

MACROECONOMICS AND ECONOMIC PURSUITS

According to Examination Guidelines for 2021

ECONOMICS PAPER 1 ESSAYS 2021

Advise learners NOT TO FOCUS on essays only since essay consist **27%** and section **B 53%** and Section A **20 %** per paper

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Topic		Page	
	MACROECONOMICS		
1	CIRCULAR-FLOW MODEL	2-3	5
2	BUSINESS CYCLES	4-11	
3	PUBLIC SECTOR	12-15	
4	FOREIGN EXCHANGE MARKETS	16-19	
	ECONOMIC PURSUITS		
8	PROTECTIONISM AND FREE TRADE	20-25	6
9	ECONOMIC GROWTH AND DEVELOPMENT	26-36	
10	REGIONAL DEVELOPMENT	37-38	
11	ECONOMIC AND SOCIAL INDICATORS	39-45	

NB: All additional part will not be the same as in this booklet.

TOPIC 1: CIRCULAR **FLOW**

Discuss the role of markets in the circular flow. (26 marks)

How can the business sector contribute more positively to the economy? (10 marks) [40]

INTRODUCTION

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

MAIN PART

Goods/Product/Output markets

- These are markets for consumer goods and services ✓✓
In economics a distinction is made between goods and services:
- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
- Buying and selling of goods that are produced in markets, include: - Capital goods market for trading of buildings and machinery ✓✓-
- Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods ✓✓
- Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets ✓✓
- Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditures and taxes on the product market ✓✓

Factors/Resources/Input markets

- Factors of production are bought and sold in the factor market ✓✓
- The factor market includes the labour, property and financial markets ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

Financial markets

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓
- Banks, insurance companies and pension funds form part of the financial market

Money markets

- In the money market, short-term loans and very short-term funds (less than 3 years) 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 (3 years or longer) are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

Foreign exchange markets

- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The SA rand is traded freely in these markets when a person buys travellers' cheques to travel abroad ✓✓
- Imports and exports are real flows and they are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓
(Accept any other correct relevant response) (Max 26)

ADDITIONAL PART

How can the business sector contribute more positively to the economy?

- investing more in labour intensive projects with the focus on in service-training and skills development of workers ✓✓
- re-investing their profits in gross capital formation programmes ✓✓
- equipment, tools, transportation assets and electricity ✓✓
- expanding their business operations and investing in the latest technology to ensure an upliftment of the quality of factors of production needed for production ✓✓
- diversifying their business operations by bringing in a differentiated product offering within or outside the range they produce ✓✓
- supporting South African businesses in terms of procuring raw materials and increase the market share for South African produced goods and services locally and abroad ✓✓
- ensuring the existence of sound business principles towards a long-term involvement in the economy leading to a positive economic growth rate ✓✓
- using loans to invest in capital goods like machinery, to ensure mass production at a lower cost thus improving their competitiveness ✓✓
(Accept any other correct higher order response) (Max.10)

CONCLUSION

Markets are critically important institutions in our economic system, because they regulate the market, to safeguard price stability and general business confidence ✓✓ (Max. 2)

TOPIC 2 :BUSINESS CYCLES

Question 1

- Discuss in detail 'new economic paradigm is embedded (rooted) in demand-and-supply-side policies to influence the economy.
- Why is it impossible to achieve zero unemployment and low inflation rates in an economy?

INTRODUCTION

- Theories by the Monetarists (Friedman) and Keynesians (Keynes) are extreme and only true under specific circumstances / ✓✓
- Under real circumstances, government pursues economic growth irrespective of being inherently stable or unstable market conditions prevalent /
- According to the New Economic paradigm, it is possible for output rise over extended periods of time without being hampered by supply constraints and inflationary pressures/-does not render ideal policies / ✓✓
- Smoothing of the business cycle is when policy is used to prevent dramatic peaks and troughs / ✓✓
- Consecutive periods of increasing and decreasing economic activities ✓✓

BODY MAIN PART

- Governments' aim with business cycle policies is to achieve the best possible growth rates ✓✓
- They need to apply policies to smooth out cyclical movements, so that peaks do not end up in high inflation and troughs do not result in high unemployment ✓✓
- Governments use monetary and fiscal policies to do this ✓✓
- Fiscal policy - more successful in stimulating a depressed economy ✓✓
- Monetary policy is more effective when 'dampening' an overheated economy that has inflation rising ✓✓
- Monetary policies When the level of economic activity changes the SARB can use expansionary and contractionary measures reduce fluctuation of such economic activities. ✓✓
- An expansionary monetary policy is implemented when the economy is in recession in order to stimulate economic activities ✓✓
- Interest rates can be reduced to encourage spending ✓✓
- Household and firms can therefore borrow more and spend more ✓✓
- The increased spending increases the level of economic activity. Investment will increase and more factors of production will be employed ✓✓
- Higher levels of production and income and expenditure will be achieved ✓✓
- If the supply of goods and services does not increase in line with increase in demand inflation will increase. This means that demand will be greater than supply ✓✓

- Inflation can be curbed by reducing money supply and availability of credit ✓✓
- To dampen the demand at the peak the government will be able to reduce money supply by increasing interest rates ✓✓
- selling government bonds and securities (open market transactions) and reduce the supply of money in circulation ✓✓ increase the cash reserve requirements to manipulate money creation activities of banks ✓✓ persuade banks to decrease lending (moral suasion) ✓✓ and to devalue the exchange rate (exchange rate policy)
- Fiscal policy When the level of economic activity changes the Minister of Finance can use expansionary and contractionary measures reduce fluctuation of such economic activities ✓✓
- An expansionary fiscal policy can be implemented when the economy is in recession in order to stimulate economic activities ✓✓
- An increase in government expenditure will increase aggregate demand
- This serves as an injection into the economy as production will increase, more factors of production will be employed ✓✓
- This will lead to higher income and higher expenditure ✓✓
- Taxes can be reduced, which will lead to an increase in disposable income
- This serves as an injection into the economy and eventually aggregate demand will increase ✓✓
- When the economy grows too fast government can reduce its spending and increase taxes ✓✓
- This will lead to a decrease in aggregate demand which will reduce production as fewer goods and services will be needed ✓✓

Demand-side policies:

- Traditional monetary and fiscal policies focus on aggregate demand ✓✓
- A demand-side approach only – does not render ideal results, often growth has to be cut due to problems in inflation, balance of payments and shortages of skilled labour ✓✓
- Aggregate supply needs to be managed as well - focus on increased flexibility of supply components ✓✓
- If the costs of increasing production is completely flexible, a greater output can be supplied at any given price level ✓✓
- Supply-side policies governments can arrange things in the economy in a way that is cooperative to changes in demand. ✓✓

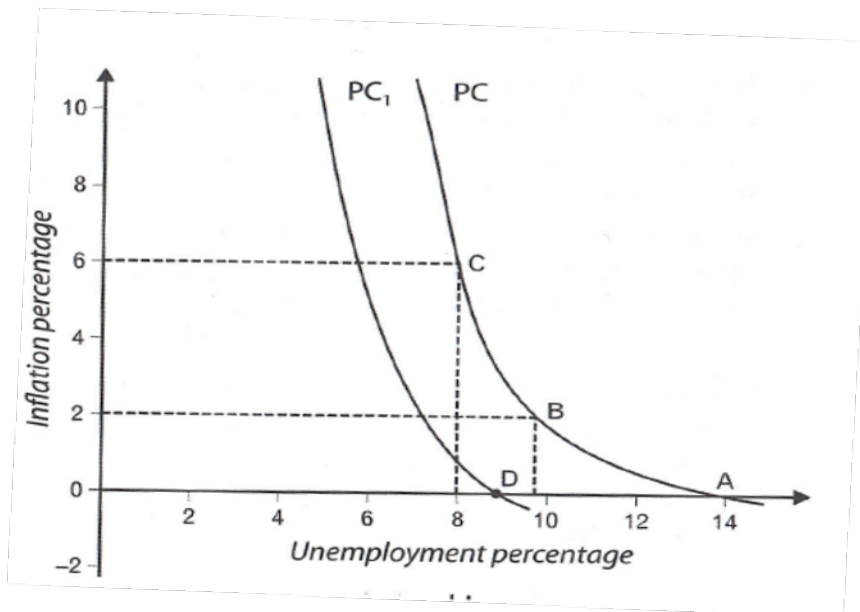
Inflation:

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

Unemployment:

