



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ECONOMICS

NOVEMBER 2011

MARKS: 300

TIME: 3 hours

This question paper consists of 16 pages.

INSTRUCTIONS AND INFORMATION

1. Answer SIX questions as follows in the ANSWER BOOK:

SECTION A: COMPULSORY
SECTION B: Answer any THREE of the five questions.
SECTION C: Answer any TWO of the four questions.
2. Write the question number above each answer.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Read the questions carefully.
5. Start EACH question on a NEW page.
6. Leave 2–3 lines between subsections of questions.
7. Answer in full sentences and ensure that the format, content and context of your responses comply with the requirements of the questions.
8. Answer only the required number of questions. Answers in excess will NOT be marked.
9. Use only black or blue ink.
10. Non-programmable pocket calculators may be used.
11. Write neatly and legibly.

SECTION A (COMPULSORY)**QUESTION 1****50 MARKS – 25 MINUTES**

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–C) next to the question number (1.1.1–1.1.12) in the ANSWER BOOK.

- 1.1.1 Consumption of fixed capital is used to calculate GDP at ...
- A basic prices.
 - B market prices.
 - C factor cost.
- 1.1.2 Which period of the business cycle is associated with rising profits and consumption?
- A Prosperity
 - B Downswing
 - C Trough
- 1.1.3 Deliberate action by the South African Reserve Bank to lower the value of the rand is known as ...
- A depreciation.
 - B appreciation.
 - C devaluation.
- 1.1.4 Products of a perfect competitor are ...
- A unique.
 - B differentiated.
 - C homogenous.
- 1.1.5 Industries where economies of scale are so large that a single business can supply the entire market is typical of a ... monopoly.
- A natural
 - B legal
 - C local
- 1.1.6 A situation where identical products are sold at different prices to different consumers is referred to as price ...
- A differentiation.
 - B stability.
 - C discrimination.

- 1.1.7 A purpose-built industrial estate which is physically enclosed and linked to an international port is a/an ...
- A industrial development zone.
 - B corridor.
 - C industrial development community.
- 1.1.8 An important economic development institution in Southern Africa is ...
- A the SARB.
 - B ABSA.
 - C the DBSA.
- 1.1.9 Government policies relating to manufacturing are often called ... policies.
- A developmental
 - B industrial
 - C tax
- 1.1.10 Hyperinflation have been recorded in developing countries that have experienced ...
- A an increase in the buying power of money.
 - B social and political conflict or civil war.
 - C a decrease in the rate of inflation.
- 1.1.11 The tourism multiplier implies that the ...
- A benefit from a tourist is greater than the money spent.
 - B multiplier is always smaller than one.
 - C benefit from a tourist is smaller than the money spent.
- 1.1.12 Tourism is ... intensive.
- A capital
 - B labour
 - C risk
- (12 x 2) (24)

1.2 Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question number (1.2.1–1.2.5) in the ANSWER BOOK.

disequilibrium; demerit goods; conservation; dumping;
economic indicator; equilibrium

- 1.2.1 Selling goods in a foreign country at prices that are below the cost of production in the country of origin
- 1.2.2 Cigarettes, alcohol and tobacco
- 1.2.3 Surplus or deficit on the balance of payments
- 1.2.4 Real Gross Domestic Product
- 1.2.5 Sustainability of our natural resources (5 x 2) (10)

1.3 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question number (1.3.1–1.3.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.3.1 Multiplier	A expenditure of a business on the purchase of inputs required for production
1.3.2 SACU	B the ratio between the eventual change in income and the initial investment
1.3.3 Explicit cost	C the portion of an increase in income that is not consumed
1.3.4 Market structure	D organisational features of perfect and imperfect markets
1.3.5 Marginal propensity to save	E negotiate about foreign free-trade areas with the rest of the world
1.3.6 Gini coefficient	F a set of legally binding international agreements aimed at reducing greenhouse gases
1.3.7 Kyoto Protocol	G the distribution of income among the population
1.3.8 Preservation	H to prevent the extinction of elements of the environment
	I the proportion of the population that lives on less than \$1 per day

(8 x 2) (16)

TOTAL SECTION A: 50

SECTION B

Answer any THREE of the five questions in this section in the ANSWER BOOK.

QUESTION 2**50 MARKS – 25 MINUTES**

- 2.1 Choose the correct word from those given in brackets. Write only the word next to the question number (2.1.1–2.1.4) in the ANSWER BOOK.
- 2.1.1 Household savings are channelled through the (labour/financial) market.
- 2.1.2 Real and money flows move in the (same/opposite) direction in the economic circular flow model.
- 2.1.3 Terms of (trade/agreement) describes the relationship between export prices and import prices.
- 2.1.4 Financial aid schemes in rural areas form part of government's (economic/social) services. (4 x 2) (8)
- 2.2 List any THREE examples of community goods. (3 x 2) (6)
- 2.3 Study the table below and answer the questions that follow.

BALANCE OF PAYMENTS FOR SOUTH AFRICA

CURRENT ACCOUNT	R MILLIONS
Merchandise exports	503 656
Service receipts	100 681
Service payments	123 579
Merchandise imports	554 161
Income receipts	34 075
Income payments	87 593
Net gold exports	52 776

[Source: *Quarterly Bulletin*, SARB, June 2010]

- 2.3.1 Define the concept *balance of payments*. (3)
- 2.3.2 Calculate the trade balance in the balance of payments. (3)
- 2.3.3 How will the trade balance be affected if a major South African retailer imports more clothes from China? (2)
- 2.3.4 Name the item omitted, which is required to calculate the balance of the current account. (2)

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

FISCAL CHANGES LIKELY TO CONTINUE

The Medium-term Budget Policy Statement (MTBPS) shows a planned increase in government expenditure to R977 bn in 2011/12 – a rise of 8%, including a 'jobs fund' totalling R9 bn over the next three years and R20 bn in tax allowances and tax breaks to promote investment in the manufacturing sector.

The Industrial Policy Action Plan (IPAP) and New Growth Path Framework (NGPF) prioritise the manufacturing sector as a creator of jobs for semi- or unskilled workers. For the national budget to be consistent with stated government objectives, government expenditure will increasingly have to support a growth agenda.

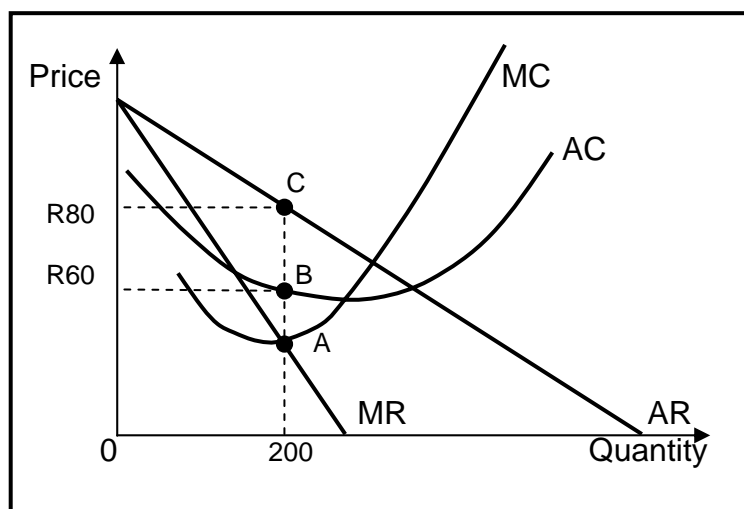
South Africa's first priority is economic growth and job creation. The government's efforts with regard to social and redistribution issues exceeds those devoted to creating a growth-friendly environment.

[Adapted from *Business Report*, February 2011]

- 2.4.1 What does *fiscal changes* mean? (2)
- 2.4.2 Give ONE reason why you think the government is targeting the manufacturing sector as a creator of jobs. (2)
- 2.4.3 What do you understand by '... government expenditure will increasingly have to support a growth agenda'? (4)
- 2.4.4 Select a phrase from the extract to show why there is insufficient growth in the economy. (2)
- 2.5 Discuss the endogenous approach as a cause of business cycles. (4 x 2) (8)
- 2.6 Discuss the interaction between households and the state as participants in the economic circular flow. (4 x 2) (8)
- [50]**

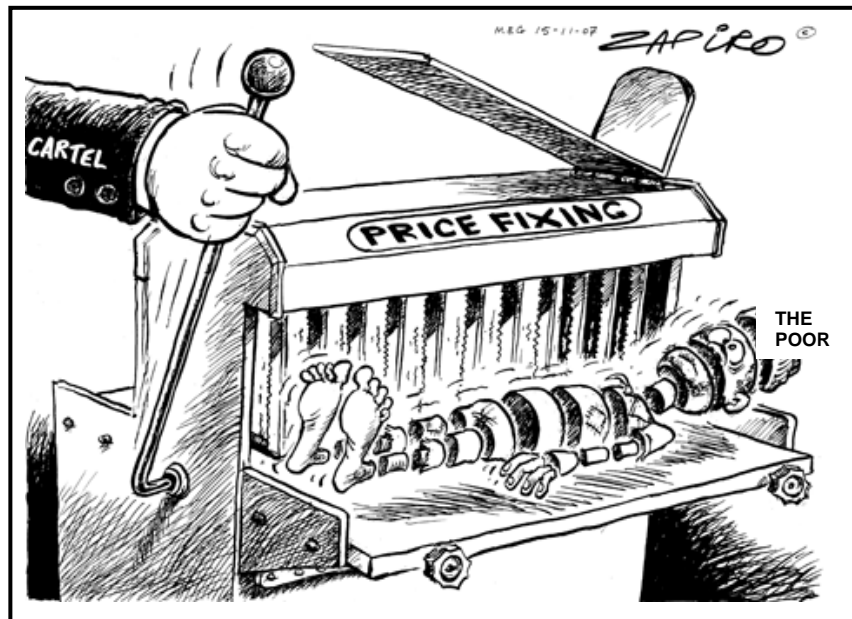
QUESTION 3**50 MARKS – 25 MINUTES**

- 3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.
- 3.1.1 In a (positive/negative) externality the private cost of production is less than the social cost of production.
- 3.1.2 Governments intervene and ensure that sufficient quantities of staple foods are produced by setting (minimum/maximum) prices for these goods.
- 3.1.3 The shape of the demand curve for a monopolistic competitor is (the same/not the same) as that of a monopolist.
- 3.1.4 When the product mix does not reflect the consumer's taste, it indicates a/an (productive/allocative) inefficiency. (4 x 2) (8)
- 3.2 List THREE ways in which the government can use tax revenue to reduce the unequal distribution of income. (3 x 2) (6)
- 3.3 Study the graph below and answer the questions that follow.

