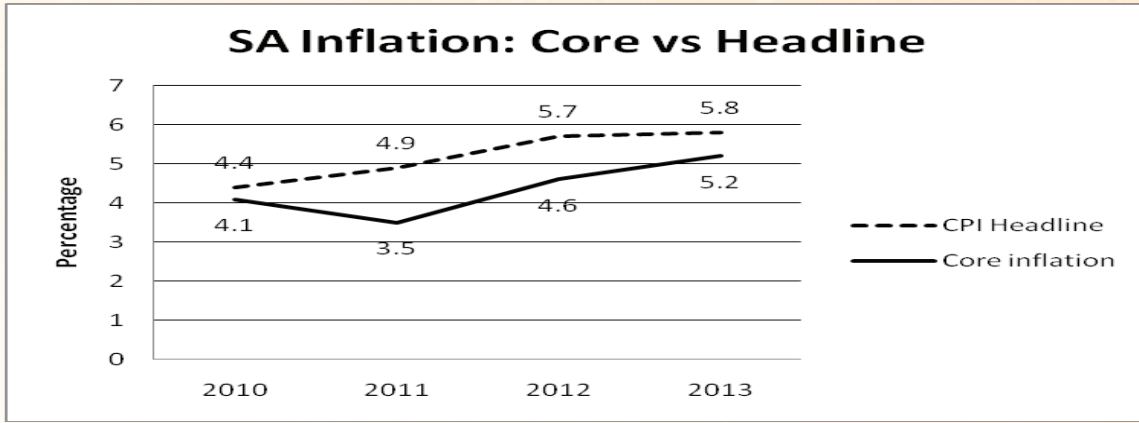
3.1 Answer the following questions.

3.1.1 Name two ways to measure inflation. (2 x 1) (2)

3.1.2 Give two examples of prices that are controlled by the South African government. (2 x 1) (2)

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





[Source: [www.statsa.gov.za](http://www.statsa.gov.za)]

- Which ONE of the two types of inflation is the official rate? (1)
- What is the inflation target range set by the SARB? (1)
- What effect will an increase in interest rates have on the trend of the CPI curve? (2)
- What negative influence will inflation have on the balance of payments? (2)
- Why is core inflation lower than CPI? (2 x 2) (4)

3.2.2 Read the extract below and answer the questions that follow.

#### **PENSIONERS URGED TO USE INVESTMENT TOOLS TO PROTECT RETIREMENT SAVINGS FROM INFLATION**

Factors such as inflation hikes and market volatility could have a significant impact on South African pension funds. In order to protect their retirement lump sum from these potentially erosive factors, local pensioners are urged to use specialised investment tools to safeguard their future.

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

- State TWO factors indicated in the extract above that will have an impact on retirement savings. (2 x 1) (2)
- Explain the term retirement lump sum saving. (2)
- How can the government use fiscal policy to combat inflation? (2)
- How can pensioners safeguard themselves against the eroding effect of inflation? (2 x 2) (4)

3.3 Explain how wages and exchange rates can lead to cost-push inflation. (4 x 2) (8)

3.4 What is the impact of inflation on investors and savers? (4 x 2) (8)





**SECTION C - ESSAY TYPE QUESTION**

Inflation originates from the demand side or supply side of the economy.

- Examine in detail the causes of demand-pull inflation. (26)
- How successful have monetary policy measures been in combatting demand-pull inflation in South Africa? (10)

**MEMO FOR PERFECT AND IMPERFECT MARKETS**

**SECTION A QUESTIONS**

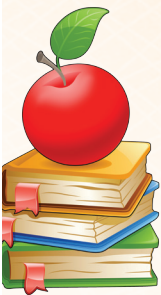
- 1.1.1 A electricity ✓✓
- 1.1.2 B is horizontal ✓✓
- 1.1.3 C demand ✓✓
- 1.1.4 B average variable cost ✓✓
- 1.1.5 A licensing ✓✓
- 1.1.6 C competition ✓✓
- 1.1.7 B marginal revenue ✓✓
- 1.1.8 B (average cost) ✓✓
- 1.1.9 A (price taker) ✓✓
- 1.1.10 C (normal profit) ✓✓



