



LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

LIMPOPO PROVINCE

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ECONOMICS - P1

JUNE 2021

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 15 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 B – export income. ✓✓
 1.1.2 B – reserves. ✓✓
 1.1.3 A – privatization. ✓✓
 1.1.4 C – amplitude. ✓✓
 1.1.5 A – public. ✓✓
 1.1.6 C – dumping. ✓✓
 1.1.7 C – February. ✓✓
 1.1.8 A – mass production ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G - An increase in the price of a currency in terms of another currency. ✓
 1.2.2 H - To estimate something unknown from the facts that are known. ✓
 1.2.3 E – An official ban on trade ✓
 1.2.4 F - Deliberate policy by government to erect trade barriers. ✓
 1.2.5 A - Trading between countries made possible by IT. ✓
 1.2.6 B - Money received without any productive services rendered, e.g. gifts. ✓
 1.2.7 I - Explaining one's decisions, actions and expenditure. ✓
 1.2.8 C - Both short and long-term financial assets are traded. ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 Closed economy ✓
 1.3.2 Exogenous ✓
 1.3.3 Budget ✓
 1.3.4 Value added tax ✓
 1.3.5 Revaluation ✓
 1.3.6 Market prices ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B: (ANSWER TWO OF THE THREE QUESTIONS)**QUESTION 2 MACROECONOMICS****2.1 Answer the following questions:**

2.1.1 Name the TWO turning points of a business cycle.
Trough ✓ and peak ✓ (2 x1) (2)

2.1.2 How can a weaker rand lead to an improvement of the trade balance?
A weaker rand will make exports cheaper which will lead to an increase in export and more income for the country ✓✓ imports will become more expensive and imports will decrease. ✓✓ (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 What method of calculation was used in the table above to determine the gross domestic product?
Income method ✓ (1)

2.2.2 Give ONE example of taxes on products.

- VAT ✓
- Excise duty ✓
- Sugar tax ✓

 (Accept any other correct relevant example) (Any 1 x 1) (1)

2.2.3 Briefly explain the term *gross domestic product*.
Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a specific time period. ✓✓
The total value of all final goods and services ✓ produced within the geographic boundary of a country over particular period for example one year. ✓ (2)

2.2.4 How will you convert GDP to GNP?
Primary income from the rest of the world less primary income to the rest of the world. ✓✓ (2)

2.2.5 Calculate the level of GDP at basic price. Show ALL calculations.
(basic price)
$$\begin{array}{r} \text{R } 2\,148\,157 \\ + \quad 38\,173 \\ \hline \text{R } 2\,181\,238 \end{array} \left. \vphantom{\begin{array}{r} \text{R } 2\,148\,157 \\ + \quad 38\,173 \\ \hline \text{R } 2\,181\,238 \end{array}} \right\} \checkmark\checkmark$$

(GDP @ basic price) R 2 181 238 ✓✓ (4)

2.3 DATA RESPONSE**2.3.1 Identify ONE parastatal from the extract above.**

- Eskom ✓
- SANRAL ✓
- SAA ✓

(Any 1 x 1) (1)

2.3.2 Name the main source of the SOEs funding.

- Taxation ✓

(1)

2.3.3 Briefly describe the term *parastatal*.

Businesses with limited liability operating with the intention to make profit. However, if they make losses, government makes up the losses. ✓✓

(2)

(Accept any other correct relevant response)

2.3.4 Why is the existence of SOEs important to the economy?

The government earn an income with SOEs which can lead to government spending. ✓✓

(2)

(Accept any other correct relevant response)

2.3.5 Briefly discuss management and accountability as a reason for public sector failure.

• Accountability: Arises because the public requires assurance that the public sector delivers the desired quantities and quality of goods and services for which taxes are raised ✓✓ and that it does not abuse the powers it was granted by ✓✓ for example , creating monopolies ✓ and tolerating corruption, ✓ nepotism, ✓ incompetence and apathy. ✓

• Management: A government manages the collective interests of the people of its country. ✓✓ With regard to their economic interest, it has to ensure a social and legislative environment in which individuals and businesses can pressure their own interests ✓✓ to the maximum and apply suitable and credible economic and other policies in order to achieve internationally respected economic objectives. ✓✓

(Accept any other relevant response)