MONOPOLY

- 3.3.1 Which point on the graph indicates optimum production? (2)
- 3.3.2 Describe the nature of the product supplied. (2)
- 3.3.3 Is the firm making an economic profit or economic loss? Show ALL calculations. (6)

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



[Source: Zapiro, *Mail & Guardian*, 2008]

- 3.4.1 Identify the market structure in the above cartoon. (2)
- 3.4.2 Describe the message expressed in the cartoon. (2)
- 3.4.3 How can a firm in this industry increase its market share? (2)
- 3.4.4 Name any TWO industries that have been investigated by the Competition Commission for price fixing in South Africa. (4)
- 3.5 Briefly explain the rationale of cost-benefit analysis. (4 x 2) (8)
- 3.6 Discuss the aims of the competition policy in South Africa. (2 x 4) (8)
- [50]**

QUESTION 4**50 MARKS – 25 MINUTES**

- 4.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.
- 4.1.1 Actions that restrict free operation of markets is called (regulation/deregulation).
- 4.1.2 Monetary policy decisions are made by (commercial/central) banks.
- 4.1.3 Economic (centralisation/decentralisation) refers to regional development across the country.
- 4.1.4 The (Competition Equity/Broad-Based Black Economic Empowerment) Act forms the legal basis for the transformation of the South African economy. (4 x 2) (8)
- 4.2 List any THREE methods that can be used to promote import substitution. (3 x 2) (6)
- 4.3 Study the extract below and answer the questions that follow.

SADC: WATER IS LIFE, TOGETHER, FOREVER!

The Global Water Partnership defines integrated water resource management as a process which promotes the coordinated development and management of water, land and related resources. This process attempts to maximise the positive effects on economic and social welfare in such a way that the sustainability of vital ecosystems will not be compromised.

At the core of this process is the need for the region to develop its own water infrastructure that will be tough enough to withstand the effects of climate change.

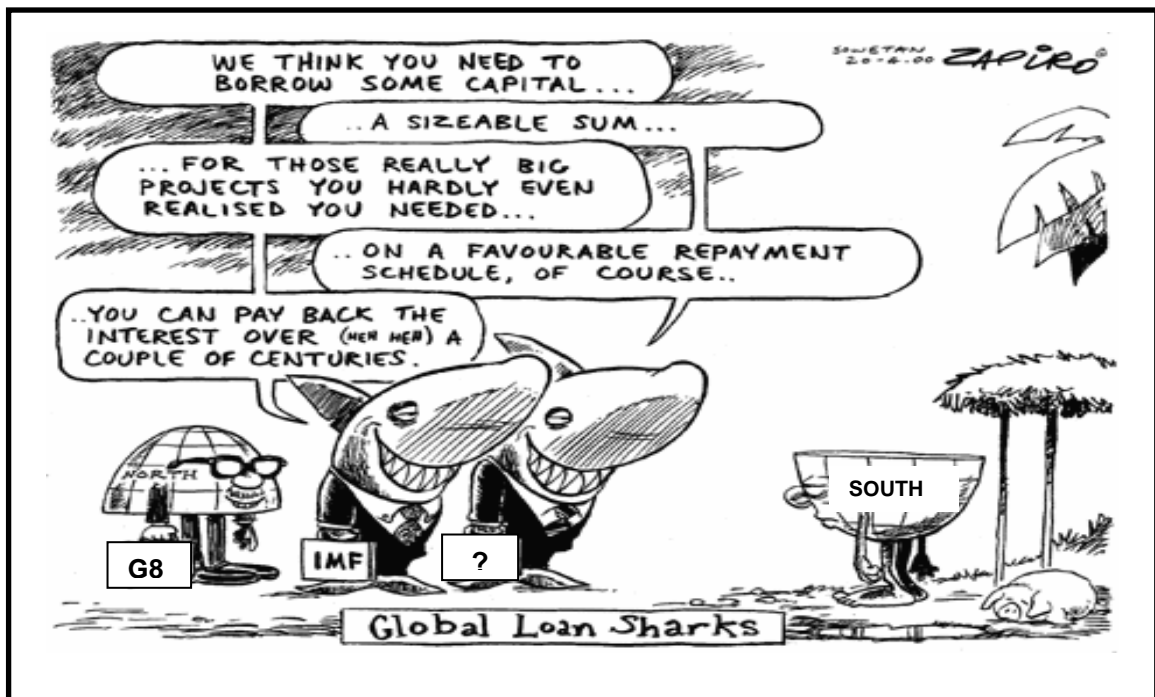
The SADC has set two main targets for water in its Regional Strategic Development Plan:

- Develop the water infrastructure needed to double land under irrigation by 2015.
- Halve the proportion of people without access to drinking water and sanitation.

[Adapted from *Skyways*, February 2011]

- 4.3.1 What does the abbreviation SADC stand for? (2)
- 4.3.2 Identify any TWO positive outcomes of the integrated water resource management process. (4)
- 4.3.3 Name ONE negative effect that climate change can have on the region's water resources. (2)
- 4.3.4 Which social indicator is targeted through the Regional Strategic Development Plan of the SADC? (2)

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



[Source: Mail & Guardian, 2008]

- 4.4.1 Who is being targeted by the 'loan sharks'? (2)
- 4.4.2 Name ONE other international institution that would offer loans. (2)
- 4.4.3 Name ONE possible 'project' that the loan sharks are referring to? (2)
- 4.4.4 Give ONE reason why it would not be wise to accept the loan offer. (2)
- 4.4.5 Name ONE member country of the G8. (2)
- 4.5 Briefly explain the demand-side policy used in promoting growth and development. (4 x 2) (8)
- 4.6 Discuss any TWO arguments in favour of free trade. (2 x 4) (8)

[50]

QUESTION 5**50 MARKS – 25 MINUTES**

- 5.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.
- 5.1.1 The inflation target is determined by (government/market forces).
- 5.1.2 The country that tourists visit is referred to as the (destination/tourist-generating) country.
- 5.1.3 The destruction of coral reefs is causing (direct environmental stress/waste product generation).
- 5.1.4 Re-using goods that have served their original purpose is referred to as (recycling/degradation). (4 x 2) (8)
- 5.2 List any THREE examples of ecotourism in South Africa. (3 x 2) (6)
- 5.3 Study the extract below and answer the questions that follow.

CLEAN COAL FOR A SMALL CARBON FOOTPRINT

South Africa is committed to reducing greenhouse gas emissions from its coal-dependent economy by 2025. The minister of economic development suggested the utilisation of underground coal gasification to clean up coal-driven power generation and reduce the country's carbon footprint. In this way we are still using the advantage of coal reserves while developing alternative infrastructure.

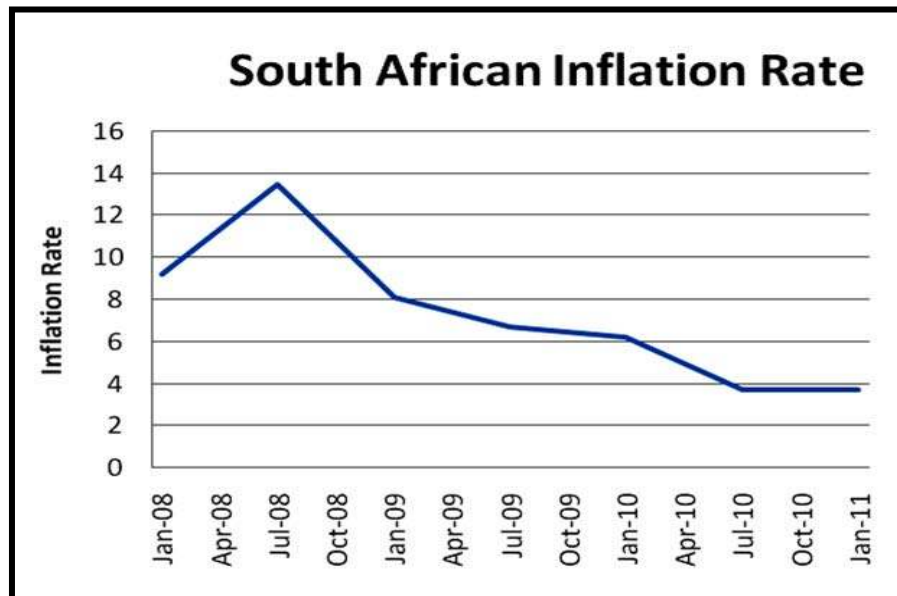
According to Ibrahim Patel, South Africa is faced with enormous poverty and unemployment as development challenges, while climate change commitments and the potential of a green economy cannot be ignored.

The Industrial Development Council has set aside R25 billion to support investments in the green economy, which is promoted through green taxes. The government is currently compiling a database of job-spinning projects that are climate friendly in energy, manufacturing, waste-management, ecotourism, agriculture and mining.