**1.2 MATCHING QUESTION**

- 1.2.1 M ✓
- 1.2.2 F ✓
- 1.2.3 A ✓
- 1.2.4 I ✓
- 1.2.5 H ✓
- 1.2.6 K ✓
- 1.2.7 D ✓
- 1.2.8 J ✓
- 1.2.9 G ✓
- 1.2.10 L ✓





**GIVE THE TERM**

1.3.1 Abnormal/ Economic profit / Supernormal ✓

1.3.2 Short run ✓

1.3.3 Market ✓

1.3.4 Marginal ✓

1.3.5 Minimum / floor prices ✓

1.3.6 Collusion / cartel ✓

1.3.7 Deflation ✓

1.3.8 Price leadership ✓

1.3.9 Profit maximisation ✓

1.3.10 Minimum prices ✓

**SECTION B**

2.1

2.1.1 List TWO types of economic cost.

Implicit costs ✓

Explicit costs ✓

(2 x 1) (2)

2.1.2 What is the purpose of patents in monopolies?

- Patents are used as barriers to entry in a market, thereby creating artificial monopolies. ✓
  - A patent gives the holder the exclusive right to manufacture a product using his/her unique invention. ✓
- (1 x 2) (2)

2.1.1 Name any TWO institutions that regulate unfair competition in South Africa.

**COMPETITION COMMISSION** ✓

**COMPETITION TRIBUNAL** ✓

Competition Appeal Court ✓

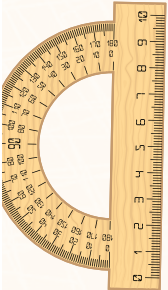
(2 x 1) (2)

2.1.2 How will producers benefit from minimum prices that are implemented by the government?

Producers will be able to make a comfortable profit, which will encourage them to produce more – given them more certainty and for future planning. ✓✓

(Accept any other relevant response.)

(1 x 2) (2)







**2.1.1 Name TWO characteristics of monopolistic competition.**

- Existence of a large number of firms ✓
- Product differentiation ✓
- Price setter ✓
- Downward sloping demand curve ✓
- Firms act independently ✓
- Non-price competition (exploited largely by advertising) ✓
- Free entry and exit from the market ✓

(Accept any other relevant answer)

(Any 2 x 1)



**2.1.2 What will the effect be in a perfect market if one firm decides to increase the price of a product?**

The firm will make a loss, because all firms in the perfect market are price takers and cannot influence the market price. ✓✓

(Accept any other relevant response.)

(1 x 2)



**2.1.1 Give TWO characteristics of public goods.**

- Non-excludable ☒
- Non-competitive / Non-rivalry ☒
- Social benefits outstrip private benefits ☒
- Infinite consumption ☒
- Non-rejectability / cannot refrain from consuming even if they want to (2 x 1)



**2.1.2 Why are oligopolists reluctant to compete with each other on price in order to get a greater share of the market?**

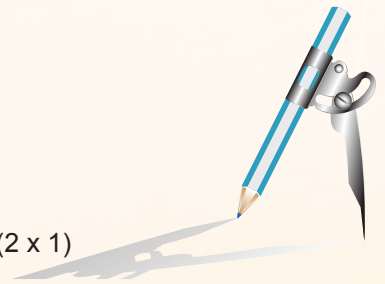
They act in response to the behaviour of others: if one business increases its price, it loses its market share. When the firm decreases its price, others will follow suit and a price war might arise. ✓✓

(Accept any other relevant response.)

**2.1.1 Name TWO examples of artificial barriers to entry that a monopolist can enjoy.**

- Patents✓
- Licensing✓

(2 x 1)



**2.1.2 Why is it important for the economy to achieve allocative efficiency in a perfectly competitive market?**

• In order to ensure the optimum use of available resources to produce the output most demanded by consumers. ✓✓





(Accept any other relevant response.)

(1 x 2)

(2)

2.1.1 List TWO examples of products that are typical in a monopolistic competitive market.

Burgers / Fast food

Denim jeans

Soft drinks

(Accept any other relevant example.)