- ❖ Demand-side policies are effective in stimulating economic growth. ✓✓
- ❖ Economic growth can lead to an increase in demand for labour. ✓✓
- ❖ As a result more people will be employed and unemployment will increase. ✓✓
- ❖ As unemployment decreases inflation is likely to increase. ✓✓
- ❖ This relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓
- ❖ The PC curve shows the initial situation. A is the point of intersection of the PC curve with the x-axis. It shows the natural rate of unemployment, for instance 14%. ✓✓
- ❖ At point A inflation rate is zero. ✓✓
- ❖ If unemployment falls to C for instance, 8%, inflation caused by wage increases is at 6%. ✓✓
- ❖ If unemployment increases from C to B to A, inflation falls from 6% to 2% to 0%. ✓✓

Phillips curve (PC)



Supply-side policies

Reduction of costs ✓

- Infrastructural services: reasonable charge and efficient transport, communication, water services and energy supply. ✓✓
- Administrative costs: these costs include inspection, reports on applications of various laws, regulations and by-laws, tax returns and returns providing statistical information.
- It adds to costs and businesses carry a heavy burden ✓✓

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- Cash incentives: it includes subsidies for businesses to locate in neglected areas where unemployment is high and compensation to exporters for certain costs they incur in development of export markets. ✓✓

Improving the efficiency of inputs ✓

- Tax rates: low tax rates can serve as an incentive to workers. It will improve the productivity and output. ✓✓
- Capital consumption: replacing capital goods regularly creates opportunities for businesses to keep up with technological development and better outputs ✓✓
- Human resource development: to improve the quality of manpower by improving health care, education and training. ✓✓
- Free advisory service: these promote opportunities to export. ✓✓

Improving the efficiency of markets ✓

- Deregulation: removal of laws, regulations and by-laws and other forms of government controls makes the market free. ✓✓
- Competition: encourages the establishment of new businesses ✓✓
- Levelling the play field: private businesses cannot compete with public enterprises ✓✓

Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.



Why is it impossible to achieve zero unemployment and low inflation rates in an economy?

- Demand side policies are effective in stimulating economic growth, it increases the demand for labour and this reduces unemployment. ✓✓
- But as unemployment falls, inflation starts to rise. ✓✓
- This is because aggregate demand increases, aggregate supply does not respond immediately and becomes sticky and fixed in the short term. ✓✓
- Real production increases, but so do prices – more inflation. ✓✓
- It has become a normal phenomenon for countries to choose how much unemployment they would like to trade-off for inflation. ✓✓
- This phenomenon is illustrated by the Phillips curve. ✓✓

CONCLUSION

It remains critical that business cycles must be clearly monitored through the indicators available, policy makers must act quickly by using monetary and fiscal instruments in order to prevent instability in the economy

(Accept any other relevant conclusion)

Question 2

- **Discuss in detail the features of underpinning forecasting. (26 marks)**
- **Explain the effect of demand-side policies on South Africa economy (10 marks)**

INTRODUCTION

Accurate prediction is not possible in Economics. The best the economists can do is to try and forecast what might happen. There are a number of techniques available to help economists to forecast business cycles, e.g. economic indicators ✓✓OR

Successive periods of contraction and expansion of economic activities ✓✓

(Accept any other relevant introduction)

(2)

BODY: MAIN PART**Business cycle indicators****Leading economic indicators ✓**

- These are indicators that change before the economy changes / coincide with the reference turning point ✓✓
- They give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading. ✓✓
- Peak before a peak in aggregate economic activity is reached.
- Most important type of indicator in helping economists to predict what the economy will be like in the future ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time/an upswing ✓✓
- E.g. job advertising space/inventory/sales ratio ✓

Coincident economic indicators ✓

- They move at the same time as the economy / if the turning point of a specific time series variable coincides with the reference turning point ✓✓
- It indicates the actual state of the economy ✓✓
- E.g. value of retail sales. ✓
- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at same time ✓✓

Lagging economic indicators ✓

- They do not change direction until after the business cycle has changed its direction ✓✓
- They serve to confirm the behaviour of co-incident indicators ✓✓
- E.g. the value of wholesalers' sales of machinery ✓

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- If the business cycle reaches a peak and begins to decline, we are able to predict the value of new machinery sold✓✓

Composite indicator✓

- It is a summary of the various indicators of the same type into a single value✓✓
- Their values are consolidated into a single value , if this is done we find a value of a composite leading , coincident and lagging indicator✓✓

Accept ONE example from the table below:

LEADING INDICATORS	CO-INCIDENT INDICATORS	LAGGING INDICATORS
<ul style="list-style-type: none"> • Net new companies registered • Number of new vehicles sold • Net gold and other foreign reserves • Number of residential building plans passed • Share prices • Real export of goods (gold excluded) • Gross operating surplus as % of GDP • Labour productivity in manufacturing • Job advertisements in newspapers • Commodity prices in US \$ for a basket of SA export commodities • Opinion survey of the average hours of work per factory worker in the manufacturing sector • Opinion survey on stocks in relation to demand: manufacturing and trade • Opinion of business confidence of manufacturing, construction and trade • Opinion survey of volume of orders in manufacturing 	<ul style="list-style-type: none"> • Registered unemployed • Physical volume of manufacturing production • Real retail sales • Real merchandise imports • Utilization of capacity in manufacturing • Gross value added at constant prices excluding agriculture, forestry and fishing • Industrial production index • Value of wholesale, retail and new vehicle sales at constant prices • Total formal non-agricultural employment 	<ul style="list-style-type: none"> • Employment in non-agricultural sectors. • Hours worked in construction • Cement sales in tons • Number of commercial vehicles sold • Real investment in machinery and equipment • Unit labour cost in manufacturing • Wholesale sales of metals, machinery and equipment • Prime overdraft rate of banks • Value of non-residential buildings completed at constant price

Length ✓

- This is the time that it takes for a business cycle to move through one complete cycle (measured from peak to peak) ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy. ✓✓
- Longer cycles show strength. ✓✓
- Cycles can overshoot. ✓✓

Ways to measure lengths:

- Crisis to crisis ✓✓
- Historical records ✓✓
- Consensus on businesses experience ✓✓

Amplitude ✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line / It is the intensity (height) of the upswing and downswing (contraction and expansion) in economic activity ✓✓
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles ✓✓
- The larger the amplitude the more extreme the changes that may occur / extent of change ✓✓
- E.g. During the upswing inflation may increase from 5% to 10%. (100% increase) ✓✓

Trend ✓

- A trend is the movement of the economy in a general direction. ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time ✓✓
- Also known as the long term growth potential of the economy. ✓✓
- The diagram above illustrates an economy which is growing – thus an upward trend (positive slope) ✓✓
- Trends are useful because they indicate the general direction in which the economy is moving – it indicates the rate of increase or decrease in the level of output ✓✓

Extrapolation ✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓
- Means to estimate something unknown from facts or information that are known ✓✓

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- if it becomes clear that the business cycle has passed through a trough and has entered a boom phase, forecasters might predict that the economy will grow in the months that follow ✓✓
- It is also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓

Moving average ✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time / repeatedly calculating a series of different average values along a time series to produce a smooth curve ✓✓
- The moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- It is calculated to iron out (minimize) small fluctuations and reveal long-term trends in the business cycle ✓✓

Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.

Learners should be awarded 1 mark per 8 headings and examples. (8 x 1) (8)

(Max 26)

Additional part



- Demand-side policies might also focus on reducing the cost for businesses of employing extra labour ✓✓
- Monetary policy involves the country's central bank controlling the interest rate and money supply. Monetary policy affects Aggregate Demand (AD). An expansionary monetary policy increases Aggregate Demand, while a contractionary monetary policy decreases AD. ✓✓
- Open market operations that remove reserves from the banking system will require that these banks reduce lending activity and allowing competition for fewer available loans to push interest rates upward. ✓✓ Higher interest rates will always make certain investment projects unprofitable thus leading to the abandonment of these projects. ✓✓

Conclusion

TOPIC 3 : PUBLIC SECTOR

QUESTION 1

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

How can the government reduce public sector failure more efficiently?