(Any 2 x 2) (4)

2.4 Explain the use of the medium-term budget delivered by the Minister of Finance.

- The minister advises Parliament of the changes in the economy since the main budget. ✓✓
- The minister shares with the house the developments in public policy. ✓✓
- This budget will shape the next main budget. ✓✓
- This budget is also more detailed. ✓✓

(2 x 4) (8)

(Accept any other correct relevant response)

2.5 Differentiate between *real flow* and *money flow* in the circular-flow model.**Real flow**

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

- These include:
 - Production factors from households to businesses. ✓✓
 - Goods and services from businesses to households. ✓✓
 - Goods and services of 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 2) (4)

Cash flow

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

These include:

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

QUESTION 3. MACROECONOMICS**3.1 Answer the following questions:****3.1.1 Name any TWO reasons why countries trade.**

- Products not produced by own country. ✓
 - Surplus of own country need to be sold on bigger markets. ✓
- (2 x 1) (2)

(Accept any other correct relevant response)

3.1.2 Which economic challenges is South-Africa facing because of the rising cost of petrol?

Petrol is a key source in production of other goods and services so the increase in petrol will also lead to an increase in the price of these products. ✓✓

(1 x 2) (2)

3.2 DATA RESPOSE**3.2.1 Which institution is responsible for executing the monetary policy?**

- South African Reserve Bank (SARB) ✓ (1)

3.2.2 Name the phase that generally occurs when there is two consecutive quarters of economic decline?

- Recession ✓ (1)

3.2.3 Briefly describe the term *new economic paradigm*.

- In recent years' economists have become convinced that it is possible for output to rise at a high rate for an extended period of time without being tripped by supply constraints and with provoking inflationary pressures. ✓✓
- The new economic paradigm has a demand and supply side approach. These approaches can be used to positively or negatively impact the economy. ✓✓ (Any 2 x 2) (2)

(Accept any other correct relevant response)

3.2.4 Analyse government's options if consumer demand is too high?

Raise taxes or lower government spending. ✓✓ (2)

3.2.5 Distinguished between *exogenous* and *endogenous* causes of a business cycle.

- Exogenous: The monetarists derive the essence of their explanation of business cycles from the view that the growth path of the economy is determined by the natural growth in the supply of available resources of production ✓✓, including technology ✓. If imbalances develop, the market forces of supply and demand and price adjustments will always bring the market back to equilibrium. ✓✓

The external reasons for business cycles such as weather conditions ✓, shocks ✓ and structural changes ✓ also serve as starters or initiating forces they distort the stability in the market. ✓✓

- Endogenous. The Keynesian school or interventionists, on the other hand, hold the view that markets are inherently unstable. The level of economic activity constantly and erratically overshoots and undershoots the economy's potential growth path. It tends to be continually above or below its potential. They claim that business cycles are part of the way market economies operate. Endogenous forces for example indirect links, mismatches and disequilibria are responsible for triggering cyclical fluctuations, they regard business cycles as an inherent feature of market economies. However, government should intervene in the economic process in order to smooth the peaks and troughs as far as possible.

(4)

3 DATA RESPONSE

3.3.1 What does the abbreviation MTEF stand for?

- Medium term expenditure framework.

(1)

3.3.2 What will the negative impact of high tax rates be?

Tax evasion/ avoid paying tax.

(Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *balance of payment*.

Record of all a country's trade and financial transactions with the rest of the world in a specific period, usually a year.

(Accept any other correct relevant response)

(2)

3.3.4 Identify the accounts of the South African balance of payments in which motorcar exports and direct investments separately appear.

Motorcar exports in current account and direct investments in financial account.

(Accept any other correct relevant response)

(2)

3.3.5 How can the government reduce the deficit on the balance of payment?

- Borrowing money from the IMF.
- Import substitution will reduce imports of goods because it will be produced in the country.
- Export promotion will increase in aggregate supply and reduce prices. Exports are promoted through cheaper prices.
- Higher interest rates help to decrease spending on imports.
- An increase in import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls, (Trade liberalization).
- Exchange control allows central banks to ration foreign exchange.
- Reduction of foreign reserves by SARB to correct deficits if we adopted a managed floating exchange rate.