(2 x 1) (2)

2.1.2 Why are oligopoly firms reluctant to decrease their prices?

Because a price war will drive prices down and profits will be eliminated. ✓✓ (1 x 2) (2)

## 2.2 DATA RESPONSE

2.2.1 Identify the profit maximisation point (label) of the individual firm.

E2 ✓

2.2.2 At what point or label will the industry be in equilibrium?

E ✓

2.2.3 Explain the concept price taker.

A price taker is the individual firm that charges the going market price. ✓✓ (2)

2.2.4 Identify if the individual has made an economic profit or loss and write down the area for the profit/loss.

Economic profit ✓; PP2FE2 ✓

2.2.5 Explain the slope of the demand curve of the individual firm.

It has a horizontal slope. ✓✓

The demand curve is perfectly elastic. ✓✓

It is exactly at the same level of the price. ✓✓

The horizontal demand curve represents the MR and AR. ✓✓ (2 x 2) (4)

2.2.1 Identify the market structure in the graph above.

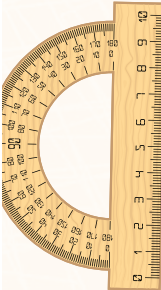
Perfect market / Perfect competition □ (1)

2.2.2 Give the value of the market price depicted above.

R50 ✓ (1)

2.2.3 How will this equilibrium position change in the long run (long term)?

- It will change to normal profit due to firms leaving the industry. ✓✓







- In the long run, firms will leave the industry, which will increase the revenue, thereby reducing the loss. ✓✓  
Any (1 x 2) (2)

2.2.4 What conditions must exist for this firm to shut down?

- When it cannot meet its average variable cost / price is less than/equal to AVC /  $TR < AVC$ . ✓✓
- When the firm's total revenue is less than its variable costs. ✓✓
- When  $MR = AVC = MC$ . ✓✓ Any (1 x 2) (2)

2.2.5 Calculate the economic loss faced by this firm.

Unit loss: R40 ✓ OR  $TR - TC$  ✓

Total loss:  $100 \times 40$  □ =  $5000 - 9000$  □ = R4000 ✓✓ = -4000 ✓✓

(Allocate 2 marks if only unit loss is given.)

(Allocate 4 marks if the correct final answer is given.) (4)

2.3.1 Which market structure is the kinked curve related to?

Oligopoly/imperfect market ✓ (1)

2.3.2 What is the output level in the graph above? 50 ✓ (1)

2.3.3 What would the effect be on total revenue if the oligopolist increased his price from R50 to R60? Show calculations.

At a price of R50 and a quantity 50, total revenue would be R2 500 ✓ ( $50 \times 50 = 2\ 500$ ).

At a price of R60 and a quantity 20, total revenue would be R1 200 ✓ ( $60 \times 20 = 1\ 200$ ).

The net effect on income =  $R2\ 500 - R1\ 200 = R1\ 300$ . ✓✓

2.3.4 Advise the oligopolist on how he can increase his market share in this particular industry.

The oligopolist should consider using the following:

- non-price measures to attract customers to increase their market share ✓✓
- build brand loyalty, product recognition and product differentiation ✓✓
- advertising and marketing ✓✓

Examples of non-price competition include:

- extended shopping and business hours ✓
- doing business over the internet ✓
- after-sales services ✓
- offering additional services ✓





- loyalty rewards for customers ✓
- door-to-door deliveries ✓

(Accept any other relevant response.)

(Allocate a maximum of 2 marks for examples.)

### 2.3 DATA RESPONSE

2.3.1 Define the term oligopoly.

An oligopoly is a market structure with only a few buyers. ✓ ✓ (2)

2.3.2 What message is depicted in the picture above?

Pepsi and Coke are fighting for market share by reducing prices. ✓ ✓ (2)

(Accept any relevant explanation.)

2.3.3 What is meant by cut-throat price competition, as used in the extract?

- Cut-throat competition is a situation wherein competitors use predatory pricing (undercutting prices) to eliminate or undermine rivals. ✓ ✓
- Coca-Cola and Pepsi are fighting for a share in the market by setting very low prices. ✓ ✓ (Any 1 x 2) (2)

2.3.4 Briefly explain ways in which Coca-Cola and Pepsi could gain market share.

#### Non-price competition:

More advertising to lure consumers. ✓ ✓

Branding to encourage loyalty to the product. ✓ ✓

Product differentiation, i.e. a range of products to cater for different markets. ✓ ✓ (2 x 2) (4)

2.3.4 Briefly explain ways in which Coca-Cola and Pepsi could gain market share.

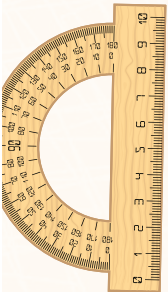
#### Non-price competition

- By advertising more to lure consumers ✓ ✓
- Branding to encourage loyalty to the product ✓ ✓
- Product differentiation, i.e. a range of products to cater for different markets. ✓ ✓

