



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2013

ECONOMICS

Time: 3 hours

300 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 12 pages. Please check that your question paper is complete.
 2. Read the questions carefully.
 3. All questions are **COMPULSORY**. Answer SIX questions as follows:

ONE compulsory question from SECTION A;
FOUR compulsory questions from SECTION B; and
ONE compulsory question from SECTION C.
 4. Answer SECTION A on the inside front cover of the Answer Book provided and SECTIONS B and C in the Answer Book.
 5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.
 6. Number the answers exactly as the questions are numbered.
 7. Leave single line spaces open between answers. Start each question on a new page.
 8. It is in your best interest to write legibly and to present your work neatly.
 9. Non-programmable calculators may be used.
 10. Answer all questions in blue or black ink. Only sketches or diagrams may be done in pencil.
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SECTION A

QUESTION 1 MULTIPLE CHOICE

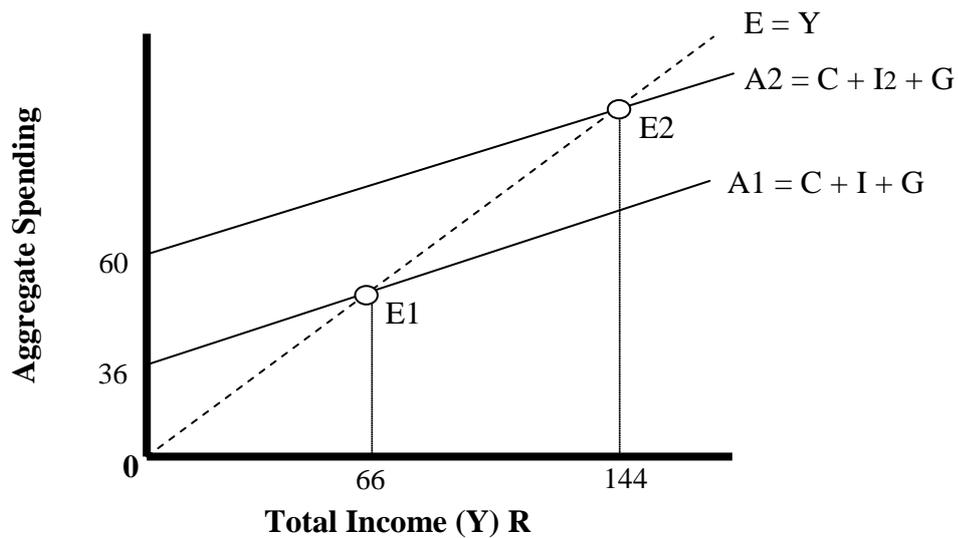
Choose the most correct answer.

1.1 Which combination of factors best explains why the growth in real GDP per capita has limitations in reflecting changes in living standards?

- (i) It gives no indication of the distribution of income.
- (ii) It does not take into account the rate of population growth.
- (iii) It does not take into account the rate of inflation.
- (iv) It does not reflect the average age of the population.

- A (i), (iii)
- B (i), (ii)
- C (ii), (iv)
- D All of the above

1.2 Graph 1: Multiplier



The multiplier for this graph is:

- A 3.25
- B 0.3
- C 2.8
- D 2

1.3 Table 1: Real and nominal GDP figures for Country X

Year	Nominal GDP	Real GDP	CPI
2010	1 539 253	1 115 875	137.9
2011	1 726 688	1 171 508	147.4

The economic growth rate for Country X for 2011 is ...

- A 4.5%
- B 12.2%
- C 3.3%
- D 5%

1.4 Which of the following statements describes a free floating exchange rate system?

- A If the value of the currency rises we say that there has been a revaluation of the currency and if it falls we say there has been a devaluation of the currency.
- B Where the value of the currency is determined solely by the demand for and supply of the currency on the foreign exchange market.
- C South Africa is an example of a country that has a free floating exchange rate system.
- D All of the above

1.5 If you went shopping in India, which currency would you need?

- A Dinar
- B Rupee
- C Renminbi
- D Dollar

1.6 Which of the following statements associated with deflation is correct?

- A A falling rate of inflation.
- B When there is deflation businesses make higher profits.
- C When there is deflation unemployment can become a problem.
- D When there is deflation, debtors are better off because the value of their debt decreases.

1.7 The DAX is the stock exchange of this country.

- A Vietnam
- B France
- C Germany
- D Japan

1.8 Which of the following is NOT one of South Africa's macro-economic objectives?

- A High standard of living
- B Price stability
- C Balance of payments equilibrium
- D Low unemployment rate

- 1.9 A redistribution of income away from the poorest 10% of society towards the richest 10% of society will move the Lorenz curve ...
- A closer to the 45 degree line and increase the Gini Coefficient.
 - B closer to the 45 degree line and decrease the Gini Coefficient.
 - C further from the 45 degree line and increase the Gini Coefficient.
 - D further from the 45 degree line and decrease the Gini Coefficient.
- 1.10 If an economy is in a recession, the government might be encouraged to ...
- A increase interest rates, increase government spending, decrease taxes.
 - B increase interest rates, decrease government spending, increase taxes.
 - C decrease interest rates, increase government spending, decrease taxes.
 - D decrease interest rates, decrease government spending, increase taxes.
- 1.11 Which of the following statements about a policy of export promotion is TRUE?
- A It is an outward-oriented growth strategy based on openness and increased international trade.
 - B The success of the countries known as the 'Asian Tigers' is usually used to illustrate the effectiveness of such a strategy.
 - C The country concentrates on producing and exporting products in which it has a comparative advantage of production.
 - D All of the above.
- 1.12 In order to convert GDP figures to GNP figures, one has to adjust the GDP figures by ...
- A adding primary income receipts and subtracting primary income payments.
 - B subtracting primary income receipts and adding primary income payments.
 - C adding net primary income payments to the rest of the world.
 - D multiplying it by the GDP deflator.
- 1.13 Which economic concept refers to government removing restrictions and barriers so that small to medium size businesses can also get the opportunity to enter new markets?
- A Deregulation
 - B Nationalisation
 - C Privatisation
 - D Demutualisation
- 1.14 The price elasticity of supply for oil is 1.5. If the price of oil rises by 20%, the quantity of oil supplied will increase by ...
- A 13%
 - B 30%
 - C 67%
 - D 150%