- Changes in exchange rate, i.e. currency depreciation/devaluation makes imports expensive (reduction) and exports cheaper for foreign countries (increase exports). ✓✓
- An increase in tax reduces disposable income which decreases demand in imports. ✓✓ (Any 2 x 2)

(4)

3.4 Why should South Africa follow a policy of free trade?

- allows specialization which reduces the cost per unit of a product (economies of scale). ✓✓
- improves sales locally and abroad leading to increased profits. ✓✓
- ensure a variety of goods which increases the choices of consumers. ✓✓
- accelerate economic growth which promotes greater savings and investment. ✓✓
- allows developing countries to take advantage of foreign expertise which may be unavailable domestically. ✓✓
- promotes increased efficiencies, product improvement and technological advancement. ✓✓
- promotes competition and improves resource allocation. ✓✓

(8)

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

(Accept any other correct relevant response)

3.5 Discuss the role of the factor market in the economic cycle.

- In the factor market, factors of production are traded. ✓✓
- The compensation of these factors of production is used for spending in the economy. ✓✓
- Labour is traded in the labour market for salaries and wages. ✓✓
- Capital is traded on the financial market and divided into the money market, capital market and foreign exchange market. ✓✓
- Land is traded on the real estate market and the compensation is rent. ✓✓

(8)

(Accept any other correct relevant response)

QUESTION 4: MACROECONOMICS.**4.1 Answer the following questions:****4.1.1 Give any TWO instruments of the fiscal policy.**

- Tax ✓
- Government expenditure ✓ (2 x 1) (2)

4.1.2 Why can savings be beneficial to the economy?

Savings will always flow back to the economy as the injection investment which will then be a much bigger amount. ✓✓ (1 x 2) (2)
(Accept any other correct relevant response)

4.2 DATA RESPONSE**4.2.1 Name ONE sector involved in deriving the macro-economic multiplier.**

- Households ✓
- Business sector ✓ (Any 1 x 1) (1)

4.2.2 What is represented by the line $E = Y$?

It will represent all the possible points where $E = Y$. ✓ (1)

4.2.3 Briefly describe the term *autonomous consumption*.

Autonomous consumption is the consumption expenditure that occurs when the income levels are zero. ✓✓ (2)
(Accept any other correct relevant response)

4.2.4 Use the formula $\Delta Y \div \Delta J$, to calculate the multiplier (K) for the scenario above.

$$\frac{\Delta Y}{\Delta J} = \frac{R\ 50bn\ \checkmark}{R\ 20bn\ \checkmark} = 2,5\ \checkmark\checkmark\ (K) \quad (4)$$

4.2.5 Distinguish between *GDP at factor cost* and *GDP at basic price*.

- Factor cost is the cost of all production factors used in production. ✓✓
- Basic price is the cost of all production factors subtracted tax and added subsidies. ✓✓ (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 What message is conveyed in the cartoon above?**

Trade war ✓ (1)

4.3.2 Which international organization promotes free trade?

World Trade Organization (WTO) ✓ (1)

- 4.3.3 Briefly describe the term *economies of scale*.**
It occurs when inputs are increased and output is increased by more than the percentage increase in inputs. Long-term average cost will decrease. ✓✓ (2)
(Accept any other correct relevant response)
- 4.3.4 Why is import substitution and export promotion considered as the desirable mix?**
The strategies of import substitution and export promotion should not be regarded as unavoidable opposites. Many industrialized countries started out by protecting their domestic industries and then applied export orientated policies only after a considerable length of time. Import substitution almost inevitably leads to export promotion. ✓✓ (2)
(Accept any other correct relevant response)
- 4.3.5 Discuss TWO possible reasons why countries use trade barriers.**
- Less dependent on foreign countries to protect infant industries ✓✓
 - Prevention of dumping ✓✓
 - Domestic economy becomes more diversified ✓✓ (2 x 2) (4)
- (Accept any other correct relevant response)
- 4.4 Explain trade liberalisation and the role of the World Trade Organisation (WTO) as part of globalisation.**
Restricted practices, whether they relate to imports or to exports, have the same effect. ✓✓ They reduce the potential volume of world production ✓✓ that would be possible if there was complete free trade and only those goods for which countries have comparative cost advantages are produced. ✓✓ To pursue this objective of free trade, an independent facilitator was required. ✓✓ The WTO is such a facilitator. ✓✓ (4 x 2) (8)
- 4.5 How can specialisation and increased welfare favoured free trade.**
Specialization has the effect of increasing the living standards. ✓✓ Specialization and trade result in every country ending up with more of the goods traded ✓✓, but with the same cost. ✓✓ Without trade, many countries would have to go without products. ✓✓ (8)
(Accept any other correct relevant response)