2.4 Briefly examine the role played by the Competition Commission and the Competition Tribunal.

#### Competition Commission

- It investigates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. ✓ ✓
- It will make a recommendation about penalties for businesses that it finds guilty ✓ ✓
- The Commission's recommendations are submitted to the Competition Tribunal ✓ ✓







### Competition Tribunal

The Competition Tribunal's main function is to:

- Grant exemption ✓✓
- Authorise or prohibit large mergers ✓✓
- Adjudicate in relation to any conduct prohibited in terms of Chapter 2 or 3 of the Act ✓✓
- Grant an order for costs in terms of section 57 of the Act on matters presented to it by the Commission. ✓✓

2.5 With the aid of a table, explain the slope of the demand curve in a monopoly market. (8)

- It is an industry demand curve. ✓✓
- Monopolies will have a pricing policy because it is the only supplier in the market. ✓✓ Each quantity supplied is associated with a unique price, and more units can be sold by reducing the price/at higher prices less will be demanded and at lower prices more will be demanded. ✓✓
- The demand curve is downward sloping; it has a negative slope. ✓✓ (2 x 2) (4)

PRICE	QUANTITY DEMANDED
16	1
14	4
12	8
10	12

Correct figures for price; ✓✓ correct figures for quantity demanded. ✓✓ (4)

### 3. INFLATION (MEMO)

3.1.1 Name any TWO ways to measure inflation.

- Price index / CPI / PPI P
- Weighting P
- Inflation rate P

Any (2 x 1)

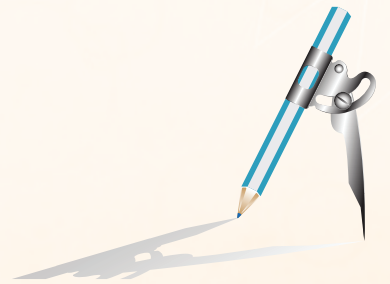
(2)

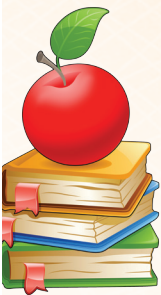
3.1.2 Give two examples of prices that are controlled by the South African government

- Fuel prices✓
- Assessment rates✓
- Property taxes✓
- Sanitation levies✓
- Refuse removal levies✓
- Water levies✓
- Electricity tariffs✓
- Postal stamps✓

Any (2 x 1)

(2)





3.2.1 DATA RESPONSE

(a) Which ONE of the two types of inflation is the official inflation rate?

CPI Headline ✓ (1)

(b) What is the inflation target range set by the SARB?

The inflation target is between 3% and 6%. ✓ (1)

(c) What effect will an increase in interest rates have on the trend of the CPI curve?

- There will be a fall/drop in the trend line, due to a decrease in the demand for goods and services (less demand for credit, less savings). ✓
- There could be an increase in the trend line because interest on mortgage bonds is part of the basket. ✓ (2)

(d) What negative influence will inflation have on the balance of payments?

- South African exports will become expensive, therefore the country will sell less goods. ✓✓
- Imports will exceed exports, therefore the Balance of Payment will have a deficit. ✓✓ (1 x 2) (2)

(e) Why is core inflation lower than CPI?

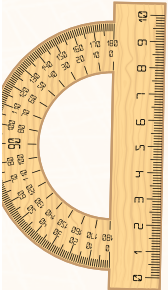
- Products with highly volatile prices are excluded. ✓✓
- E.g. fresh vegetables / fish / and fresh meat are excluded. ✓
- CPI headline inflation is calculated by using a selected basket of goods and services that the average household uses. ✓✓
- The reason is that these high volatile price changes will distort the real changes in prices. ✓✓

(Accept any other relevant argument.) Any (2 x 2) (4)

3.2.2 DATA RESPONSE

(a) STATE TWO FACTORS FROM THE EXTRACT ABOVE THAT WILL HAVE AN IMPACT ON RETIREMENT SAVINGS.

- INFLATION HIKES ✓
- MARKET VOLATILITY ✓ (2)







(b) Explain the term *retirement lump sum*.

A cash payment / money that you receive when retiring. ✓✓

(Accept any other relevant answer.)

(2)

(c) How can the government use fiscal policy to combat inflation?