INTRODUCTION

The state is a body that governs and regulates the functioning of its economy and also plays a paternal role in providing its economy with its basic and important needs. ✓✓
(Max. 2)

BODY:

MAIN PART

1. Full employment ✓

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

2. Economic growth ✓

- Economic growth is referred to as an increase in the production of goods and services produced by the country in a specified period. ✓✓
- Economic growth is measured in real GDP. ✓✓
- For economic growth to occur, economic growth rate must be higher than population growth rate. ✓✓
- Economic growth if used for the purposes of development, improves the economic welfare of the country's inhabitants. ✓✓

3. Price stability ✓

- The SARB has implemented a policy of keeping inflation within the targeting rate of 3-6%. ✓✓
- Market economies produce better results in terms of growth and development if the inflation rate is stable. ✓✓
- Interest rates are the main instrument used to stabilise prices. ✓✓
- The stable budget deficit also has a stabilising effect on the rate of inflation. ✓✓

4. Economic equity ✓

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- Redistribution of income and wealth is essential in the market economies. ✓✓
 - The South African government uses the progressive tax system to redistribute income. ✓✓
 - Taxes on profits, progressive income tax and tax on wealth are taxes used to finance free public services and social security grants. ✓✓
5. Exchange rate stability ✓
- The government manages the economy through effective fiscal and monetary policies to stabilise the country's exchange rate. ✓✓
 - Depreciation and appreciation of the currency could create uncertainties for the currency and should be limited. ✓✓
 - The South African government uses the free-floating exchange rate system. ✓✓
- (Max. 26)

ADDITIONAL PART

How can the government reduce public sector failure more efficiently?

The government could reduce public sector failure by:

- Providing leadership and training to management and employees. ✓✓
 - Recognising employee worker performance through incentives, ✓✓ e.g. reward on excellent service. ✓
 - Eliminating corruption through regular monitoring, ✓✓ e.g. auditing. ✓
 - Administering flexible business processes to accommodate individual differences. ✓✓
 - Employing different strategies to ensure service delivery, ✓✓ e.g. set targets, turn-around time. ✓
- (Accept any relevant and correct answer) (Max. 10)

CONCLUSION

It is very important that the state improves its functioning from time to time to avoid the economy's instability so as to bring about desired development. ✓✓

(Accept any other relevant conclusion) (Max. 2)

QUESTION 2

- **Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning) (26marks)**
- **How can the South African municipalities improve efficiency in service delivery? (10marks)**

Introduction

- Occurs when a government intervention fails to meet the desired outcome making the existing economic situation worse

MAIN BODY

Management failure.

- Since the assessing of needs is difficult therefore the state might oversupply some goods and undersupply some goods. ✓✓
- In this way the management was not able to satisfy the needs of the consumers and there will be wastages leading to the public sector failure. ✓✓
- People working in parastatals might lack management skills and might end up implementing wrong policies that may cause the public sector to fail. ✓✓
- If the management can not explain the decisions that they took and explain how they spend the money they have been allocated then they are not accountable and this may be a result of corruption, corruption results in inefficiencies that lead to fail in public sector. ✓✓

Apathy.

- The government servants do not provide an efficient service to the public as a result of corruption. ✓✓
- Corruption and poor service delivery are signs of apathy and may results as a cause of poor accountability. ✓✓
- Parastatal employees lack the interest or concern because they know they will get paid even when they are underperforming. ✓✓

Bureaucracy.

- Complex rules and procedures might lead to inefficiencies in the public sector and the public sector might fail to provide the goods and services in time for the consumers. ✓✓
- For example if there is an electricity fault at some house the state company Eskom will send their workers to fix the fault and the workers will only fix that fault because they were told to fix that only even if there is a fault in the neighboring house they won't fix it but they will need that fault to be reported so they can come fix it. ✓✓
- This simply means that the parastatals cannot satisfy the needs of consumers in time because of the rules and procedures that have to be followed that may take time to finish following them. ✓✓

Lack of motivation.

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- Nationalizing companies may demotivate workers to work hard as their hard work would not be recognized leading to the workers being efficient. ✓✓

Politicians.

- Lack of accountability by politicians may be a result of corruption and this may lead to them not fulfilling the promises they made to individuals when they were running their campaigns. ✓✓
- As the politicians are not accountable for their actions then resources may not be allocated fairly because of corruption. ✓✓

Structural weaknesses.

- Incompetency of workers may lead to the workers not being able to provide efficient services to the public. ✓✓
- Nationalization of companies that provide a different good that the state provides may make it difficult for the state to be able to provide that good. ✓✓

Special interest groups.

- Special interest groups can be viewed as using their political power to raise demand for public services, as well as using their bargaining power to fight for higher wages ✓✓
- Special interest groups' political power leads to more government spending which strain the government expenditure for the fiscal year ✓✓
- huge strike caused by special interest groups such as South African taxi association decreases production of the economy since people will not be having alternative transportation to work ✓✓

ADDITIONAL PART

Municipalities can improve efficiency in service delivery by

- Appointing qualified staff with enough experience as top managers ✓✓
 - Training employees continually to equip them with relevant skills to handle the demand of their job
 - Eliminate corruption by criminally charging and prosecuting those who are found to be involved in it
 - Holding employees accountable for their poor job performance, as a way to ensure that every official take their jobs seriously ✓✓
 - Rewarding employees who perform above expectations rewarded accordingly to encourage them even more ✓✓
 - Improving revenue collection by ensuring the clients pay for the services they consume ✓✓
- (Accept any other correct relevant response)

(Max 10)

CONCLUSION

If the above problems are not dealt with timeously by government, government will continue to fail its people in terms of service delivery, seeing many protests occurring regularly.

A higher order conclusion should be marked

TOPIC 4 :THE FOREIGN EXCHANGE MARKET AND THE BALANCE OF PAYMENTS

QUESTION 1

- Discuss in detail the supply reasons for international trade (26 marks)
- How effective is international trade in the world of the economy? (10 marks)

[40]

INTRODUCTION

- International trade is the exchange of goods and services across many countries ✓✓

(Accept any other relevant definition)

BODY: MAIN PART

Natural resources ✓

- These resources are not evenly distributed across all countries of the world. ✓✓
- They vary from one country to another, and can only be exploited in places where the resources exist. ✓✓
- South Africa is well equipped with different natural resources, but less resourced with skilled labour and capital. ✓✓
- An example is Japan and Ireland, which have an abundance of skilled labour, but they lack natural resources. ✓✓ks

Labour resources ✓

- Labour differs between different countries in terms of skills, knowledge, training, quality, quantity and also cost. ✓✓
- Some countries have highly skilled, well-paid workers, and high productivity levels, such as Switzerland. ✓✓

The availability of capital ✓

- In some countries they need to modernize their industries and economies with advanced machinery, equipment (plants), but cannot manufacture this equipment, because they lack the capital to do so. ✓✓
- This factor has therefore increased the need for international trade. ✓✓

Lack of entrepreneurship ✓

- Those countries that have good entrepreneurial skills offer more goods and services for trade. ✓✓
- Efficiency determines the supply of goods and services produced at lower prices and also reduces the opportunity cost of acquiring them. ✓✓

Climatic conditions ✓

- These countries make it possible for others to produce certain goods at a lower price than other countries. ✓✓
- An example is Brazil, which is the largest producer of coffee. ✓
- Countries have different climatic conditions and are therefore able to produce different products. ✓✓

Technological resources✓

- The developmental levels and innovation processes of countries will always differ and as a result other countries may have them in abundance, while others may not. ✓✓
- Countries such as Germany and the USA are able to use capital which embodies high levels of technology, while other countries do not have access to the latest technology, such as basic internet services and healthcare. ✓✓
- Those countries that have high technological labour forces are able to produce certain goods and services at a low unit cost, such as the developed countries. ✓✓

Specialisation✓

- The production of certain goods and services allows some countries to produce them at a lower cost than other producers. ✓✓
- Japan produces electronic goods and sells these at a much lower price.
- International trade enables countries to specialize in the production of goods and services in which they have a comparative advantage above others. ✓✓
- Most of these surplus production gets exported to other countries and the revenue earned from these exports can be used to finance their imports. ✓✓

(Accept any other correct and relevant response)

ADDITIONAL PART

International trade is effective because it: **Books**

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

Negative

- International trade reduces the price of consumption goods, creating welfare gains for consumers in importing countries ✓✓
- Households with skilled labor may experience smaller welfare gains in developing countries ✓✓
- International trade reduces real wages in certain sectors leading to a loss of wage income for a segment of the population ✓✓

(Accept any other correct and relevant response) (Max 10)

CONCLUSION

- Trade opens new markets for foreign producers, encouraging them to produce more, which raises the supply. The lower prices of these products, meanwhile, fuel increased demand among consumers. ✓✓

(Accept any other relevant higher order conclusion) (Max 2) [40]