TOTAL SECTION B: 80

SECTION C

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

STRUCTURE OF ESSAY:	MARK ALLOCATION:
Introduction	Max. 2
Body:	
<ul style="list-style-type: none"> Main part: Discuss/Distinguish/Differentiate/Explain/Analyse /Evaluate/Assess Additional part: Use / Draw / Sketch a graph / diagram ... / Deduce ... / Outline / Briefly explain / Expand on ... / Your own opinion 	Max. 26 Max. 10
Conclusion	
Any relevant higher order conclusion that should include: <ul style="list-style-type: none"> A brief summary of what has been discussed / analysed without repeating facts already mentioned in the body An opinion or valued judgement on the facts discussed Additional support information to strengthen the discussion / analysis A contradictory viewpoint with motivation, if so required Recommendations 	Max. 2
TOTAL	40 MARKS

QUESTION 5. MACROECONOMICS

- Discuss the macro economic objectives of the state. (26 marks)
- How successful has the South African government been in reaching its macroeconomic objective? (10 marks) [40]

INTRODUCTION:

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

(Accept any other correct relevant introduction)

(Max. 2)

BODY:**Main Part:****Objectives:**

- Economic growth** ✓
 - Refer to an increase in the production of goods and services. ✓✓
 - Measured in terms of Real GDP. ✓✓
 - For economic growth to occur, the economic growth rate must be higher than population growth. ✓✓
 - Growth and development in a country benefit its citizens because it often leads to a higher standard of living. ✓✓
 - Formula used:

$$\Delta \text{ Real GDP} = \frac{\text{Real GDP current year} - \text{Real GDP previous year} \times 100}{\text{Real GDP previous year}}$$

- **Full employment** ✓
 - It is when all the people who want to work, who are looking for a job must be able to get a job. ✓✓
 - High levels of employment is the most important economic objective of the government. ✓✓
 - The unemployment rate increased over the past few years. ✓✓
 - Disabled persons have disadvantaged status in South Africa. ✓✓
 - Informal sector activities must be promoted because it is an area where employment increase. ✓✓
 - For employment to increase, production needs to increase. ✓✓
 - Formula: Employment rate = $\frac{\text{number of employed person's}}{\text{Total EAP}} \times \frac{100}{1}$ ✓✓

- **Exchange rate stability** ✓
 - The economy must be managed effectively and effective fiscal and monetary policy must be used to keep the exchange rate relatively stable. ✓✓
 - Depreciation and appreciation of the currency create uncertainties for producers and traders and should be limited. ✓✓
 - The SARB changed the exchange rate system from a managed floating to a free floating exchange rate system. ✓✓

- **Price stability** ✓
 - Stable prices cause better results in terms of job creation and economic growth. ✓✓
 - The SARB inflation target is 3 - 6%. ✓✓
 - Interest rates, based on the repo rate are the main instruments used in the stabilization policy. ✓✓
 - The stable budget deficit also has a stabilizing effect on the inflation rate. ✓✓

- **Economic equity / Economic fairness** ✓
 - Redistribution of income and wealth is essential. ✓✓
 - South Africa uses a progressive income tax system – taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services. ✓✓
 - Free social services are basic education; primary health and to finance basic economic services. ✓✓
 - E.g. cash grants to the poor, e.g. child grants and cash grants to vulnerable people, e.g. disability grants. ✓✓
 - Progressive taxation means that the higher income earners pay higher / more taxation. ✓✓

- **Balance of Payments equilibrium** ✓
 - The surplus or deficit on the trade balance should be minimized by limiting imports and promoting exports. ✓✓
 - It can be done by a foreign trade policy which focuses on export promotion, import substitution and protection. ✓✓
 - Domestic industries, with special focus on the secondary sector, must also be developed. ✓✓

(Max. 26)

ADDITIONAL PART:

How successful has the South African government been in reaching its macro-economic objective?