- Increase direct tax
- Increase indirect taxation ✓✓
- Reduce government expenditure ✓✓

(Accept any other relevant answer.)

(2)



(d) How can pensioners safeguard themselves against the eroding effects of inflation?

- The retirement fund should be invested in a high yield returning investment/portfolio. ✓✓
- Purchasing property. ✓✓
- Purchasing blue chip shares. ✓✓
- Specialized investment tools ✓✓ (Accept if specified.)

(Accept any other relevant answer.)

(2 x 2)

(4)



3.3 Explain how *wages* and *exchange rates* can lead to cost-push inflation.

**Wages**

- Trade unions (workers) is successful in negotiation better wages, the wages will increase leading to an increase in production cost ✓✓
- Businesses will raise the selling price to compensate for the higher input cost. ✓✓

(2 x 2)

**Exchange rate depreciation**

- If the Rand depreciates against the dollar, all imported goods and services become more expensive. ✓✓
- It will cost more to import goods and this will increase the price of the imported goods. ✓✓

(2 x 2)

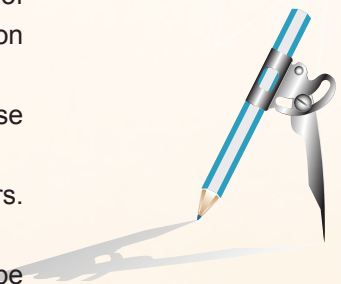
(8)

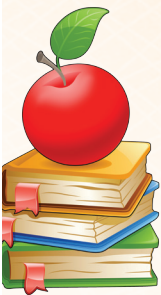
3.4 What is the impact of inflation on *investors* and *savers*?

- Assets with fixed nominal values remain constant; the purchasing power of the nominal values increase; the real value decreases. PP
- Assets with a flexible market value: The holders of shares and fixed property usually gain by price increases because the nominal value of these assets tend to increase at least proportionately to the rate of inflation PP
- Often the price of these assets increases more rapidly than the increase in the general price level. PP
- In this case, inflation creates wealth, to the advantage of the shareholders. PP
- People who save are disadvantaged by inflation as interest earned will be less than the inflation rate. PP
- (Accept any other relevant fact.)

(Any 4 x 2)

(8)





### ESSAY TYPE QUESTION

Inflation can originate in the demand side or the supply side of the economy.

- Examine in detail the causes of demand-pull inflation. (26)
- How successful have monetary policy measures been in combatting demand-pull inflation in South Africa? (10)

### INTRODUCTION

Inflation is a sustained and significant increase in general price levels over a period of time and a simultaneous decrease in the purchasing power of money. [2]

OR

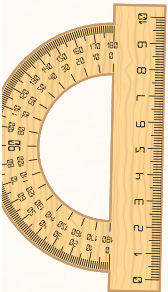
Demand-pull inflation occurs when aggregate demand in an economy outpaces (is faster than) aggregate supply. ✓✓ (Maximum 2)

### MAIN PART

Demand-pull inflation occurs when total spending in the economy increases and the economy is unable to expand output to meet the increase in spending. ✓✓

[40]

- **Increased consumption by households (C)** ✓ The disposable income of households can increase at a faster rate than aggregate supply for the following reasons: ✓✓
  - It is caused by easier access to credit ✓ or lower interest rates, which make credit cheaper. ✓✓ When credit is cheaper, households will borrow more. ✓✓
  - Lack of savings. ✓ Consumers may spend their entire income and do not save. ✓✓ This results in a lack of liquidity for banks to finance essential capital investments. ✓✓
  - Reduction in taxes. ✓ If the government decides to decrease personal income tax, consumers will use the extra income to buy more goods and services. ✓✓
- **Investment spending (I)** ✓
  - A reduction in interest rates will encourage firms to expand their operations. ✓✓
  - Businesses invest more and this may lead to an increase in the demand for goods and services that are part of the investment, ✓✓ e.g. new buildings, cement, bricks and labour. ✓
  - If aggregate demand increases at a faster rate than aggregate supply, price increases will follow. ✓✓
- **Government spending (G)** ✓
  - An increase in government spending without an increase in productivity will lead to inflation. ✓✓
  - If an increase in government spending is financed by borrowing from financial institutions, large sums of money are placed into circulation, which aggravates the demands in the economy's real capacity ✓✓
  - Government uses three channels for increased spending:
    - **Infrastructure:** ✓ government may embark on capital projects, such as roads, housing and water; ✓✓ when the size of these projects outstrips the economy's capacity, prices will increase. ✓✓
    - **Consumption expenditure:** ✓ most governments will increase expenditure on education and health at times. ✓✓