QUESTION 2

- **Discuss in detail the demand reasons for international trade. (26 marks)**
- **Examine the impact of mass production on international trade. (10 marks)**

INTRODUCTION

- International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically. ✓✓
(Accept any other correct relevant introduction)

BODY: MAIN PART**The size of the population impacts demand. ✓**

- If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand. ✓✓

The population's income levels effect demand. ✓

- Changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓
- **An increase in the wealth of the population leads to greater demand for goods.** ✓✓ People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓

Preferences and tastes ✓

- Preferences and tastes can play a part in the determining of prices, ✓✓ e.g. customers in Australia have a preference for a specific product which they do not produce and need to import, and it will have a higher value than in other countries. ✓✓

Consumption patterns ✓

- The difference in consumption patterns is determined by the level of economic development in the country, ✓✓
- e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

The level of economic development and income/technical level

- The consumption patterns of developed countries will differ from those of developing countries. ✓✓
- The need for basic necessities, such as food in developing countries may result in more needed goods being imported. (demand for technical items) ✓✓

International migration: ✓

- Different cultures, religions and lifestyles of immigrants will result in certain goods and services being important. ✓✓

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- South Africa is a multi-cultural country, demanding various traditional food, clothes, etc. ✓✓

The cost of production: ✓

- A country could produce goods at the lowest possible cost. ✓✓
- Local consumers will demand goods from other countries at a lower price. ✓✓

Absolute and comparative advantages/costs: ✓

- Absolute Advantage: Where one country can produce goods with fewer resources than another country. ✓✓
- Comparative Advantage: Where one country can produce goods at a lower opportunity cost – it sacrifices less resources in production. ✓✓

(Max 26)

ADDITIONAL PART

- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign market. ✓✓
- There will be an increase in exports that lead to an inflow of foreign exchange. ✓✓
- The value of rand appreciate. ✓✓
- Mass production create more job opportunities. ✓✓
- Increase in demand for foreign goods that may facilitate international trade. ✓✓
- that leads to an access to greater variety of goods and services. ✓✓
- Manufacturing products require large-scale production in order to be affordable and profitable. ✓✓

(Max 10)

(Accept any other correct relevant response)

CONCLUSION

- Countries that are more open to international trade tend to grow faster, innovate, enhance productivity, and give their citizens with higher income and more opportunities. Integrating into the global economy through international trade and global value chains contributes to local and global economic growth and poverty reduction. ✓✓

(Max 2)

(Accept any other correct relevant higher order conclusion)

TOPIC 8: PROTECTIONISM AND FREE TRADE

QUESTION 1

- Discuss export promotion as part of South Africa's international trade policy under the following headings:

– Reasons (8)

– Methods (10)

– Disadvantages (8)

(26 marks)

How can a country be disadvantaged through import substitution? (10 marks)

INTRODUCTION

Export promotion involves the government paying incentives (subsidies) to promote the production of goods and services locally that can be exported. ✓✓

(Accept any other correct relevant response)

(Max 2)

BODY: MAIN PART

REASONS:

- Export promotion measures lower the cost of production, which makes it easier to compete on the international market ✓✓
- Achieve significant export-led economic growth/value-added products ✓✓
- Export enlarges production capacity of country because more and larger manufacturing industries are established/prices decrease through mass production ✓✓
- The first step to export-led economic growth is to implement policies that encourage the establishment of industries to produce goods and services for export markets. ✓✓
- Export markets are much larger than domestic markets, and we must drastically improve on quality goods to compete globally. ✓✓
- Exports are used to pay for the needed imported goods, which improves the Balance of Payments. ✓✓
- Export promotion also leads to improved trade relations, such as through BRICS and the new Afcta agreement. ✓✓

(Max 8)

METHODS:

Exports are promoted through:

- Incentives ✓ export incentives include information on export markets, research with regard to new markets, concessions on transport charges, export credit and export credit guarantees and publicity commending successful exporters ✓✓
- Incentives will encourage manufacturers to export an increased volume of their production. ✓✓

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- Trade missions help to market SA products abroad and supply SA companies with information about potential markets ✓✓
- Direct Subsidies ✓ described as direct because it involves government expenditure. ✓✓(examples are cash payments to exporters, refunds on import tariffs and employment subsidies) ✓
- The aim is to increase the competitiveness of exporting company, reduce the cost of production and explore and establish overseas markets. ✓✓
- Indirect subsidies are regarded as indirect, because it results in the government receiving less revenue ✓✓ e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes e.g. custom duties on imported goods used in the manufacturing process. ✓✓
- Subsidies allows companies to lower their prices and enable them to compete in international markets. ✓✓
- Challenge for governments to design incentives and subsidies in such a way that prices of export goods can't be viewed as dumping prices. ✓✓
- Trade neutrality ✓ can be achieved if incentives in favour of export production are introduced up to point that neutralises the impact of protectionist measures in place ✓✓e.g. subsidies equal to magnitude of import duties can be paid. ✓
- Export processing zones (EPZs) ✓ is free-trade enclave within a protected area – is fenced and controlled industrial park that falls outside domestic customs area, and usually located near harbour or airport ✓✓
(Max 10)

DISADVANTAGES:

- Real cost of production ✓ subsidies and incentives reduce total cost of production which must be met from sales ✓✓ real cost is thus concealed by subsidies and products cannot compete in open markets. ✓✓
- Lack of competition - businesses charge prices that are so low that they force competitors out of the market ✓✓ Increased tariffs and quotas can be against spirit of provisions of WTO. ✓✓
- Overseas competitors retaliate with tariffs and quotas, while goods are sold domestically below their real cost of production (export subsidies and dumping) ✓✓
- Protection of labour-intensive industries ✓ developed countries maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
- Withdrawal of incentives often leads to closure of effected companies. ✓✓
- Incentives often lead to inefficiencies in the production process, since companies don't have to do their best to compete ✓✓

(Max 8)

(Max 26)

ADDITIONAL

Import substitution could disadvantage a country, because:

- It does not necessarily lead to an overall reduction in imports ✓✓
- South Africa had to import capital and intermediate goods to manufacture consumer goods ✓✓
- Inefficient local production, because local producers are shielded from international competition ✓✓
- Domestic consumers are forced to buy goods at higher prices on the international market ✓✓
- Costly and uneconomical projects are established e.g. Moss gas ✓
- Capital and entrepreneur talent is lost to those areas/countries where protectionism stimulates profits, such as by means of subsidies. ✓✓
- The local producers no longer specialise in the products where they could have a comparative advantage, as imported products are cheaper. ✓✓
- The non-protected industries are at a disadvantage as they also apply to government for trade protection, at a huge cost. ✓✓
- Protected industries become less competitive as there is no need/incentive to increase the skills/productivity of local workers. ✓✓ (Max 10)

CONCLUSION

South Africa's international trade policy facilitates globalization, thereby impacting positively on the balance of payment.

(Accept any other relevant higher order conclusion) ✓✓

(Max 2)

QUESTION 2

Discuss in detail the arguments in favour of protectionism:

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

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.

Raising revenue for the government

- Import tariffs raise revenue for the government ✓✓
- In smaller countries the tax base is often small due to low incomes of individuals and businesses ✓✓
- Low incomes do not provide much in the form of income taxes ✓✓ and therefore custom duties on imports is a significant source of income or revenue ✓✓

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 using protectionism the country's citizens will purchase more domestic products and 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 other countries ability to buy country's exports and may provoke retaliation

Protecting workers

- It is argued that imports from other countries with relatively low wages represent unfair competition ✓✓ and threaten the standard of living of the more highly paid workers of the local industries ✓✓
- Local industries would therefore, be unable to compete because of higher wages pushing up the price levels 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 low-skilled labour-intensive industries ✓✓

Diversifying the industrial base

- Overtime counties need to develop diversified industries to prevent over-specialisation ✓✓
- A country relying 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 the risk that world fluctuations in prices and demand

and supply-side problems could result in significant fluctuations in domestic economic activity ✓✓

- Import restrictions may be imposed on a range of products in order to ensure that a number of domestic industries develop ✓✓

Develop strategic industries

- Some industries such as the iron-ore and steel, agriculture, (basic foodstuffs, such as maize), energy (fuels) and electronics (communication) among others, 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 because government subsidies permit them to sell at very low prices ✓✓ or because they are seeking to raise profits through price discrimination ✓✓
- The reason for selling products at lower prices may be to dispose of accumulate stocks of the goods ✓✓ and as a result consumers in the importing country stand to benefit ✓✓ however, their long term objective may be to drive out domestic producers and gain control of the market ✓✓ and consumers are likely to lose out in the reduction in choice ✓✓ and higher prices that the exporters will be able to charge ✓✓