- **Economic growth:**

- SA targets 4 – 5% economic growth. Previously SA had a 5% growth rate. ✓✓
- In recent years the growth rate decreased steadily. ✓✓
- Presently the economic growth rate is 1.4%. ✓✓

- **Full employment:**

- Compared to foreign countries unemployment is very high. ✓✓
- Expanded – over 30%. ✓✓
- Currently 25,5 % unemployment in SA ✓✓ for age group of 24 – 34 years of age current figures exceed 36.3%. ✓✓
- Efforts by SA government to reduce these figures includes the GEAR strategy, focus on small business enterprises, Public Works Programme. ✓✓

- **Exchange rate stability:**

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

- **Price stability:**

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

- **Economic equity:**

- Economic equity has improved in many areas. ✓✓
- E.g. BEE, affirmative action, gender equity, progressive income tax. ✓✓

- **Balance of Payments equilibrium:**

- The deficit on the trade balance shows a much bigger increase of imports compared to exports. ✓✓

(Accept any other correct relevant response)

(Any 5 x 2) (Max. 10)

CONCLUSION:

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

(Accept any other correct higher order conclusion / viewpoint)

(Max. 2)

[40]

QUESTION 6 MACROECONOMICS

- **International trading is the backbone of our modern commercial world as producers in various nations try to profit from an expanded market, rather than be limited to within their own borders. Discuss export promotion as part of South Africa's international trade policy. (26 marks)**
- **Why are South African consumers encouraged to buy locally produced goods instead of cheaper imported goods? (10 marks) [40]**

INTRODUCTION:

Export promotion is when governments pay incentives to encourage the production of goods (and services) that can be exported. ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

BODY:**Main Part:**

- **Reason** ✓
 - The reason for export promotion is to eventually achieve significant export-led economic growth. ✓✓ Export enlarges the production capacity of a country because more and larger manufacturing industries are established. ✓✓
- **Methods** ✓
 - **Incentives** ✓ – Export incentives include information on export markets ✓✓, research with regard to new markets, concessions on transport charges (from the interior to harbours, for example), export credit and export credit guarantees, and publicity commending successful exporters. ✓✓ These incentives encourage manufactures to export an increasing amount of their production. ✓✓
 - **Subsidies** ✓ – Subsidies include cash payments to exporters, refunds on import tariffs, general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, employment subsidies, and assistance in financing exports. ✓✓
- **Trade neutrality** ✓
 - Neutrality can still be achieved if incentives in favour of export production are introduced up to a point that neutralizes the impact of the protectionist measures in place, for example subsidies equal to the magnitude of import duties can be paid. ✓✓
- **Export processing zones (EPZs)** ✓
 - A popular alternative method of obtaining neutrality in a developing country that has implemented protection measures is the establishment of export processing zones (EPZs). ✓✓ An EPZ is a free trade enclave within a protected economy. ✓✓
 - It is a fenced and controlled industrial park that falls outside the domestic customs area and is usually located near a harbor or airport. ✓✓

(Accept any other correct relevant response)

(Max. 26)

(Max. 4 marks for sub-headings; 22 marks discussion)

ADDITIONAL PART:

Why are South African consumers encouraged to buy locally produced goods instead of cheaper imported goods?

• **Diversification** ✓

- Developing countries often find import substitution the easiest way to diversify their economies. ✓✓ It is often argued that the industrial base of their economies needs to be strengthened and expanded. ✓✓ This will make them less dependent on foreign countries and give them more control over their economies. ✓✓ A natural starting point therefore is to import substitution because there is certainty that a domestic market exists for those products. ✓✓
- Manufacturers often establish themselves when they are not really able to compete with imports. ✓✓ This is when the infant industry argument is used to justify protection measures. ✓✓ Such industries may have a potential comparative advantage and when given protection, may be able to benefit from larger scales of production and become internationally competitive. ✓✓ Eventually they may become independent of protection, and be able to export and expand their scale of operation further. ✓✓

(Accept any other correct relevant response)

(Max. 10)

CONCLUSION:

The strategies of import substitution and export promotion should not be regarded as unavoidable opposites. Many industrialized countries started out by protecting their domestic industries and then applied export-oriented policies. ✓✓

(Accept any other correct higher order conclusion/ viewpoint)

(Max. 2)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150