- **Social spending:** ✓ Governments sometimes feel they have to do something substantive about unemployment and poverty, ✓✓ e.g. public work programmes. ✓ Such expenditure invariably leads to inflation, because of adding to aggregate demand without adding anything to aggregate supply. ✓✓
- **Export earnings (X)** ✓
  - An increase in earnings from exports can come from various sources, e.g.:
    - **Foreign growth:** ✓ growth of the economies of trading partner countries may create a demand for a variety of locally produced goods; ✓✓ the sale of exports brings money into the country; ✓✓ demand increases without a corresponding increase in supply, which results in an increase in prices. ✓✓
    - **Demand for commodities:** ✓ the world's demand for commodities expands and contracts just like other business cycles do; ✓✓ during an expansionary period, foreign demand increases and this leads to greater volumes of exports ✓✓ the income earned from these exports adds to aggregate demand and prices increase ✓✓  
(Maximum 26)



**ADDITIONAL PART**

The South African Reserve Bank (SARB) and the government use certain monetary measures to curb inflation. ✓✓

- The SARB has regularly adjusted the quantity of money successfully to the needs of the economy (e.g. through an open-market policy), thus maintaining a fine balance between the supply of goods and services and the money supply. ✓✓
- The SARB tries to curb inflation by adhering to the inflation target of 3 – 6%, but hasn't always been successful (currently at the upper end). ✓✓
- The central bank's (SARB) bank rate has always affected interest rates in the economy (an increased repo rate) to encourage more savings or encourage credit granting (a decreased repo rate). ✓✓
- The SARB applies moral pressure (moral suasion) on financial institutions to be more careful when granting credit, e.g. a lack of moral pressure from SARB caused Bank of Africa to be liquidized; ✓ on the other hand, SARB's division of bank supervision led to severe penalties on some of the major banks in South Africa ✓✓

(Accept any other correct relevant response)

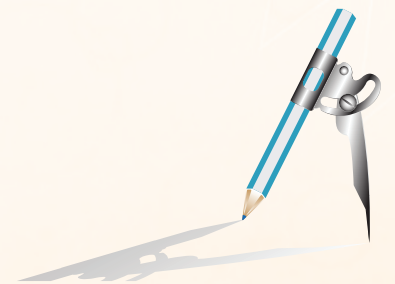
(Maximum 10)

**CONCLUSION**

Money can be regarded as the most important driver of inflation: high volumes of money will lead to higher income, higher expenditure and higher inflation; therefore, authorities should control the country's money supply effectively. ✓✓

(Accept any other correct relevant response.)

(Maximum 2)





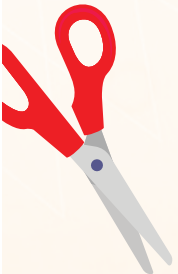
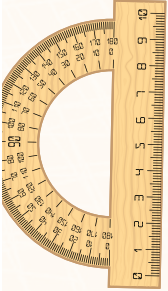
## 5 STUDY AND EXAMINATION TIPS

### A) Generic

- Time management, etc.
- This should be the same for all subjects.
- DBE to draft

### B) Subject specific

- Team to draft
- Different for each subject.
- 







## 6 MESSAGE TO GRADE 12 LEARNERS FROM THE WRITERS

Each developer should write a message of encouragement to the learners

Be funny, be witty, be creative

Motivate the learners

Inspire them to want to learn

The Economics manner writing team works you well with your studies and examination

Be positive, never give up. Nothing is impossible if you believe you can your attitude will determine your attitude.

Do your best, victory is certain.





## 7 THANK YOU

The Economics Exam Preparation Booklet was developed by Mr Towboy Rantsane, Ms Thabisa Seleho and Sithembiso Tshabalala (Subject Specialists, PED).

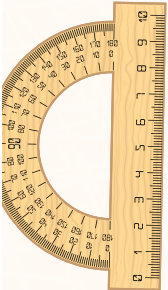
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Book III

Look out for Book II which will help you get from 60% to 80% or even 100% - wouldn't that be amazing.