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 a good may severely hit an industry ✓✓ such industries should be permitted to go out of business gradually ✓✓ declining industries are likely to be industries that no longer have a comparative advantage ✓✓ and however, if they go out of business quickly there may be a sudden and large increase in unemployment ✓✓
- Protection may enable an industry to decline 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 have been increasingly acting as trade restrictions ✓✓ **(Max. 26)**

(Accept any other relevant fact)

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 expenditure can 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 for the formation of formal export councils ✓✓
- Subsidies for training or employing personnel ✓✓
- Funds for the export market research ✓✓
- Product registration and foreign patent registrations ✓✓

Indirect subsidies: Government can 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 ✓✓ **(Max 10)**

CONCLUSION

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

(Accept any other relevant higher order conclusion)

TOPIC 9: ECONOMIC GROWTH AND DEVELOPMENT

Question 1

- Discuss in detail the demand-side approach in promoting growth and development in South Africa
- Explain key objectives of black economic empowerment programmes

INTRODUCTION

- An increase in domestic demand for a product or service will cause an increase in the level of its production, this increase in the quantity of goods and services will lead to economic growth. ✓✓

MAIN BODY

Consumption spending by households (C)

- Increase in production – Increase in production leads to an increase in disposable income of households, which leads to increase in consumption which leads to more production etc. (Multiplier effect) ✓✓
- Government fiscal policy – Lowering of direct and indirect taxes leaves more money for households to spend, leading to more production. ✓✓
- Government monetary policy – Lowering interest rates makes credit cheaper and consumers will borrow more, consume more and production will increase. ✓✓
- Government programmes to satisfy basic needs – Government assist poor households to satisfy their basic needs for access to healthcare, clean water, energy and education. This is done to create jobs which provide incomes to households which lead to consumption which leads to production. ✓✓

Investment spending by firms (I)

- Capital formation increases the production capacity of businesses and the economy. ✓✓

Government spending (G)

- Government spending on public services and economic affairs ensures a level of demand. ✓✓
- This is the easiest and quickest way to increase aggregate demand and get economic growth. ✓✓

Imports and exports

- Imports provide consumers with a wider choice of goods and services; they also provide capital and intermediate goods and services to firms. ✓✓
- An increase in imports leads to a reduction in local production; this could lead to unemployment and reduction in production. ✓✓
- Exports on the other hand leads to job creation and increase in production ✓✓

Monetary policies

- A monetary policy that reduces interest rates and increases money in circulation in a country will stimulate demand, also known as expansionary monetary policy. ✓✓

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- Central banks manage the availability of money by means of open market transaction and cash reserve requirements. ✓✓
- They manage the cost of money, by means of interest rate changes. ✓✓
- **Interest rate changes:** to make credit more expensive or cheaper. ✓✓
- **Open market transaction:** to restrict bank credit the SARB sells securities. When banks buy these securities money flows from the banks to the SARB. The banks have less money to lend and credit reduces. ✓✓
- **Moral Suasion:** The SARB consults with banks and persuades them to act in a manner that is desirable, in terms of the economic conditions that prevail at that time ✓✓

FISCAL POLICY

- A fiscal policy that reduces taxes and keeps them at low levels will stimulate demand. ✓✓
- Cuts in personal income tax will increase disposable income by the same amount. ✓✓
- Fiscal policy focuses on budget deficit and surpluses to either raise or reduce aggregate demand. ✓✓
- **Progressive personal income tax:** Higher-income earners are taxed at higher rates than lower-income earners. The taxes are used to finance social development. ✓✓
- **Wealth tax:** Properties such as houses, offices and factory buildings in urban areas are taxed annually.
 - **Transfer duties:** paid when properties are bought – shares and bonds are taxed when traded. ✓✓
 - **Capital gains tax:** levied on gains earned on the sale of capital goods, such as properties and shares. ✓✓
 - **Estate duties:** levied on the estate of deceased persons with a value R3,5million (2016) ✓✓
- **Cash benefits:** Old-age pensions, disability grants, child support grants and unemployment insurance – also known as social security payments ✓✓
- **Natural benefits:** provision of health care, education and school meals, protection, municipal services and infrastructure. Where user-fees are charged, poor people and low-income earners benefit more than other because they pay nothing or less than higher-income earners. (limited quantities of free electricity or water) ✓✓
- **Other redistributions:** Public works program, Spatial Development Initiative (SDI) and SMMEs to have advantages that favour poor and low-income earners by providing employment subsidies and other cash and financial benefits. ✓✓
- **Land restitution and land redistribution:** The purpose of land restitution is to return land (or pay cash compensation) to those who lost their land because of discrimination laws and practices. Land redistribution focuses on land for residential and productive use. ✓✓
- **Property subsidies:** helps beneficiaries acquire ownership of fixed residential property. ✓✓

Trade policies

- Demand will be increased through policies to promote exports and decrease the value of imports. ✓✓

- A weaker exchange rate, which makes exports cheaper, will increase the quantity of exports. ✓✓
- Cooperation with other countries, forming trade blocks will promote exports. ✓✓
- Exchange control policy to prevent capital assets from being transferred to other countries. ✓✓

Additional part

Explain key objectives of black economic empowerment programmes

- Empower more black people to own enterprises. ✓✓
- Promote access to finance for black economic empowerment. ✓✓
- Assist in the development of the operational and financial capacity of B-BBEE enterprises, especially small, medium, and micro enterprises (SMMEs) and black-owned enterprises. ✓✓
- Increase the extent of black female ownership of enterprises. ✓✓
- Ensure that black-owned enterprises benefit from the government's preferential procurement policies. ✓✓
- Help rural and local communities access economic opportunities; ✓✓

Question 2

Discuss the aims and objectives following growth and development policies.

- **Reconstruction and Development Programme**
- **Growth Employment and Redistribution (26 marks)**

Evaluate the success of these two policies. (10 marks)

The RDP was considered as the primary socio-economic programme in 1994. ✓✓

The broader aim of this socio-economic policy was to establish more equal society through reconstruction and development as well as strengthening democracy for all South Africans. ✓✓

The RDP aimed to set

- South Africa firmly on the road to eliminating hunger. ✓✓
- providing land and housing to all people. ✓✓
- providing access to safe water and sanitation for all.
- ensuring the availability of affordable and sustainable energy sources. ✓✓
- eliminating illiteracy. ✓✓
- raising the quality of education and training for children and adults.
- protecting the environment. ✓✓
- improving health services and making them accessible to all. ✓✓

GROWTH, EMPLOYMENT AND REDISTRIBUTION PROGRAMME (GEAR)

GEAR was a macroeconomic strategy implemented in 1996.

Aims:

- Strengthening economic development ✓✓
- Broadening of employment ✓✓
- Redistribution of income and socioeconomic opportunities in favour of the poor. ✓✓

The key goals of GEAR were:

- economic growth of 6% in the year 2000, ✓✓
- inflation less than 10%, ✓✓
- employment growth above the increase in economically active population,
- deficit on the current account and the balance of payments between 2 and 3 percent, ✓✓
- a ratio of gross domestic savings to GDP of 21.5 percent in the year 2000,
- improvement in income distribution, ✓✓
- relaxation of exchange controls. ✓✓
- reduction of the budget deficit to below 4 percent of GDP. ✓✓

Additional part

RDP was successful in some areas:

- Housing: Between 1994 and the start of 2001 over 1.1 million cheap houses eligible for government subsidies had been built. ✓✓
- Clean water: By the beginning of 1998, standpipes had been installed within 200 metres of the dwellings of about 1.3 million rural people. By 2000, a total of 236 projects had supplied clean piped water to nearly 4.9 million people. ✓✓
- Electrification: Between 1994 and May 2000 around 1.75 million homes had been connected to the national grid, while the proportion of rural homes with electricity grew from 12% to 42%. ✓✓
- Land reform: Authorities claimed that 250,000 people had 'received land' within four years. ✓✓
- Healthcare: Between April 1994 and the end of 1998, around 500 new clinics gave an additional 5 million people access to primary health care facilities. Free health care programmes were implemented for pregnant women and small children, and free meals were provided for between 3,5 to 5 million school children. ✓✓
- Public works: A community-based Public Works Programme provided employment over five years to 240,000 people on road-building schemes and the installation of sewage, sanitation facilities and water supplies. ✓✓
- Social security: the government established a very extensive welfare system. The system catered for the aged, disabled, children in need, foster parents and many others too poor to meet their basic social requirements. ✓✓
- The expanded public works programmes were mostly labour intensive. This helped alleviate unemployment and poverty slightly. ✓✓