[Adapted from *Sunday Independent*, February 2011]

- 5.3.1 Give ONE example of a renewable energy source. (3)
- 5.3.2 What is meant by *reducing a carbon-footprint*? (3)
- 5.3.3 Explain the concept *green taxes*. (4)

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



[Source: Internet, February 2011]

- 5.4.1 What was the trend of the South African inflation rate since July 2008? (2)
- 5.4.2 What will the effect be on domestic tourism if the inflation rate decreases? (3)
- 5.4.3 When, according to the graph, were domestic tourists most disadvantaged by the inflation rate? (2)
- 5.4.4 Does the January 2011 inflation rate comply with the inflation target of South Africa? Give a reason. (3)
- 5.5 Explain the importance of indigenous knowledge systems in strengthening South Africa's tourism profile. (4 x 2) (8)
- 5.6 Discuss any TWO benefits of tourism for the households. (2 x 4) (8)
- [50]**

QUESTION 6**50 MARKS – 25 MINUTES**

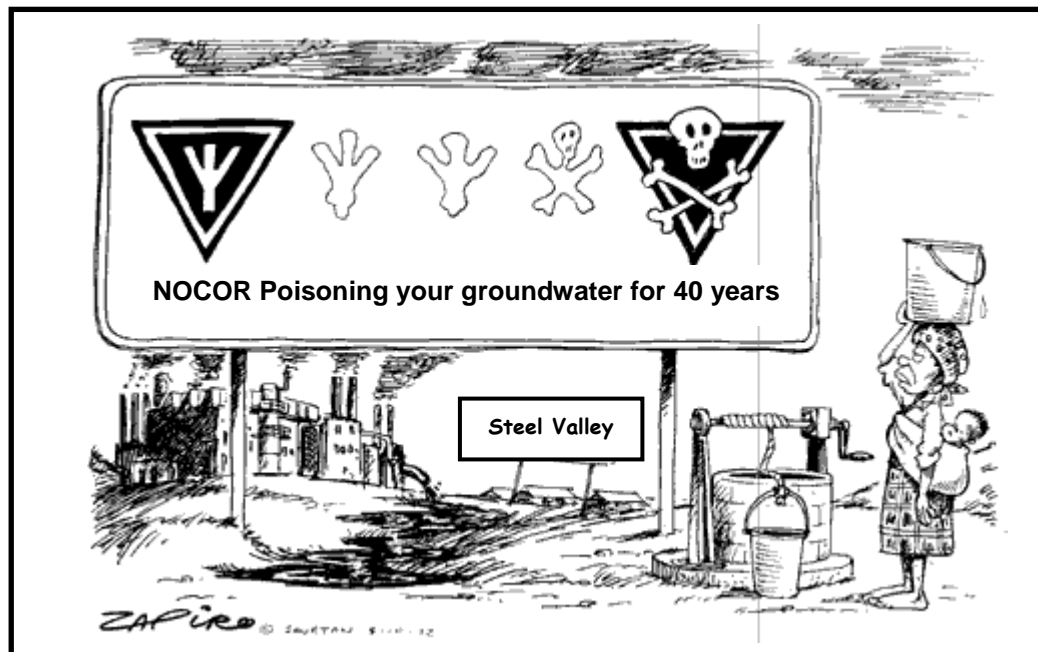
- 6.1 Choose the correct word from those given in brackets. Write only the word next to the question number (6.1.1–6.1.4) in the ANSWER BOOK.
- 6.1.1 A general economic upswing can be expected if (leading/coincident) indicators improve.
- 6.1.2 Specific grants are utilised mostly for (infrastructure/unexpected) expenditure.
- 6.1.3 The implicit GDP deflator is the ratio of the GDP at current prices to the (GDP/GNP) at constant prices.
- 6.1.4 Trees are (renewable/non-renewable) resources. (4 x 2) (8)
- 6.2 Give any THREE reasons for growth in international tourism. (3 x 2) (6)
- 6.3 Study the table below and answer the questions that follow.

NATIONAL ACCOUNT AGGREGATES	R MILLIONS
Final consumption expenditure by households	1 473 490
Final consumption expenditure by government	505 040
Gross capital formation	467 878
Residual item	-18 092
Gross Domestic Expenditure	2 428 316
Export of goods and services	657 113
Import of goods and services	677 740
Expenditure on GDP(E) at market prices	A

[Source: *Quarterly Bulletin*, SARB, June 2010]

- 6.3.1 Explain the concept *gross capital formation*. (3)
- 6.3.2 Calculate the value of **A**. (3)
- 6.3.3 If one uses the production method to calculate the GDP(P) at market prices, will GDP(E) be more, equal or less? Motivate your answer. (4)

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



[Adapted from *Mail & Guardian*, 2009]

- 6.4.1 Define the concept *pollution*. (2)
- 6.4.2 Give ONE example of industrial pollution. (2)
- 6.4.3 Why is industrial pollution regarded as a more serious type of pollution? (3)
- 6.4.4 What measure, in your opinion, can be put in place to overcome the hazardous effects of poisoned groundwater? (3)
- 6.5 Discuss any TWO reasons for public sector failure. (2 x 4) (8)
- 6.6 Discuss the effect of tourism on the Gross Domestic Product and employment. (2 x 4) (8)
- [50]**
- TOTAL SECTION B: 150**

SECTION C

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

Essay responses:

- Should include an introduction, body and conclusion.
- For the introduction and conclusion 5 marks will be allocated.
- In addition, 5 marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

QUESTION 7**50 MARKS – 40 MINUTES**

Discuss the main supply reasons for international trade.

[50]**QUESTION 8****50 MARKS – 40 MINUTES**

Use graphs to analyse the various short-run equilibrium positions for an individual business in the perfect market.

[50]**QUESTION 9****50 MARKS – 40 MINUTES**

Discuss the following economic indicators, which are used in measuring the performance of the economy:

- Production (real GDP)
- Employment/Unemployment
- Money supply
- The inflation rate (CPI)

[50]**QUESTION 10****50 MARKS – 40 MINUTES**

Discuss the causes and consequences of demand-pull inflation.

[50]

TOTAL SECTION C: 100
GRAND TOTAL: 300



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NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS

NOVEMBER 2011

MEMORANDUM

MARKS: 300

This memorandum consists of 30 pages.

SECTION A (COMPULSORY)**QUESTION 1 LO1–LO4**

1.1 Multiple-choice questions.

- 1.1.1 C (factor cost) ✓✓
 1.1.2 A (prosperity) ✓✓
 1.1.3 C (devaluation) ✓✓
 1.1.4 C (homogeneous) ✓✓
 1.1.5 A (natural) ✓✓
 1.1.6 C (discrimination) ✓✓
 1.1.7 A (Industrial Development Zone) ✓✓
 1.1.8 C (DBSA) ✓✓
 1.1.9 B (industrial) ✓✓
 1.1.10 B (social and political conflict or civil war) ✓✓
 1.1.11 A (the benefit from a tourist is greater than the money spent) ✓✓
 1.1.12 B (labour) ✓✓ (12 x 2) (24)

1.2 Give ONE term for each of the following descriptions by choosing a term from the list.

- 1.2.1 dumping ✓✓
 1.2.2 demerit goods ✓✓
 1.2.3 disequilibrium ✓✓
 1.2.4 economic indicator ✓✓
 1.2.5 conservation ✓✓ (5 x 2) (10)

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- 1.3.1 B – Ratio between the eventual change in income and the initial investment ✓✓
 1.3.2 E – Negotiate Foreign Free Trade Areas with the rest of the world ✓✓
 1.3.3 A – Expenditure of a business on the purchase of inputs required for production ✓✓
 1.3.4 D – Organisation of features of perfect and imperfect markets ✓✓
 1.3.5 C – The proportion of an increase in income that is not consumed ✓✓
 1.3.6 G – The distribution of income amongst the population ✓✓
 1.3.7 F – A set of legally binding international agreements aimed at reducing greenhouse gases ✓✓
 1.3.8 H – To prevent the extinction of elements of the environment ✓✓ (8 x 2) (16)

TOTAL SECTION A: 50

SECTION B

Answer any THREE of the five questions from this section in the ANSWER BOOK.

QUESTION 2

2.1 Choose the correct word from those given in brackets:

2.1.1 financial ✓✓

2.1.2 opposite ✓✓

2.1.3 trade ✓✓

2.1.4 economic / social ✓✓ (4 x 2) (8)

2.2 List any THREE examples of community goods.

- defence ✓✓
- police ✓✓
- street lighting ✓✓
- flood control ✓✓
- Any other example that is non-excludable (Any 3 x 2) (6)

2.3 Study the table below and answer the questions that follow:

2.3.1 It reflects a country's trade and financial transactions ✓ with the rest of the world ✓ over a particular period of time. ✓
Any other relevant definition is acceptable. (3)

2.3.2	Merchandise exports	R503 656 million ✓	
	+ Net gold exports	<u>R52 776 million</u> ✓	
		556 432 million	
	- Merchandise imports	<u>R554 161 million</u> ✓	
		R2 271 million ✓✓✓	(3)

If the answer is not given / incorrect, allocate a maximum of 2 marks for the correct elements (correct mathematical procedure).

2.3.3 It will reduce the Trade Balance / negatively affected / imports exceed the exports ✓✓ (2)

2.3.4 Current transfers ✓✓ (2)

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

2.4.1 Any changes (increases or decreases) in government spending ✓✓ and taxation ✓✓ / Any changes that have been announced by the Minister of Finance ✓✓ (2)

2.4.2

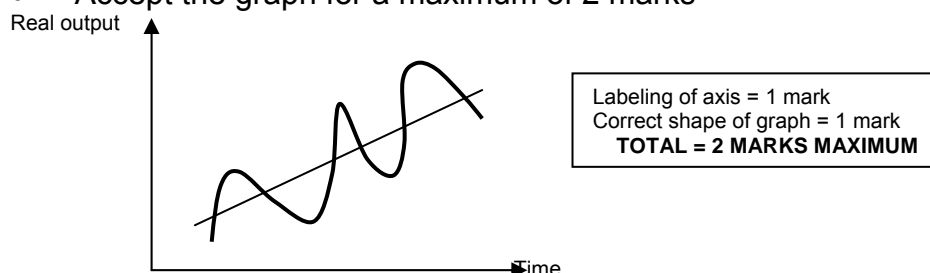
- It is more labour intensive ✓✓ /
- Greatest contributor to the GDP in terms of unskilled labour ✓✓
- Accept any other relevant answer (2)

2.4.3 Government must focus on prioritising economic growth ✓✓ through effective budgeting ✓ i.e. infrastructure, employment ✓ Accept any other relevant answer. (4)

2.4.4 '... The government's effort with regard to social and distribution issues exceeds those devoted to creating a growth-friendly environment.' ✓✓ (2)

2.5 Discuss the endogenous approach as a cause of business cycles.

- Also known as the Keynesian Approach or Interventionists ✓✓
- Hold the view that markets are inherently unstable ✓✓
- Level of economic activity constantly tend to be continually above or below its potential ✓✓
- Price mechanism fails to co-ordinate demand and supply in markets ✓✓
- Prices are not flexible enough e.g. wages ✓✓
- Endogenous forces e.g. ripple effect / indirect links, mismatches and disequilibria responsible for cyclical fluctuations ✓✓
- Business cycle is an inherent feature of market economy ✓✓
- Peaks and troughs are smoothed out by government's interventionist policies ✓✓
- Perceptions / predictions about the future ✓✓
- Factors within the market ✓✓
- Accept the graph for a maximum of 2 marks



- Economy's growth path is indicated by thin black line. Bold cyclical movements around it are actual route followed by the economy – peaks and troughs are smoothed out by government's interventionist policies ✓✓
- Examples given max 2 marks (Any 4 x 2) (8)

2.6 **Discuss the interaction between the households and the state as participants in the circular flow.**

Household sector provides the state with labour ✓✓ and receive income ✓✓
The state provides the household with public goods and services ✓✓(e.g.)
parks, hospitals ✓✓ for which they pay taxes ✓✓ This is income for the state
✓✓ (Any 2 X 4)

Maximum 4 marks (2 for the household and 2 for the state) if no interaction is shown.