32%



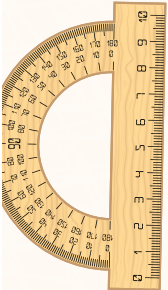
History

Mathematics



Physics

Accounting







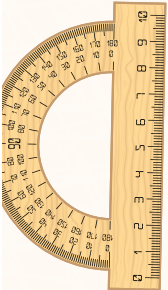
32%



History  
Mathematics



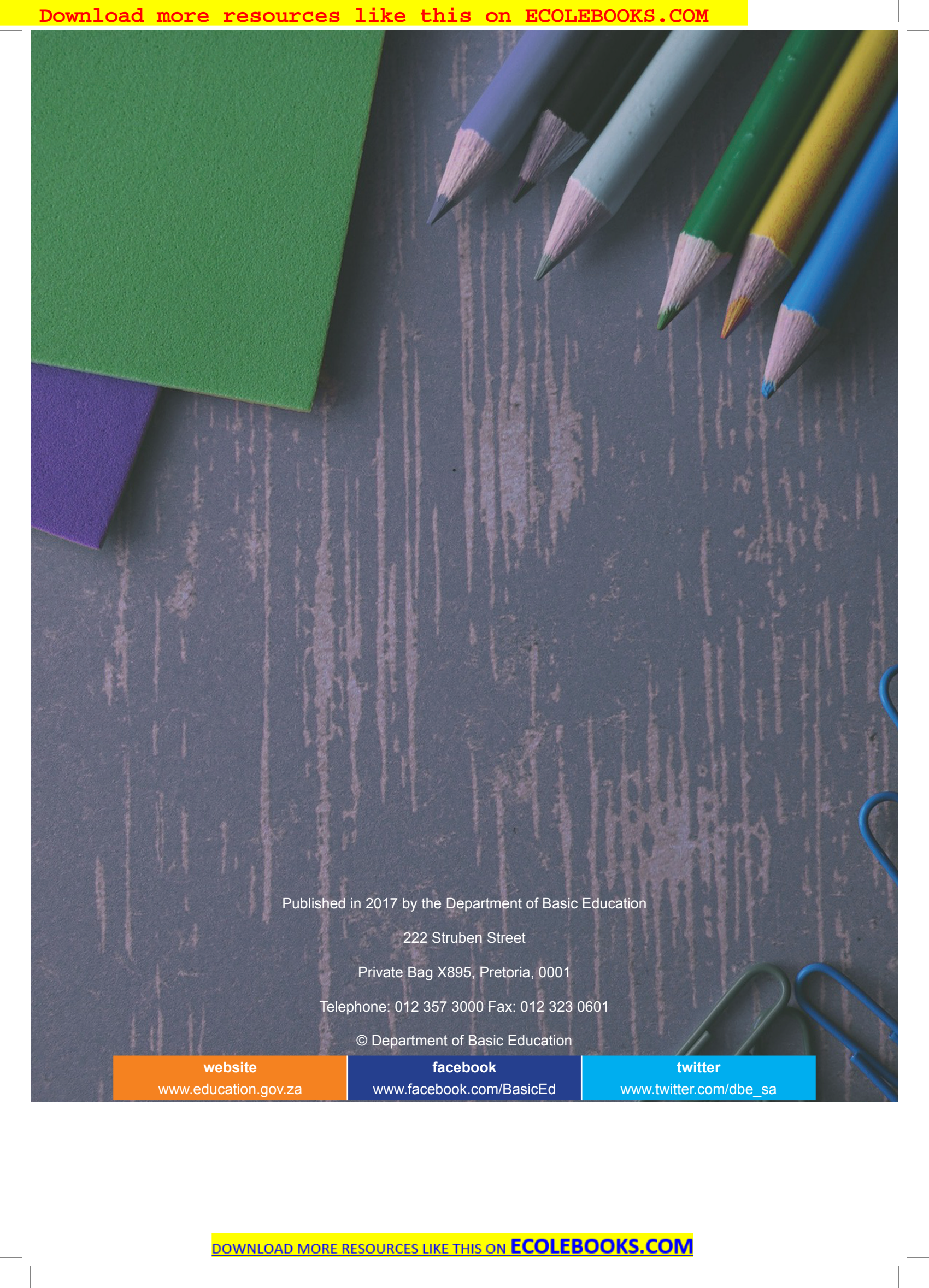
Physics  
Accounting











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