The RDP was not successful in some areas:

- Real GDP growth erratic since 1994, unemployment in formal sector increased. ✓✓
- Key objectives of poverty reduction and improved service delivery hardly successful. ✓✓

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- Housing: Inferior quality houses. In 2000, only 30% of RDP houses were within building regulations. ✓✓
- Land reform: Only 1% of redress was achieved. ✓✓
- Health care: access to healthcare only improved slightly under the RDP. Usage of healthcare facilities increased by just 1.6% between 1995 and 1999. The AIDS pandemic and other health epidemics such as malaria affected the progress. Between 1995 and 1998 life expectancy of South Africans fell from 64.1 years to 53.2 years. ✓✓

Conclusion

- It appears that RDP ignored the gathering of new taxes, rather focusing, far too narrowly on fiscal prudence and the reallocation of existing revenues. ✓✓



Question 3

- **Discuss the following policies**
 - Priority areas of New Growth Path**
 - Phases of National Skills Development Strategy** (26 marks)
- **Explain aims of these two policies** (10 marks)

Introduction

- The New Growth Path proposed major improvements in government, with a call for slashing unnecessary red tape, improving competition in the economy and stepping up skills development. ✓✓
- NSDS provides a framework for skills development in the workplace and was implemented in phases. ✓✓

Main part:

Priority areas

- Green economy: expansions in construction and the production of technologies for solar, wind and biofuels. Clean manufacturing and environmental services are projected to create 300 000 jobs by 2020. ✓✓
- Agriculture: jobs would be created by addressing the high input costs and upscaling processing and export marketing. Support for small holders would include access to key inputs. ✓✓
- Mining: increased mineral extraction and improving infrastructure and skills development. It focuses support for beneficiation on the final manufacture of consumer and capital goods, which can create large-scale employment. ✓✓
- Manufacturing: re-industrialisation in the South African economy based on improving performance through innovation, skills development and reduced input costs in the economy. ✓✓
- Tourism and other high-level services: hold employment potential and the framework for South Africa to position itself as the higher education hub of the African continent. ✓✓

NSDS I (2001 to 2005) – focus on productive citizenship

- The emphasis was placed on equality and the need to cultivate **lifelong learning** in a workplace environment. ✓✓
- Learning aimed to be demand-driven based on the needs of employees in both the public and private sectors. ✓✓

NSDS II (2005 to 2010) - focus on equity, quality training and skills development in the workplace ✓✓

- The emphasis was placed again on equity, quality training and skills development in the workplace. ✓✓
- The need for the **promotion of employability** was identified.
- Identified the need for assisting designated groups to gain knowledge and experience in a workplace environment in order to gain critical skills. ✓✓

NSDS III (2010-2020) - focus on institutional learning

- The focus was on institutional learning linked to occupationally directed programmes. ✓✓
- It promotes the growth of FET Colleges in order to address national skills needs. ✓✓
- Better use of workplace skills programmes was encouraged as is the use of worker-initiated training initiatives. ✓✓
- Public sector improved service delivery was seen as imperative. ✓✓

National Skills Development Plan (NSDP) (2010 – current)

- The National Skills Development Strategy III concluded on 31 March 2020 to make way for the National Skills Development Plan (NSDP) 2030 that was launched on 1 April 2020. ✓✓
- The NSDP was aligned with the NDP Vision 2030. ✓✓

Additional part

Explain aims of these two policies

Aims of New Growth path

- Creating five million jobs by 2020. ✓✓
- creating youth brigades in which a million young adults are to be provided with training and work experience. ✓✓
- create a more inclusive, labour-absorbing, and efficient economy. ✓✓
- reduce unemployment rate to 15 per cent. ✓✓
- The New Growth Path has fixed six priority areas to job creation: infrastructure development, agriculture, mining, manufacturing, the "green" economy, and tourism. ✓✓

Aims of National Skills development Plan

- Expand the college system with a focus on improving quality. The recommended participation rate in the TVET college sector of 25 percent would accommodate about 1.25 million enrolments; ✓✓
- Provide 1 million learning opportunities through Community Education and Training Colleges; ✓✓
- Improve the through-put rate to 80 percent by 2030; ✓✓
- Produce 30,000 artisans per year by 2030; ✓✓
- Increase enrolment at universities by at least 70 percent by 2030 so that enrolments increase to about 1,62 million from 950 000 in 2010; ✓✓
- Increase the number of students eligible to study towards Maths- and Science-based degrees to 450,000 by 2030; ✓✓
- Increase the percentage of PhD qualified staff in the higher education sector from the current 34 percent to over 75 percent by 2030; ✓✓
- Produce more than 100 doctoral graduates per million per year by 2030. This implies an increase from 1,420 in 2010 to well over 5,000 a year; ✓✓

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- Expand science, technology and innovation outputs by increasing research and development spending by government and through encouraging industry to do so. ✓✓

Conclusion

- if government is serious about a market-driven approach to growth and poverty reduction, it should employ the immense skills that it used in defeating apartheid to think through and then sell that approach to all its constituencies and audiences both locally and internationally. ✓✓



QUESTION 4

Discuss in detail the following policies of growth and development in South Africa.

- Accelerated growth initiative for South Africa (ASGISA)
- Joint Initiative on Priority Skills Acquisitions (JIPSA) (26 marks)

Analyse elements of the NDP.

(10 marks)

INTRODUCTION

- South Africa's growth and development policies are designed to fulfil many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living

Body

ACCELERATED GROWTH INITIATIVE FOR SOUTH AFRICA (ASGISA) – (2005)

- GEAR was replaced in 2005 by the Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓✓
- Its objective is to co-ordinate government initiative to create economic development: ✓✓

The aims were

- Halve poverty and unemployment by 2014, in line with the Millennium Development Goals (MDGs). ✓✓
- It aimed to improve the country's economic performance and job creation capacity. ✓✓
- To ensure it achieved its objectives, the government sought to promote an average annual growth rate of at least 4.5% from 2005 to 2009, rising to at least 6% from 2010 to 2014. ✓✓
- Raise public expenditure on fixed capital investment to R370 billion over 3 years. ✓✓
- Step up interventions to reduce inequality and assist the marginalised poor.
- It would seek to bridge the gap between the first and second economies, with the aim of eliminating the second economy altogether. ✓✓

EVALUATION

ASIGISA was successful in some areas

- Growth in infrastructure investment, especially in the public sector. ✓✓
- The second economic strategy helped slightly to reduce unemployment through the expanded public works programme ✓✓

Asigisa was not successful in some areas

- Employment growth has lagged behind economic growth – reason real wage increases are higher than productivity. ✓✓
- Poor economic growth and high unemployment for the youth. ✓✓

Reasons:

- Currency volatility (rand exchange rate varied considerably), ✓✓
- backlogs in infrastructure and investment, ✓✓
- shortage of suitably skilled labour, ✓✓

- barriers to entry, limits to competition and limited new investment opportunities, ✓✓
- many state regulations on small businesses and deficiencies in state organisation, capacity and leadership. ✓✓

JOINT INITIATIVE ON PRIORITY SKILLS ACQUISITIONS (JIPSA)

- It is the skills development arm of ASGISA. Focus is on skills development, especially through the SETAS ✓✓
- JIPSA was established in 2006 to support ASGISA. It was the skills development arm of ASGISA. ✓✓

Objectives

- Identifying and determining specific priority skills needed in the country,
- Identifying the restrictions to skills achievement, ✓✓
- Identifying relevant role players, securing their buy-in and support, ✓✓
- Co-ordinating and supporting their collective efforts to address priority skills requirements ✓✓
- Focus was on skills development, especially through the SETAS. ✓✓

JIPSA strategy was to

- broadening the training scope, ✓✓
- retaining people in skilled employment ✓✓
- training people more effectively and to higher quality standards. ✓✓