(8)
[50]

QUESTION 3**3.1 Choose the correct word from those given in brackets:**

3.1.1 negative ✓✓

3.1.2 maximum / minimum ✓✓

3.1.3 the same ✓✓

3.1.4 allocative ✓✓ (4 x 2) (8)

3.2 List THREE ways in which the government can use tax revenue to reduce the unequal distribution of income.

- Subsidizing goods and services for the poor e.g. hospitals ✓✓
- Transferring income directly to poor households e.g. grants ✓✓ old age pension ✓✓ feeding schemes ✓✓ food parcels ✓✓
- Providing goods free of charge e.g. public goods ✓✓ no-fee schools ✓✓
- Implementing job creation programmes / e.g. public work programme ✓✓
- Any other relevant fact or example (Any 3 x 2) (6)

3.3 Study the graph below and answer the questions that follow:3.3.1 $A / MC = MR$ ✓✓ (2)3.3.2 Unique product with no close substitutes ✓✓ (2)

3.3.3 Economic profit ✓✓
 Income = 200 X R80 = R16 000 ✓
 Cost = 200 X R60 = R12 000 ✓
 Economic profit = R4 000 ✓✓ / OR
 Accept alternative calculation of profit e.g.
 $80 - 60$ ✓ = 20
 20×200 ✓ = R4 000 ✓✓ (6)

3.4 Study the graph below and answer the questions that follow.3.4.1 Oligopoly / imperfect market structure ✓✓ (2)3.4.2 Price fixing / cartels are hurting the poor ✓✓
Any other relevant description (2)

3.4.3 Use of non-price competition ✓✓ e.g.

- advertising and marketing ✓✓
- Loyalty rewards ✓✓
- After sales service ✓✓
- Doing business over the internet ✓✓
- Extended shopping hour e.g. Sunday trading ✓✓
- Door-to-door sales ✓✓
- Product proliferation ✓✓

(Any 1 x 2) (2)

- 3.4.4
- Cement ✓✓
 - Food / e.g. bread, Premier foods ✓✓
 - Building materials ✓✓
 - Medicine ✓✓
 - Local airline tickets ✓✓
 - Steel ✓✓
 - Soda ash ✓✓
 - Piping ✓✓
 - Gas ✓✓
 - Fertiliser ✓✓
 - Bicycles ✓✓
 - Dairy industry ✓✓
 - Any other relevant industry, example or company/businesses
(Any 2 x 2) (4)

3.5 **Briefly explain the rationale of Cost Benefit Analysis.**

- CBA helps to make better decisions on how scarce resources are allocated to satisfy wants ✓✓
- Involves making decisions based on comparing economic benefits with economic costs of a project ✓✓
- The feasibility of the project is determined by subtracting costs from benefits ✓✓
- If the difference is positive (benefits > costs) then the project will be undertaken ✓✓
- Besides efficient use of resources, CBA also ensures the right combination of goods is produced ✓✓
- It also provides us with deciding alternate solutions to specific problems. ✓✓
- Thus a project that maximizes benefits compared to costs should be chosen. ✓✓
- There is a need to consider the time value of money because the project will only occur in the future ✓✓
- Therefore future benefits and costs are discounted to present values ✓✓
- In the market economy, resources are allocated through interaction of demand and supply in the market ✓✓
- Decisions by people, businesses and governments are important for the society – involves allocation of scarce resources ✓✓
- The right combination of goods and services produced to satisfy needs and wants ✓✓
- Brings objectivity to decision-making – identify relevant benefits and costs of project and quantify them in money terms to make informed decisions ✓✓
(Any 4 x 2) (8)

3.6 Discuss the aims of the Competition Policy in South Africa.

- Prevent the abuse of economic power ✓✓ e.g. by a monopolist ✓✓
- Regulate the growth of market power ✓✓ by means of takeovers and mergers ✓✓
- Prevent restrictive practices, especially by oligopolists ✓✓ such as fixing of selling prices, collusion in respect of tenders or price discrimination ✓✓
- Contribute to the developmental objectives of the state ✓✓ own example ✓✓
- To improve efficiency of markets ✓✓ through legislation ✓✓
- Improve equity in markets ✓✓ e.g. Employment Equity Act ✓✓
- Protect the consumer against unfair prices and inferior products ✓✓ e.g. Competition Act ✓✓

(8)
[50]
(Any 2 X 4)

QUESTION 4: LO3 ECONOMIC PURSUITS, AS1–AS4**4.1 Choose the correct word from those given in brackets:**

4.1.1 regulation ✓✓

4.1.2 central ✓✓

4.1.3 decentralisation ✓✓

4.1.4 Broad Based Black Economic Empowerment ✓✓ (4 x 2) (8)

4.2 List any THREE methods that can be used to promote import substitution.

- Subsidies ✓✓
- Exchange control ✓✓
- Physical controls ✓✓
- Diverting trade ✓✓
- Quality standards ✓✓
- Time consuming customs procedures ✓✓
- Economic sanctions ✓✓ / boycotts ✓✓ / embargos ✓✓ / disinvestments ✓✓
- Anti-dumping measures ✓✓
- Protection measures - accept if specified e.g. Tariffs ✓✓ Quotas ✓✓
Import deposits ✓✓ / customs duties ✓✓ (Any 3 x 2) (6)

4.3 Study the extracts below and answer the questions that follow:4.3.1 Southern African Development Community ✓✓ (2)

4.3.2 Sustainable ecosystems ✓✓
The creation of water infrastructures in the region ✓✓
Reduce the number of people without drinking water ✓✓
Maximising the positive effect on economic and social welfare ✓✓
 Promotes the coordinated development and management of water,
 land and related resources ✓✓ (Any 2 X 2) (4)

4.3.3 Droughts / Rainfall shortage ✓✓
Floods / excessive rainfall ✓✓
Groundwater levels (rising or falling) ✓✓
 Any other relevant answer (Any 1 X 2) (2)

4.3.4 Health and nutrition / health / nutrition ✓✓ (2)

4.4 **Study the cartoon below and answer the questions that follow:**

- 4.4.1 Developing countries / countries of the South / any example of a developing country / emerging economies / poor countries ✓✓ (2)
- 4.4.2 World Bank ✓✓ (2)
- 4.4.3 Development / Investment / Job creation / Infrastructure ✓✓
Accept any other relevant answer. (Any 1 x 2) (2)
- 4.4.4 Cost of debt is very high / pay back a lot of interest over a long period / higher interest rates / unfavourable repayment schedule ✓✓ (2)
- 4.4.5 Japan / Germany / France / Italy / USA / UK / Canada / Russia ✓✓
(Any 1 x 2) (2)

4.5 **Briefly explain the demand-side policy, used in promoting growth and development.**

Involves discretionary methods to influence aggregate demand and output through changes in the monetary and fiscal policies ✓✓

Monetary policy ✓✓ consists of decisions by central banks to influence the rate of interest ✓✓

- and the supply of money ✓✓ in the economy
- Central banks manage the availability of money by means of open market transactions ✓✓
- and cash reserve requirements ✓✓
- They manage the cost of money by means of interest rate changes ✓✓

Fiscal policy ✓✓ focuses on budget deficits and surpluses to either raise or reduce aggregate demand ✓✓

- By varying taxes and expenditure government can either stimulate or inhibit economic growth and development ✓✓
- A mixture of monetary and fiscal policies is used to fine-tune the economy ✓✓

To ensure economic growth, there should be an adequate and growing demand for goods and services ✓✓

- Total demand consist of: Consumption demand (C) / spending, Investment demand (I) / spending, Government demand (G) / spending, Exports minus imports (X-M) / Thus: $\Delta GDP = \Delta C + \Delta I + \Delta G + \Delta(X-M)$ ✓✓
- An increase in exports raises the growth rate ✓✓
- Also has the advantage of contributing to the equilibrium in the balance of payments account ✓✓
- Economic growth can be stimulated to reduce the import of certain products by producing these products domestically ✓✓

Factors that influence development strategies:

- Emphasis is placed on the human aspects of development ✓✓ which include satisfying basic human needs and the importance of self-esteem and freedom of choice ✓✓
- A key element of economic development is that the people of a country must be major participants ✓✓ in the process that brings about improvement in the lives of the population ✓✓ (Any 4 X 2) (8)

4.6 **Discuss any TWO arguments in favour of free trade.**

- **Specialization** ✓✓ the theory of comparative advantage shows that world output can be increased if countries specialize in what they are best at producing ✓✓ Lower prices and higher levels of output ✓✓ Developing countries can take advantage of foreign expertise ✓✓ Makes mutual gains from international trade to all countries ✓✓ Most efficient distribution of resources ✓✓ as each country specializes in most effective production ✓✓ Free trade argument is persuasive – if each nation produces what it does best and permits trade ✓✓ over the long run all will enjoy lower prices and higher levels of output, income and consumption ✓✓ Productivity is boosted ✓✓ Trade restrictions tend to invite retaliation ✓✓ Protectionism leads to cost on society, inefficiency and loss in welfare ✓✓
- **Economies of scale** ✓✓ trade allow economies of scale to be maximized and thus unit costs are reduced ✓✓ promotes competition and improves resource allocation ✓✓ Allows each country optimal use of the endowment of its factors of production ✓✓ Promotes increased efficiencies, product improvement and technological advancement ✓✓ Enterprises are always competing to find new production methods that cut costs and will improve the quality and reliability of goods ✓✓
- **Choice** ✓✓ consumer welfare is thus increased because some consumers will prefer to buy foreign goods than domestic goods ✓✓ Leads to greater world production of traded goods ✓✓ increase in economic welfare ✓✓ Increases total output ✓✓
- **Innovation** ✓✓ free trade implies competition, which provides a powerful incentive to innovate ✓✓ It generates foreign exchange ✓✓
- Accelerates overall economic growth ✓✓ which raises profits and promotes greater savings and investment ✓✓
- Open economy will fare much better in an era of globally integrated production and technological reform ✓✓ than closed economy ✓✓