Specific aims



- Train 1 000 additional engineers per annum over four years, starting in 2007. ✓✓
- Town and regional planners strengthen the town- planning function. ✓✓
- Strengthening the planning and management capacity of the public health sector. ✓✓
- Strengthening the planning and management capacity of the public education ✓✓
- Improve the quality and expand the pool of Mathematics and Science graduates. ✓✓
- Increase the level of skills in the tourism sector through improved coordination and support. ✓✓
- Identify ICT skills requirements and constraints and determine ways to address the skills shortage. ✓✓
- Determine biofuels skills requirements for second economy farmers. ✓✓
- Placement programme - ensure the development of a co-ordinated strategy for the placement. ✓✓

EVALUATION

- JIPSA has been successful, not in eliminating the skills shortage, but in promoting several strong interventions to ensure that the shortage is less severe than it would have been. ✓✓

- JIPSA functioned as a multi-stakeholder working group through which government, business, organised labour, academic and research institutions, and civil society joined forces to fast-track the provision of priority skills required to support accelerated and shared growth. ✓✓

JIPSA was successful in some areas:

- Significant results were achieved in increasing the number of engineers, technologists, technicians and artisans: ✓✓
- The provision of engineers grew by 14.11%, the number of technologists increased by 15.79%, while the number of technicians grew by 3.6%.
- Between 2006 and 2009 over 41 000 artisans went into training or qualified in the priority areas. ✓✓
- Foundations were laid for strengthening the availability of skills in town and regional planning and in education management. ✓✓
- The Unemployed Graduate Programme was launched in December 2005. ✓✓

JIPSA was less successful in some areas:

- In engineering there was limited success in relation to the registration of professionals. ✓✓
- Attempts to increase the numbers of registered town planners were initially constrained by the lack of clarity on town planning competencies. ✓✓
- National Placement Programme, showed that despite good intentions, the programme had evolved over a two to three year period in an unplanned and uncoordinated way. ✓✓
- Massive changes in higher education institutions it difficult for these institutions to implement rapidly the changes required in the field of engineering provision.

Additional part

- Infrastructure expansion with investment in five key physical and social infrastructure areas ✓✓
- The agricultural value chain by addressing the high costs of fertilizers ✓✓ and do the inputs and the promotion of processing and export marketing ✓✓
- Mining value-chain by increasing mineral extraction ✓✓ improving infrastructure, skills development and supporting the beneficiation on the final manufacture of consumer and capital goods ✓✓
- energy, wind energy and bio fuels ✓✓
- Manufacturing sector through innovation ✓✓ strong skills development, reduced input costs and increased research and development investment ✓✓
- Tourism and certain high-level services ✓

TOPIC 10: REGIONAL DEVELOPMENT

- Discuss South Africa's initiatives (endeavours) in regional development.
- How successful is South Africa's regional development in terms of their benchmark criteria?

INTRODUCTION

- Regional development is the policies aimed at increasing economic activity in geographical areas that are less developed. ✓✓

MAIN PART

Spatial development initiatives (SDI) in South Africa with a link to the Private-public partnerships.

- It is a policy aimed at attracting infrastructure and investments to areas with high unemployment and poverty. ✓✓
- The main objective is to create employment and stimulate economic growth in those regions. ✓✓
- This initiative makes provision for private-public partnerships (PPPs) to take advantage of the economic potential of underdeveloped areas. ✓✓
- Lubombo SDI is one of the example of the 9 local SDIs we have in South Africa. ✓✓

The incentives from the government the SDIs enjoy includes;

- **Duty free incentives-** The benefit of importing intermediate goods with no charge of import tariff. ✓✓
- **Skills support programme-** Tax free grants for skills development. ✓✓

Industrial Development Zones (IDZs)

- IDZs are purpose built industrial estates located near a point of entry or exit into a country such as ports and airports. ✓✓
- The benefits of IDZs are support to investing companies, especially for greenfield development projects. ✓✓
- Access to transport for export purposes is one of the key objective of the IDZs. ✓✓
- The other aim is to waiver import duties for products that are produced for export. ✓✓
- The example of the IDZ is Saldanha Bay which focuses on steel. ✓✓

Special Economic Zones (SEZs)

- It is a geographically demarcated area where specific economic activities have been identified to be developed. ✓✓

SEZ's can benefit the economy by:

- attracting new businesses (tax incentives) / investment ✓✓
- assisting businesses that establish new products lines and expand their operations ✓✓
- creating more employment for the people in their neighbourhood
- increasing productivity and economic growth ✓✓
- promoting more effective use of resources ✓✓
- focusing on both domestic production and exports

- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- The government provides economic infrastructure to these areas and help in establishing industrial parks for employment-enhancing manufacturers. ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- It creates a basis for a broader range of industrial parks. ✓✓
- It also provides economic infrastructure to enable the effective clustering of value-adding and employment-enhancing manufacturers. ✓✓

Corridors.

- A corridor is a track of land that forms a passageway allowing access from one area to another. ✓✓
- The purpose of this can be to link two industrial areas or to link industries and the markets. ✓✓
- Maputo corridor is a major trade corridor which connects Limpopo, ✓✓Mpumalanga and Gauteng with Maputo city in Mozambique.
- This corridor comprises of roads, railway and border facilities at Komatipoort. ✓✓

ADDITIONAL PART

How successful is South Africa's regional development in terms of their benchmark criteria?

South Africa has been successful by:

- intervening in industries was based on sound economic research and analysis which lead to growth. ✓✓
- providing subsidies and incentives which enable substantial progress and growth in the upgrading of value-adding and labour intensive manufacturing sectors. ✓✓
- achieving great success in combating customs fraud, and targeting illegal imports and products of inferior quality through import restrictions. ✓✓
- aligning trade policy with industrial policy took place which resulted in South African industries being more competitive in global market. ✓✓

South Africa has not been successful:

- fraud and corruption are still applicable and inferior goods are produced. ✓✓
- the growth is declining due to non-availability of financial assistance or skilled employees. ✓✓

CONCLUSION

- Although the government has invested in such initiatives there has been some internal and external factors such as shortage of skills and unstable exchange rate that have hindered the progress of these initiatives. ✓✓

TOPIC 11: ECONOMIC AND SOCIAL INDICATORS

QUESTION 1

- Discuss in detail the following economic indicators:
 - Inflation rate
 - Foreign trade
 - Employment
 - Productivity
 - Interest rate
 - Money supply (26 marks)
- How successful is the South African Reserve Bank in stabilising prices on the different markets as its main objective? (10 marks)

[40]

INTRODUCTION

- Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take. ✓✓

(Accept any other suitable introduction)

(Max. 2)

BODY: MAIN PART

Inflation rate indicators



- Inflation may be defined as a significant and continual rise in the general price level of goods and services over a given time, with the result that the purchasing power of money will decrease. ✓✓

Consumer price index (CPI) ✓

- This is an indicator that measures the change in the cost of a fixed basket of goods and services that an average household will purchase. ✓✓

Producer Price Index (PPI) ✓

- This is the indicator of changes in the price of manufactured goods as they leave the factories and imported goods as they enter the country. ✓✓

The formula to determine inflation:

$$\frac{(\text{CPI year 2} - \text{CPI year 1})}{(\text{CPI year 1})} \times 100/1 \quad \checkmark\checkmark$$

- South Africa experienced double digit inflation for many years until the government and the South African Reserve Bank introduced the inflation target of 3% - 6%. ✓✓
- **Employment indicators**
 - It is not so easy to measure employment as there are a lot of people employed in the informal sector, they are not registered or recorded. ✓✓

The economically active population (EAP) ✓

- The economically active population figures are used (this was done in grade 11) All the people willing and able to work between 15 and 64 in a country ✓✓ and includes:
 - Workers in the formal sector ✓
 - Workers in the informal sector ✓
 - Employers ✓
 - Self-employed persons ✓
 - Unemployed persons ✓

Employment

- Refers to the number of employed persons expressed as a percentage of the EAP gives the employment rate. ✓✓

Employment indicators are important because:

- They calculate trends in employment in different sectors or industries – shows structural changes. ✓✓
- Show the success of the economy in utilising its full potential ✓✓

Unemployment

- Unemployed are all the EAP, they were actively looking for work 7 days prior to the investigation and can start work 7 days after the investigation. ✓✓

Foreign trade indicators

Terms of trade ✓



- The Terms of Trade looks at the relationship between the price received for exports and the amount of imports we are able to buy with that money. ✓✓
- **Terms of Trade = Average Price of Export/by average price of imports X 100/1** ✓✓
- Changes in the terms of trade serve as an indicator of changes that may likely spill over into the balance of payment account and a deficit may follow this will lead to a depreciation in the currency. ✓✓