(Any 2 X 4)

(8)
[50]

QUESTION 5: LO4 CONTEMPORARY ECONOMIC ISSUES, AS1–AS4**5.1 Choose the correct word from those given in brackets:**

5.1.1 Government ✓✓

5.1.2 Destination ✓✓

5.1.3 Direct environmental stress ✓✓

5.1.4 Recycling ✓✓

(4 x 2) (8)

5.2 List any THREE examples of eco-tourism in South Africa.

- Visiting natural areas that are undisturbed ✓✓
- Drakensberg mountains ✓✓
- Kruger National Park ✓✓
- visiting attractions of scenery ✓✓
- flora and fauna ✓✓
- vegetation ✓✓
- forests ✓✓
- wildlife ✓✓
- Namakwaland flowers ✓✓
- enjoying the climate, sunshine, the sea, a river or lake ✓✓
- Any other relevant example of eco-tourism

(Any 3 x 2) (6)

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

- 5.3.1
- bio-mass / bio-diesel / bio-gas / bio-fuel ✓✓✓
 - hydro ✓✓✓
 - wind turbines ✓✓✓
 - waves / tidal energy ✓✓✓
 - solar power ✓✓✓
 - fire wood ✓✓✓
 - Any other renewable resource

(Any 1 x 3) (3)

- 5.3.2
- Reduce emission of CO₂ / reducing carbon dioxide (levels of carbon) ✓✓✓

(3)

- 5.3.3
- Green taxes are taxes on output or consumption which are charged for the adverse effects on the environment / taxes levied on consumers and producers for waste and pollution ✓✓
 - Also known as environmental taxes ✓✓
 - E.g. levied on tyres, gas emission tax, plastic bags ✓✓
 - Any other relevant explanation – maximum 2 marks for examples

(2 x 2) (4)

5.4 Study the graph and answer the questions that follow.

- 5.4.1 Decrease ✓✓ (2)
- 5.4.2 Domestic tourism should increase ✓✓✓ due to an increase in the buying power of the rand (3)
- 5.4.3 July 2008 ✓✓ (2)
- 5.4.4 Yes ✓ Between 3 – 6% / Accept any answer between 3 and 6 ✓✓ (3)

5.5 Explain the importance of indigenous knowledge systems in strengthening South Africa's tourism profile.

- Tourists seek authenticity and uniqueness at destinations ✓✓
- They want to understand indigenous culture, history and environment ✓✓
- How local people live and work ✓✓
- World Heritage Sites e.g. Mapungubwe – ruins of Early Stone Age in Limpopo, Vredefort Dome – 2 billion year meteorite impact site in Free State, Sterkfontein Caves – cradle of mankind, Robben Island – where Nelson Mandela was incarcerated ✓✓
- Environmental World Heritage Sites represent extreme of indigenous environmental uniqueness e.g. Greater St Lucia Wetland Park, Cape Fynbos Region, uKhahlamba Drakensberg Park ✓✓
- Cultural tourism ✓✓ museums, galleries and theatres ✓✓
- Cultural villages ✓✓ traditional dances and rituals in rural areas, excursions into urban and township areas. Local tourists want to learn more about the people ✓✓
- Cultural industries ✓✓ music, craft, books and publishing, film ✓✓
- Arts festivals ✓✓ National Art Festival in Grahamstown, Klein Karoo Arts Festival, Aardklop in Potchefstroom, offers visitors the opportunity to combine their pursuits of culture with sightseeing, wine tasting, history etc. ✓✓
- Any other relevant example. (Any 4 x 2) (8)

If only examples are given, a maximum of 4 marks can be allocated.
--

5.6 Discuss any TWO benefits of tourism for the household.

- Income ✓✓ job creation ✓✓ salaries and wages are earned through employment in tourist industry ✓✓
- Infrastructure ✓✓ infrastructure created can be used by tourists and local people ✓✓
- Skills ✓✓ tourism requires variety of skills e.g. Tourism as school subject ✓✓
- Empowerment of women ✓✓ especially in rural areas, improve family life ✓✓
- Supports the informal sector ✓✓
- Safety and security ✓✓
- Reduction of poverty ✓✓
- BEE ✓✓
- Investment by foreigners ✓✓

(Any 2 X 4)

(8)
[50]

Candidates should provide an appropriate explanation for all listed benefits.

QUESTION 6: LO1 & LO4, AS1–AS4**6.1 Choose the correct word from those given in brackets:**

6.1.1 leading ✓✓

6.1.2 infrastructure ✓✓

6.1.3 GDP ✓✓

6.1.4 renewable ✓✓

(4 x 2) (8)

6.2 Give THREE reasons for the growth in international tourism

- Increase in disposable income ✓✓
- Reduction in working hours ✓✓
- More awareness of leisure and recreation ✓✓
- Improved transport, communication and accommodation facilities ✓✓
- Increases in advertising and promotion ✓✓
- Awareness of the benefits of holidays and travel ✓✓
- Ease of obtaining foreign exchange and making payments ✓✓
- Cheaper flights ✓✓
- Favourable exchange rates ✓✓
- Peaceful political transformation ✓✓
- Dramatic increase in the MICE (Meetings, Incentives, Conferences and Exhibitions) ✓✓
- Global travel trends ✓✓
- Improvement in the tourism infrastructure ✓✓
- Improved coordination with neighbouring countries ✓✓
- Well established National Parks ✓✓
- Companies who are leaders in best-practice ✓✓

Any other relevant fact.

(Any 3 x 2) (6)

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

6.3.1 Expenditure on assets used repeatedly in the process of production ✓✓✓ / Increase in the stock of capital ✓✓✓ (3)

6.3.2 R2 407 689m ✓✓✓ /
 GDE = 2 428 316 ✓
 + Exports = 657 113 ✓
 - Imports = 677 740 ✓ (If the answer is incorrect, a maximum of 2 marks can be allocated if mathematically correct) (3)

6.3.3 Equal ✓✓
 Production GDP(P) = Income GDP(I) = Expenditure GDP(E) ✓✓
 when calculating the GDP / because of the residual item ✓✓ (4)

6.4 **Study the cartoon below and answer the questions that follow.**

- 6.4.1 Pollution occurs when people introduce waste matter into the environment, both directly and indirectly, which have a negative impact on human, animal and plant life ✓✓ / Pollution occurs when the flow of residual emissions resulting from human activity exceeds the natural environment's capacity to absorb them ✓✓
Any relevant definition (2)
- 6.4.2 Smoke / Smog / acid rain / poisonous chemicals / noise / environmental damage / air pollution / contaminated water / poisonous gases ✓✓ (2)
- 6.4.3 Large scale production leads to continuous, increased pollution or high rate of pollution / affecting the health of people (life expectancy), animal and plants species ✓✓✓
Any other relevant fact (3)
- 6.4.4
- Prevention: Policies, legal restrictions and stricter law enforcement ✓✓✓
 - Cure: minimize the negative effects of polluted ground water e.g. purification of water sources ✓✓✓
 - Any other relevant response_ (Any 1 x 3) (3)

6.5 **Discuss any TWO reasons for public sector failure.**

Management failure ✓✓ / behaviour of politicians ✓✓

- they will promote policies and continue to spend money on projects as long as they can get votes in return ✓✓
- and these policies might involve inefficient allocation of resources ✓✓
- lack of capacity ✓✓

Apathy ✓✓

- successful public production relies on long-term accountability. ✓✓
- which if not addressed properly could lead to inefficiency, corruption and poor services ✓✓

Lack of motivation ✓✓

- frontline workers rarely receive incentives for successful service delivery ✓✓
- There are few rewards and little or no stipulation for service quality and quantity ✓✓

Objectives are not attainable ✓✓

- some objectives might work against each other ✓✓
- (e.g.) government redistributes income and wealth too aggressively; economic growth and economic development could suffer in the long run ✓✓
- Goals for newly privatized firms ✓✓

Bureaucracy ✓✓ / Special interest groups ✓✓ / rent-seeking ✓✓

attempts by interest groups such as farmers, organized labour to influence government behaviour to their own advantage ✓✓ (Any 2 x 4) (8)

6.6 Discuss the effect of tourism on GDP and Employment.

GROSS DOMESTIC PRODUCT:

- Impact on services industry much more than on agriculture or manufacturing ✓✓
- Indirect contribution ✓✓ tourism sector partly responsible for service sector growth in recent years – 40% of GDP ✓✓ in developed countries it forms 65 % of GDP / macro-economic multiplier ✓✓
- Direct contribution ✓✓ WTTC estimated 6,8% in South Africa and 11,6% worldwide / direct spending on tourists goods and services; money income received from a tourist ✓✓
- It is estimated that tourism could contribute 12% to the GDP by 2014 ✓✓
- Fourth-largest industry in South Africa ✓✓ and supports about 700 hotels, 2 800 guesthouses and bed-and-breakfast establishments, and 10 000 restaurants ✓✓

EMPLOYMENT:

- Tourism is labour intensive ✓✓ more jobs are created with every unit of capital invested in tourism than elsewhere ✓✓
- Tourism employs many skills ✓✓ numerous skills needed – potential of job training is enormous ✓✓
- Tourism can provide immediate employment ✓✓ if organized and focused, many jobs can be created in short period of time ✓✓
- Tourism provides entrepreneurial opportunities ✓✓
- Employs and estimated 7% of the South African workforce (2010 employ more than 1,2 million people) ✓✓ and is potentially regarded as the largest provider of jobs and earner of foreign exchange ✓✓
- Largest generator of jobs ✓✓ provided one in every nine jobs ✓✓
- Every eight tourist to visit results in the creation of one permanent job ✓✓
- Creates direct jobs ✓✓ tourist accommodation establishments, entertainment, restaurants etc. ✓✓
- Creates indirect jobs ✓✓ other sectors of the economy as a result of tourism ✓✓

(2 x 4)

(8)
[50]**TOTAL SECTION B: 150**

SECTION C

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

- Should include an introduction, body and conclusion.
- For the introduction and conclusion 5 marks will be allocated.
- In addition, 5 marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

QUESTION 7

Discuss the main supply reasons for international trade.