Exchange rates ✓

- Exchange rate is the rate at which one currency can be exchanged for another currency. ✓✓
- Exports and imports are strongly influenced by the exchange rate of the domestic currency ✓✓

Productivity indicators

- Productivity measures the relationship between input and outputs ✓✓
- . The more outputs you can produce for the same or less inputs the more productive you are. ✓✓
- Productivity is linked to cost – the more productive you are the lower costs are. ✓✓
- Example, if one labourer can produce more than another labourer the cost of labour will be reduced ✓✓

- Productivity will increase the Real GDP per Capita. This will increase economic growth. ✓✓

Labour productivity ✓

- A simple formula to measure labour productivity is to divide real GDP by the number of workers employed. ✓✓

-Remuneration per worker ✓

- If labour productivity increases by less than real wages, inflationary pressures will occur and the business cycle may turn unfavourable. ✓✓

The relationship between productivity and wages is important for the following reasons:

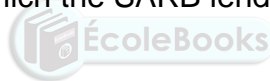
- Employers relate it to profits ✓✓
- Workers relate it to improvements in the standard of living ✓✓

Interest rates

- Interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth. ✓✓

Repo rate ✓

- Repo rate is the rate at which the SARB lends money to commercial banks. ✓✓



Prime Rate ✓

- The rate at which commercial banks lends money to households and business. ✓✓
- If interest rates move upward, the debt of households and business require bigger repayment instalments ✓✓. This may indicate that the business cycle could be heading for a downward cycle, businesses might have to cut down production, unemployment may increase and economic growth will decline. ✓✓

Money supply

- The money supply indicate the money in circulation in the economy and how fast it moves from one person to another as this indicate high or low inflation. ✓✓

Money supply is divided in three categories:

- M1: This includes coins and notes. ✓✓
- M2: Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions ✓✓
- M3: Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions. ✓✓

Compiled by Noel Mashonga

- Too much money in circulation could lead to more spending and higher inflation✓✓. Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth. ✓✓

ADDITIONAL PART

- The CPI breached the upper range of the inflation target during 2014. SARB has increased interest rates to bring the inflation rate back into lower ranges, thus stabilising prices. ✓✓
- Setting the inflation target of 3 – 6% was a major initiative by the state that helped SARB to stabilize prices✓✓
- A decline in international crude oil prices in recent months suppressed global inflationary pressures. This contributed largely to lower domestic inflation✓✓favourably affecting Producer price inflation. Due to this the Reserve Bank were able to keep the repo rate unchanged ✓✓
- PPI for intermediate manufactured goods has a positive impact on the stabilising of prices ✓✓
- Although the Reserve Bank has been very successful in stabilizing prices, certain external factors which influenced the global economy like the World recession has impacted negatively on the SARB efforts in stabilizing prices✓✓
- Other factors like disinvestment due to poor governance led to a sharp decline in stability which hampered the stabilizing effects of SARB✓✓
- The poor value of the Rand on international markets is a major negative contributing factor on the inflation rate due to a major dependency on imports✓✓

(Accept any other relevant fact)

(Max. 10)

CONCLUSION

Economic indicators are some of the most important and powerful tools that the government can use to influence the direction that the economy should take as against other countries. ✓✓

(2 marks)

[40]

QUESTION 2

- Discuss in detail social indicators

- How successful has the South African government been in promoting economic development through use of these indicators

INTRODUCTION

- Social indicators are numerical measures that describe the well-being of individuals or communities used by economists.

(Accept any correct relevant introduction)

MAIN PART

Demographics

- These deal with statistical data relating to the population such as size, race, age, sex, income, language and education. ✓✓
- Government and businesses must know the size of the country's population to be able to provide for its infrastructure and businesses to know the availability of labour and size of markets. ✓✓

Population growth

- South Africa's population was estimated at 58,78 million in 2019. ✓✓
- Growth is slowing down. ✓✓

Life expectancy

- This expresses the number of years a new born infant will live if the prevailing patterns of mortality remained the same throughout his or her life. ✓✓
- Life expectancy at birth was estimated at 61,5 years for males and 67,7 years for females in 2019. ✓✓
- Assurance companies are interested in life expectancy as unexpected reductions reduce the number of years policy holders can pay premiums. ✓✓

Nutrition and health

- The standard of living of the population is related to the quality of nutrition and health.

Nutrition

- Nutrition is an important indicator for the well-being of infants and young children.
- Child nutrition – Malnutrition is expressed in two ways – weight for age (under weight) and height for age (dwarfism). ✓✓
- The proportion of underweight children is the most important indicator of malnutrition.
- Overweight children : there is an association between obesity of children and other diseases. ✓✓

Health

- Infant mortality: The number of children that will die before one year of age is one way of measuring the health of a population. ✓✓
- Under-five mortality: the number of children that will die before the age of 5 years.
- Health expenditure: the amount of health expenditure as a percentage of GDP. ✓✓
- Access to safe drinking water: the percentage of a population that has reasonable access to safe drinking water. ✓✓
- Access to sanitation facilities: the percentage of a population with at least adequate sanitation facilities that can prevent human, animal and insect contact. ✓✓

Housing and urbanisation

Housing

- A significant proportion of South Africans are poor and cannot afford to buy residential property. ✓✓
- The government facilitates home ownership by means of a subsidy system and loans from the private sector. ✓✓
- More than 3 million subsidised houses have been handed over to households since 1994. ✓✓

Urbanisation

- Urbanisation is the increase in the population numbers of cities and towns ✓✓
- The level of urbanisation is one of the indicators of a country's social development.
- Urbanisation is an important social indicator because it points out to governments and developers that land has to be provided for a variety of purposes and services. ✓✓

It is measured by:

- Natural growth of the urban population ✓
- Migration ✓
- Establishment of new towns ✓
- South Africa is experiencing a trend of rapid urbanisation ✓

Education

- People's standard of living is directly related to their level of education. ✓✓
- Five or six years of schooling is a critical threshold for the achievement of sustainable literacy and numeracy skills. ✓✓
- A society of literate and skilled citizens has more chances of development at economic and social levels. ✓✓
- Education can reduce poverty and social injustice by providing the under privileged with resources and opportunities for upward social mobility and social inclusion ✓✓
- Public expenditure percentage – shows the percentage of public expenditure that is directed towards education. ✓✓
- It measures public sector input but excludes private expenditure. ✓✓
- Secondary enrolment percentage – shows the percentage of designated age group attending secondary education. ✓✓
- It is considered a prerequisite for entry into employment for the semi-skilled ✓✓

Services

- A number of services are vital to enhance people's lifestyle and level of economic and social development.

Electricity

- A large percentage of South African households have access to electricity. ✓✓

Refusal disposal

- Some households in South Africa have access to refuse removal by local authorities once a week. ✓✓

Water supply

- The average number of households who have access to an improved water source has increased in South Africa since 1994. ✓✓

Compiled by Noel Mashonga

- An improved source refers to an adequate amount of water from sources such as household connections, taps inside the yard, public taps etc ✓✓
- Reasonable access is defined as the availability of 20 litres per person per day from a source within at least one kilometre of the dwelling. ✓✓

Sanitation

- More households in South Africa have access to functioning sanitation. ✓✓
- This includes flush toilets, chemical toilets and pit toilets with ventilation pipes. ✓✓
- All other types of sanitation are defined as substandard ✓✓

ADDITIONAL PART

The South African government has been successful in the following ways:

- It has provided free health services of quality at the provincial hospitals and clinics.
- The government has developed more major road infrastructure leading into economic hubs to accommodate more traffic ✓✓
- The government extended school feeding schemes to more primary schools in the country where major unemployment is experienced in communities ✓✓
- Improved the provision of clean water to communities, especially when droughts are experienced ✓✓
- Increased free housing services and grants to the needy.

The South African government has not been successful in the following ways:

- There is still poor school infrastructure, poor learning conditions and a lack of learning materials in most schools in the country. ✓✓
- Most public hospitals experience a shortage of resources in medicine and equipment ✓✓
- Strike actions by municipal workers hamper delivery of services to the citizens ✓✓
- Escalating corruption in the public sector hampers attempts by the government to provide for the welfare of the population. ✓✓
- Overall poor service delivery is still rife in the country.

(Accept any other correct relevant response)(Max 10)

CONCLUSION

- Social indicators can serve as a focal point in directing government expenditure on issues that will guarantee social development and quality lifestyle. ✓✓

(Accept any other relevant higher order conclusion) Max (2)

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