INTRODUCTION

No country can survive on its own as trade is the basic component of economic activity and is undertaken for mutual advantage ✓✓✓ / Countries offer goods for trade because they have resources that other countries do not have ✓✓✓ / International trade is trade across borders ✓✓✓

Any other relevant introduction.

(Max 3 marks)

BODY**SUPPLY REASONS:**

1. **Natural resources** (factors of production) ✓✓
 - They are not evenly distributed across all countries of the world ✓✓
 - They vary from country to country and can only be exploited in places where there are such resources ✓✓
 - Each country has its own unique mix of natural resources that makes it possible for them to produce certain goods and services more efficiently and at a relatively lower price ✓✓
 - (E.g.) South Africa's gold and diamond resources has given us an advantage in producing gold and diamonds ✓✓
2. **Climatic conditions** ✓✓
 - Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries ✓✓
 - Many crops can only be cultivated in certain climatic conditions and areas and in certain kinds of soil ✓✓
 - Topography ✓✓
3. **Labour resources** ✓✓
 - The quality, quantity and cost of labour also differ between countries ✓✓
 - Some countries have highly skilled labour with high productivity rates ✓✓
 - This enables them to produce goods and services at a lower price than they are produced in other countries ✓✓
 - Certain individuals have greater ability and aptitude for certain tasks ✓✓
 - It is a worldwide phenomenon that some countries have developed a skill and aptitude for the production of a certain commodity ✓✓
 - E.g. The Swiss ✓✓ (watch making)

4. Technology ✓✓

- Some countries have access to technological resources that enable them to produce certain goods and services at a low unit cost ✓✓
- Improved production processes, the availability of equipment and machinery, and other technological factors all influence the supply of goods and services ✓✓ and thereby contribute to cost differences between countries ✓✓
- (e.g.) Japan ✓✓

5. Specialisation ✓✓

- Some countries specialize in the production of certain goods and services ✓✓
- By specializing in the production of certain goods and services, a country is able to take advantage of economies of scale and therefore produce the goods at a comparatively cheaper unit cost ✓✓
- (e.g.) Japan ✓✓ has specialized in the production of certain electronic goods and the sell them at a much lower price than they can be produced in other countries ✓✓
- This often results in mass production because of division of labour ✓✓ automation ✓✓ and mechanization ✓✓
- Cost differences ✓✓ occur because goods and services can be produced at lower costs in one country than another because of the theory of comparative advantage ✓✓

6. Capital ✓✓

- Cannot be obtained as easily in some countries as in others ✓✓
- Developed countries usually enjoy an advantage over undeveloped countries ✓✓
- Due to a lack of capital some countries cannot produce all the goods they require themselves, or they may not have the favourable conditions of other countries ✓✓
- Physical infrastructure ✓✓

7. Economic freedom and competitiveness ✓✓**8. Stable government ✓✓**

(Max 40)

CONCLUSION

It is obvious from the above mentioned that supply-reasons have a definite impact on international trade ✓✓ (Max 2 marks)

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

(Max 5 marks)

QUESTION 8

Use graphs to analyse the various short-term equilibrium positions for an individual business in the perfect market.

INTRODUCTION

A perfect market is a market structure which has a large number of buyers and sellers who are not able to influence the price. Sellers are therefore price-takers ✓✓✓
Accept any relevant definition of perfect markets. (Max 3 marks)

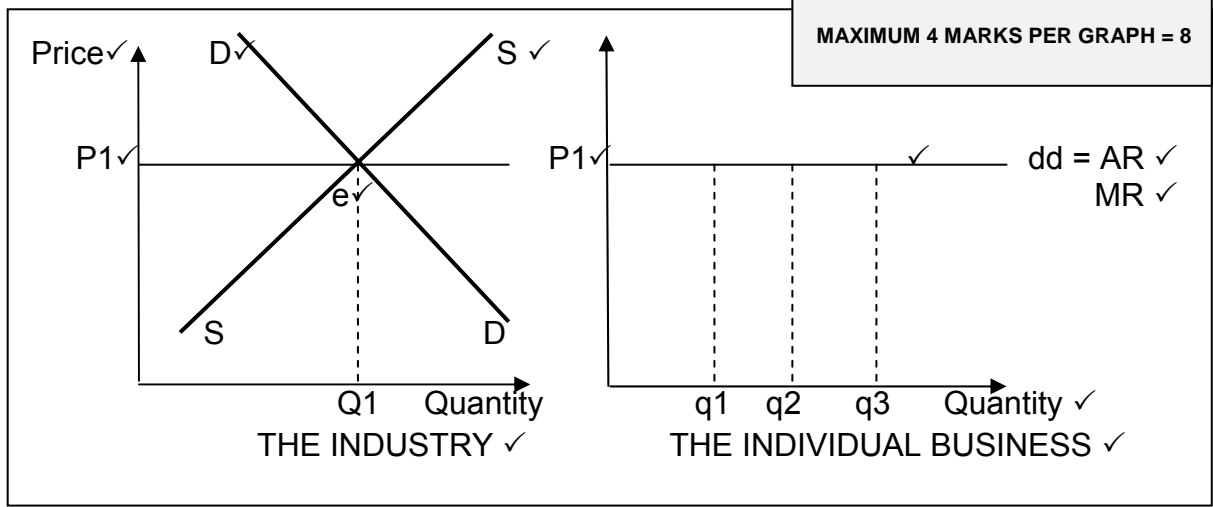
BODY

1. THE INDIVIDUAL BUSINESS

1.1 In the market

- Market price determined by interaction of demand + supply ✓✓
- DD slopes downwards from left to right and SS slopes upwards from left to right ✓✓
- Individual business forms small portion of market – does not influence market price – price taker ✓✓
- Won't charge higher/lower price – reasons ✓✓
- Graphs:

Mark allocation:	
Correct heading for graph	= 2 marks
Position/shape of curves	= 1 mark
Labeling of axis	= 2 marks
Labeling on axis	= 1 mark
Labeling of curves	= 4 marks
Equilibrium point indicated	= 1 mark
MAXIMUM 4 MARKS PER GRAPH = 8	

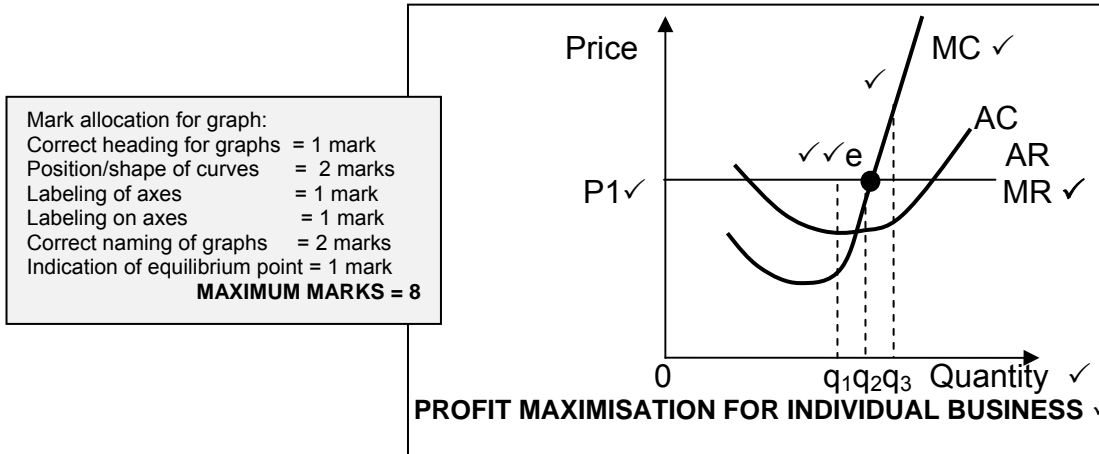


- For each unit sold, business receives same price: therefore $P1 = AR = MR$ equals individual demand curve ✓✓
- Economic cost = opportunity cost = explicit cost + implicit cost ✓✓
- Explicit cost = actual expenditure of business e.g. wages, interest, leasing of land, raw materials ✓✓
- Implicit cost = value of inputs owned by entrepreneur + used in production process (forfeited rental, interest + salary). ✓✓

1.2 Production, profits, losses and supply

1.2.1 Maximum profit for individual business

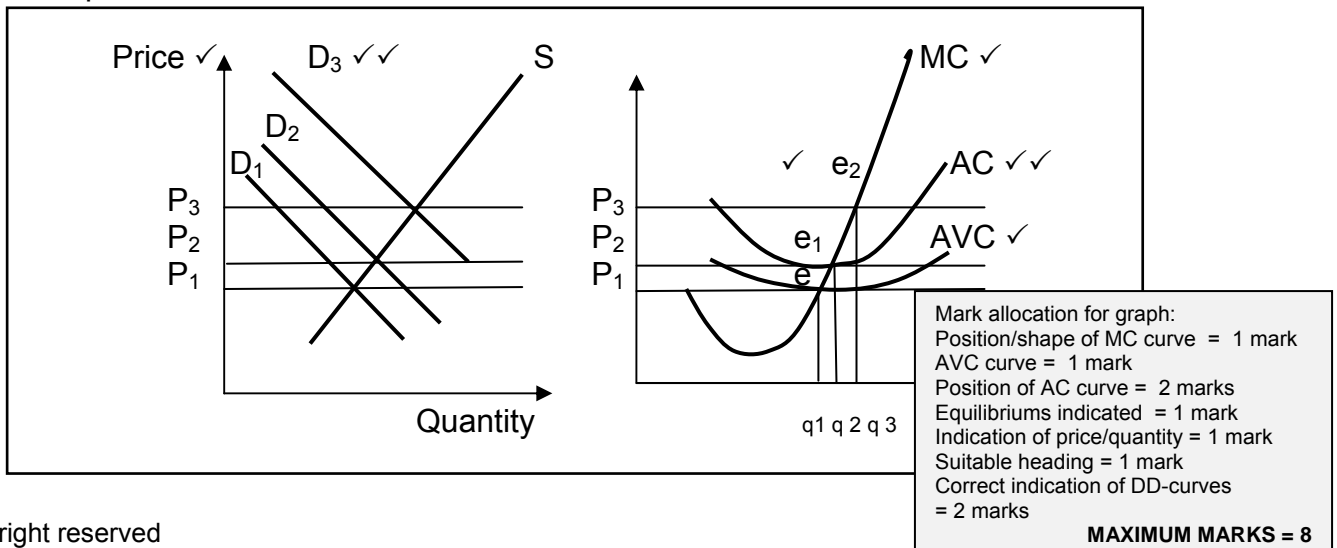
- Demand curve for individual business is a horizontal line at market price ✓✓
- To obtain maximum profits, the market price + own cost structure is taken into account to determine production output. ✓✓
- Graphs:



- Horizontal demand curve represents MR + AR. ✓✓
- MAXIMUM PROFIT: point of intersection of MC + MR – point e. ✓✓
- To the right of e (q3), production cost exceeds revenue (MC > MR) – a loss is made ✓✓
- Point e = profit maximized = equilibrium ✓✓
- Expand production up to point where short-term marginal cost = marginal revenue – on ascending section of MC (descending section – maximum loss) ✓✓

1.2.2 Production + supply for business

- Maximum profit where MC = MR – used to derive business’s supply curve ✓✓
- Take different market prices and determine how much business would produce at each price – production determines supply ✓✓
- Add average variable cost (AVC) e.g. labour cost, material cost, fuel + electricity ✓✓
- Graphs:

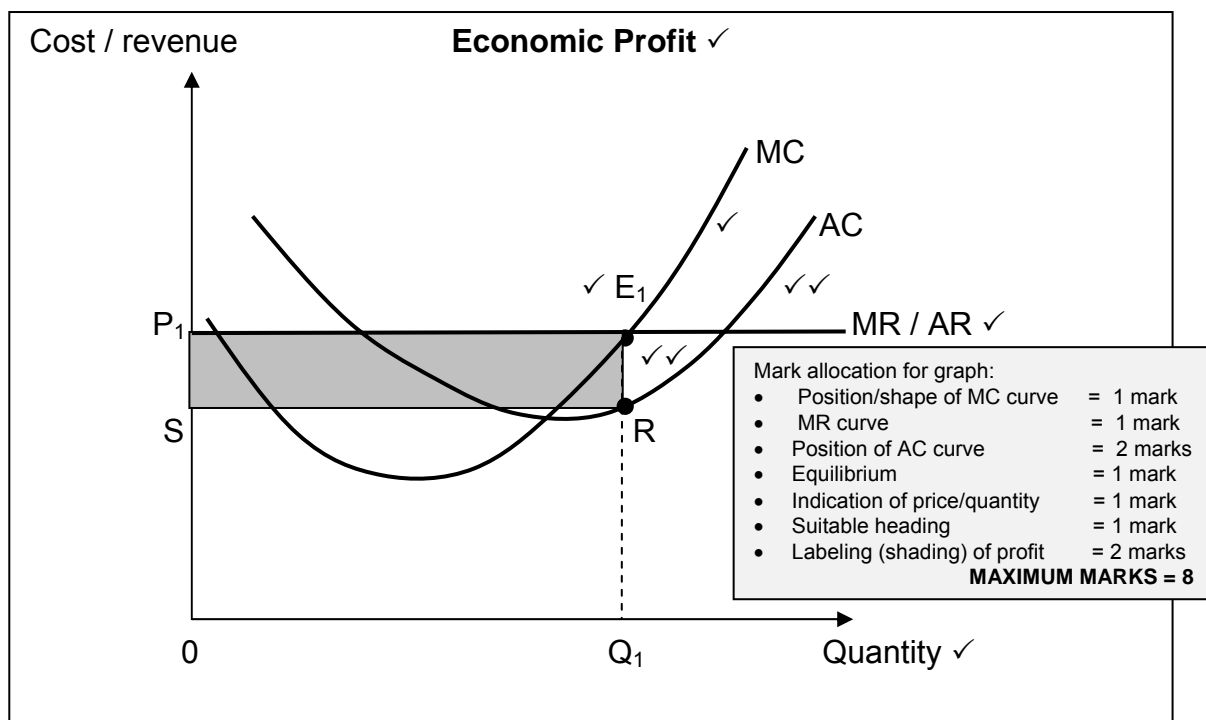


- Market price rises due to increase in demand ✓✓
- Horizontal demand curve for business' product shifts upwards – intersecting SMC curve at point to right of previous point of intersection (e1, e2, e3) ✓✓
- Each point shows maximizing profit where MC = MR ✓✓
- Points e plot business's supply at different market prices – supply begins at e ✓✓
- Points left to e1 – where business cannot cover its variable costs + close doors = closing down point ✓✓

Equilibrium positions:

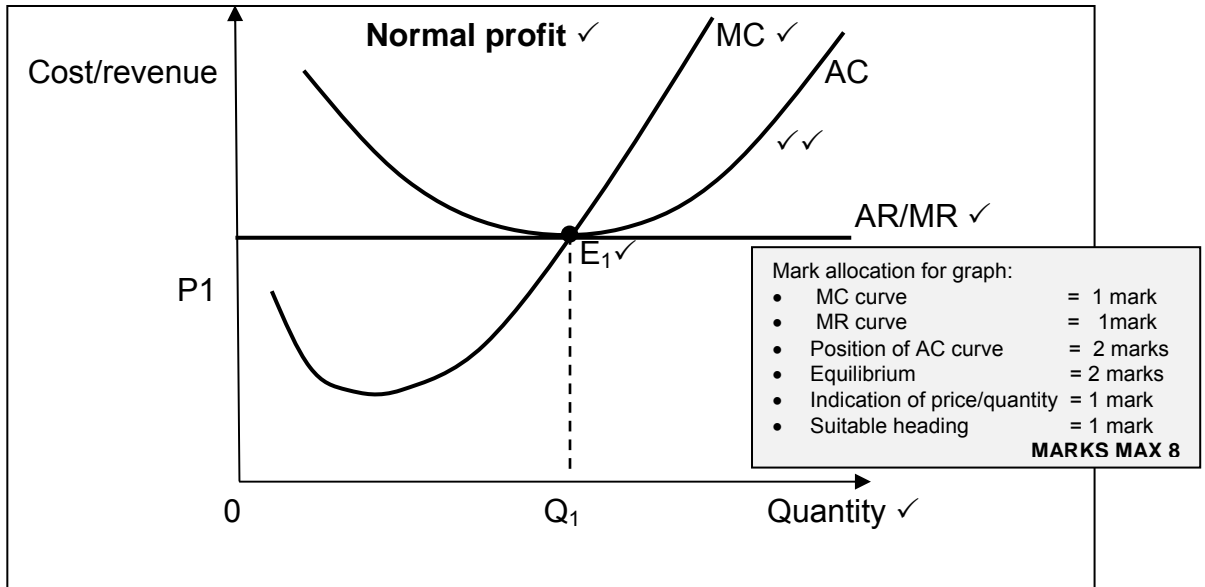
- In a perfect market the individual business faces a perfectly horizontal demand curve. ✓✓
- The market price is determined by the industry (demand and supply curves). ✓✓
- This means that individual businesses are price takers i.e. they are not able to influence prices. ✓✓
- An individual business can increase or decrease output in order to maximize profit.
- Profit is maximized where MR = MC. ✓✓
- This is the point at which profit is maximized; (loss minimized) which is known as equilibrium point. ✓✓

NOTE: The above response should be marked in relation to the explanation to graphs. Do not credit twice if it is repeated in the explanation for each equilibrium position.

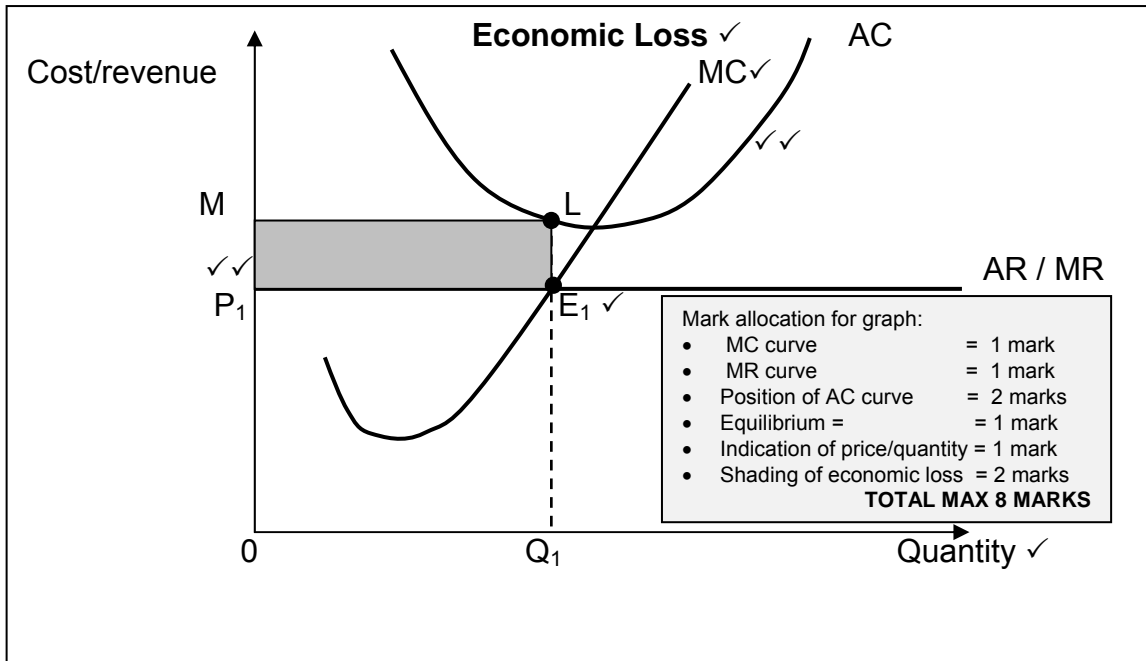


[50]

- Equilibrium is at E₁ i.e. The firm will produce where MC = MR ✓✓
 - At this point Q₁ goods are produced at a price of P₁. ✓✓
 - The averages cost for Q₁ units is point R on the AC curve. ✓✓
 - Price /AR is greater than AC. ✓✓ (TR > TC)
- Therefore economic profit is represented by the area P₁SRE₁ ✓✓



- Equilibrium is at E_1 i.e. The firm will produce where $MC = MR$ ✓✓
- At this point Q_1 goods are produced at a price of P_1 . ✓✓
- At equilibrium (point E_1) average cost is equal to price ✓✓/ the AC curve is tangent to the demand curve which means that $P/AR = AC$ ($TR = TC$) ✓✓
- The business makes normal profit which is the minimum earnings required to prevent the entrepreneur from leaving and using his factors of production elsewhere. ✓✓



- Equilibrium is at E_1 i.e. the firm will produce where $MC = MR$ ✓✓
- At this point Q_1 goods are produced at a price of P_1 . ✓✓
- At equilibrium (point E_1) price/AR is less than average cost / the AC curve is lies above the demand curve which means that $P/AR < AC$ ($TR < TC$) ✓✓
- The business makes an economic loss. ✓✓ (Max 40)

A maximum of 24 marks will be allocated for graphs / discussions.

CONCLUSION

Freedom of entry and exit into the perfect market alter the supply of goods on the market. This result in changes in price which influences the profit or loss of a business.

✓✓ If price falls to a level where it is equal to the AVC then the firm will shutdown. ✓✓

(Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

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5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

(Max 5 marks)

QUESTION 9

Discuss the following economic indicators, which are used in measuring the performance of the economy:

- production (real GDP);
- employment / unemployment;
- money supply; and
- the inflation rate.

INTRODUCTION

Economic indicators are used to establish the performance of the economy in terms of growth, price stability and exchange rate stability. ✓✓✓

Any other relevant introduction.

(Max 3)

BODY**1. Production (Real GDP)**

- GDP is total value of all final goods and services produced within the borders of a country in one year ✓✓
- Measures total production of an economy ✓✓
- Formula: $\frac{GDP_t - GDP_o}{GDP_o} \times 100$ ✓✓
- Increased GDP will cause economic growth ✓✓
- Gives an indication of:
 - economic growth ✓✓
 - relative importance of different sectors in economy ✓✓
 - South Africa's economic growth in relation to growth of other countries ✓✓
 - Real GDP measures growth performance of economy ✓✓ / GDP adjusted with price increases ✓✓
 - Real GDP used in forecasting ✓✓ real GDP used to describe business cycles ✓✓
 - Per capita real GDP used to indicate economic development, indicate living standards and compare living standards ✓✓
 - If the population grows at a faster rate than the economy, everybody may be seen worse off despite increases in the quantities of goods and services. ✓✓ (For this reason the per capita Real GDP is calculated)
 - Calculation: per capita Real GDP = Real GDP / population number ✓✓
 - The per capita figures are use for three purposes:
 - To indicate economic development ✓✓
 - To indicate living standards ✓✓
 - To compare living standards ✓✓

Any other general relevant information e.g. current statistics (GDP = 3 – 3.5%)

(Max 12)

2. Employment

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

Factors that have impacted negatively on the labour market and employment:

- slow real economic growth ✓✓
- drop in the ratio of capital formation to GDP ✓✓
- increasing demand for highly-skilled labour, while there is an oversupply of low-skilled labour ✓✓
- net emigration of highly-skilled labour etc. ✓✓ (Max 12)

Any other general relevant information e.g. current statistics (current unemployment rate = ± 25 – 28%).

3. Money supply

- Interest rates are the main determinant of investment on a macroeconomic scale. ✓✓
- The key rate of interest, on which all other interest rates are founded, is the repo rate. ✓✓
- Interest rates are very important indicators, if they move up, the debt of households and businesses require bigger repayments. ✓✓
- This includes hire purchases and housing and other property loans. ✓✓
- It may be signal that a downturn in the business cycle is pending. ✓✓
- Means that household incomes may fall as some workers lose their jobs. ✓✓
- Against the background of a slowing global and domestic economy and the improved medium-term outlook for inflation, the MPC has decided to reduce the repurchase rate (Repo Rate) ✓✓
- The money supply is the responsibility of the SARB. ✓✓
- Is important to give early warning of likely changes in inflation. ✓✓
- The SARB defines the quantity of money to consist of three aggregates:
 - **M1** – includes coins and notes and demand deposits for the domestic private sector with monetary institutions. ✓✓
 - **M2** – is equal to M1 plus all other short-term and medium-term deposits of the domestic private sector with monetary institutions. ✓✓
 - **M3** – is equal to M2 plus all long-term deposits of the domestic private sector with monetary institutions. ✓✓ (Max 12)

Any other general relevant information e.g. current statistics.

4. Inflation rate (CPI)

- Is defined as a sustained increase in the general price level and a decrease in the purchasing power of money ✓✓
- Consumer price indexes show price changes of a representative basket of goods and services that consumers buy. ✓✓
- The index covers metropolitan and other urban areas. ✓✓
- It is an overall index and the weights are obtained from the expenditures of different income categories of households. ✓✓
- It is the most comprehensive indicator measuring consumer inflation in South Africa. ✓✓
- It shows changes in the general purchasing power of the rand. ✓✓
- The CPI decreases to within the inflation target of 3-6% over the period ✓✓
- What means that inflation is for the time being, under control because of strict monetary measures by the SARB ✓✓
- And the negative perception from consumers of the economy due to the global recession. ✓✓
- Interest rates are the main monetary instrument used by SARB to fight inflation ✓✓

Any other general relevant information e.g. current statistics (5,7%). (Max 12)

[50]**CONCLUSION**

The above indicators help economists to make decisions concerning the economy. ✓✓
Any relevant conclusion.

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

(Max 5 marks)

QUESTION 10

Discuss the causes and consequences of demand-pull inflation.

INTRODUCTION

Demand-pull inflation occurs when aggregate demand for goods and services exceeds the aggregate supply of goods and services ✓✓✓ Demand-pull inflation can be described as a case of “too much money chasing too few goods” (Max 3)
Any other relevant introduction.

BODY

- **Increase in consumption (C)** ✓✓ income of households increase at faster rate than aggregate supply ✓✓ Due to:
Less savings ✓✓ start spending current and accumulated savings ✓✓
Reduction in taxes ✓✓ e.g. personal income tax ✓✓
- **Access to credit** ✓✓ as interest rate decrease more money is demanded ✓✓
Increase in economic active population ✓✓ has pushed up the demand for many consumer items ✓✓ making more money readily available, e.g. credit cards, overdraft facilities ✓✓
- **Investment spending** ✓✓ lower interest rates result in improvement in the profit expectations of a business ✓✓ business invests more and may lead to an increase in demand for goods and services ✓✓ part of investment e.g. cement, bricks ✓✓
- **Government spending** ✓✓ increase without corresponding rise in aggregate supply leads to increase in prices ✓✓ government borrowing money from banks leads to more money in circulation ✓✓ government spends money on infrastructure, consumption spending and social spending ✓✓ Consumers have more money to spend but no goods on which to spend their money ✓✓
- **Export earnings** ✓✓ foreign growth creates demand for locally produced goods ✓✓ sales of exports increase the money supply in the country which increases demand ✓✓ If exports increase, with no increase in domestic production, fewer goods are available in the country ✓✓
- **Commodities demand** ✓✓ expands and contracts like business cycles do ✓✓
- An increase in the money supply without a corresponding increase in production in proportion to the money supply causes an excess demand. ✓✓

Consequences:

- **Decrease in the buying power of money** ✓✓ consumers buy less with the same amount of money ✓✓
- **Increase in poverty levels** ✓✓ money is worth less than before, unable to satisfy basic needs as in the past ✓✓
- **Inflation effects the distribution of income and wealth:** ✓✓ People whose monetary income grows more slowly than the increase in the general level of prices such as interest and rental, are affected negatively ✓✓ Disadvantaged people dependent on fixed income ✓✓ pensioners hit hard by inflation ✓✓
- **Psychological influence** ✓✓ consumers would like to spend now before of the fear that higher prices in future will decrease the buying power of their money ✓✓
- **Negative influence on savings** ✓✓ people who lend money will be affected by high inflation rates ✓✓ if interest rate received is lower the inflation rate, then the real value of money will decrease ✓✓
- **Increased unemployment** ✓✓ higher prices will result in decrease in demand which decrease production levels which will increase unemployment ✓✓
- **Balance of payments problems** ✓✓ increased inflation rate will lead result in South Africa finding it difficult to sell products on international markets ✓✓ exports will decrease and shortages will occur on balance of payments ✓✓
- **Increase in tax income for government** ✓✓ more personal income tax payable to state due to higher salaries caused by inflation ✓✓
- **Inflation impacts negatively on economic growth** ✓✓ Inflation deprives the monetary unit of its function as a reliable measure of value ✓✓ The result is that confidence, stability and certainty are undermined over time ✓✓
- **Benefits debtors to the disadvantage of creditors** ✓✓ Debtors are favoured at the cost of creditors ✓✓ The original debt was incurred when money had a higher real value, but is repaid in money with a lower real value ✓✓
- **Stimulates investments** ✓✓ People who invest in negotiable instruments and securities, shares, etc., often benefit from inflation ✓✓ This is because the value of their paper investment may increase more rapidly than the rate of inflation ✓✓
- **Bring about social and political costs that can be devastating / Industrial and social unrest** ✓✓ Continuously rising prices can make people unhappy and distrustful of one another ✓✓
- Wage bargaining is often accompanied by strikes and mass actions ✓✓ These actions can spill over into violence ✓✓
- **Feeds upon itself and brings about more inflation** ✓✓ Inflation spiral, since people expect inflation to continue, they do things that fuel further inflation = hyperinflation ✓✓

CONCLUSION

From the above explanation it is clear which factors are influencing demand pull inflation, and besides the fiscal policy, there are other measures to combat inflation.
(Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

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(Max 5 marks)

[50]

TOTAL SECTION C: 100
GRAND TOTAL: 300