- 1.15 The demand for a product is more price inelastic if ...
- A it is a luxury good.
 - B its price is higher.
 - C the percentage of income spent on it is larger.
 - D it has no close substitutes.
- 1.16 Which of the following statements is/are correct?
- (i) Merchandise exports, net gold exports and merchandise imports together constitute the trade balance account.
 - (ii) The change in net gold and other foreign reserves account is the balancing item in the balance of payments account.
 - (iii) The balance of payments is based on the principles of double-entry bookkeeping.
 - (iv) The current account plus financial account plus unrecorded transactions equals the change in net gold and other foreign reserves.
- A (ii), (iii)
 - B (i), (ii), (iv)
 - C (i), (ii), (iii)
 - D All of the above
- 1.17 What portfolio does the person below hold in the national government of South Africa?



- A Minister of Trade and Industry
- B Minister of Economic Development
- C Minister of Economic Affairs
- D Minister of Public Enterprises

51 marks

Maximum: 50

SECTION B**QUESTION 2 MACRO ECONOMICS**

2.1 Read the following article and answer the questions that follow:

Spending is the backbone of an economy. It is the horsepower behind the engine of economic growth – the higher the spending in an economy, the higher economic growth will be. For consumers, the goal is to increase their spending on the things they want most. The goal of companies is to attract as much spending towards their good or service as possible. The goal of the investors (specifically capital investors) is to direct spending in a way that maximises their future spending. Government's role is to help maximise the total amount of spending in the economy and ensure that it is evenly distributed across people and time.

... Spending also multiplies itself throughout an economy, meaning that one party's spending can cause increased spending for others. This process of passing on spending cannot carry on indefinitely. At each stage, withdrawals of savings, tax and imports will reduce money spent on South African producers, removing money from the spending cycle.

[Extracts from an article by Pierre Heistein in the *Business Report*, 3 February 2011]

- 2.1.1 Define the term 'economic growth'. (4)
- 2.1.2 Why is spending described as 'the backbone of an economy'? (4)
- 2.1.3 Explain how $T + S + M = G + I + X$ in the circular flow model. (14)
- 2.1.4 Using **an example**, discuss how spending 'multiplies itself throughout an economy'. (8)

2.2 'The surplus on the financial account of the South African balance of payments is often greater than the deficit on the current account, which restores equilibrium on the balance of payments.'

Discuss the elements of the financial account and **suggest** how South Africa can ensure that more money is coming into the country than leaving the country. (20)

[50]

QUESTION 3 MICRO ECONOMICS3.1 Table 2: Cost and Revenue data for a **monopoly**

Quantity	Price	Total Revenue	Average Revenue	Total Cost	Marginal Cost	Average Cost	Profit
0	16	0	16	10	–	–	–10
1	14	14	14	12	2	12	2
2	A	24	12	13	1	6.5	11
3	10	30	10	17	4	5.66	13
4	8	B	8	22	5	5.5	10
5	6	30	6	30	8	6	0
6	4	24	4	39	9	D	E
7	2	14	2	49	10	7	–35
8	0	0	0	64	C	8	–64

3.1.1 Calculate the values of A – E. (5)

3.1.2 Identify the revenue-maximising output. (1)

3.1.3 At what level of output is this firm making a normal profit? (2)

3.2 Use a **table** to compare the characteristics of monopolistic competition and a monopoly. (10)

3.3 The income elasticity of demand for Spa treatments (such as facials, massages and pedicures), DVD movie rentals, and Pick n Pay supermarket clothing have been estimated to be +2.5, + 0.8, and –1.5 respectively.

Write a response interpreting these coefficients for income elasticity. (12)

3.4 'Market failure occurs when individuals' (consumers or producers) pursuit of self-interest leads to a situation where resources are allocated in ways that do not maximise national living standards and the economic welfare of all members of society. The belief that markets can 'fail', that is, that markets may have inefficient outcomes, was used as a common justification for government intervention in markets.'

Discuss **THREE** causes of market failure and outline what the government can do about each one. (20)

[50]

QUESTION 4 ECONOMIC PURSUITS

4.1 Define the term 'economic development'. (2)

4.2 Table 3: Economic and Social Indicators

Country	GDP growth (%)	Debt to GDP (%)	HDI rating	GDP per capita (\$)	Unemployment (%)
South Africa	2.9	33.5	0.658	10 700	25.2
Canada	2.2	31.7	0.908	40 541	7.3
China	8.1	N/A	0.687	8 400	4.1
Germany	1.7	53.2	0.905	43 742	6.8
Egypt	5.2	85.7	0.659	6 200	12.4

[Source: CIA World Factbook, 2011]

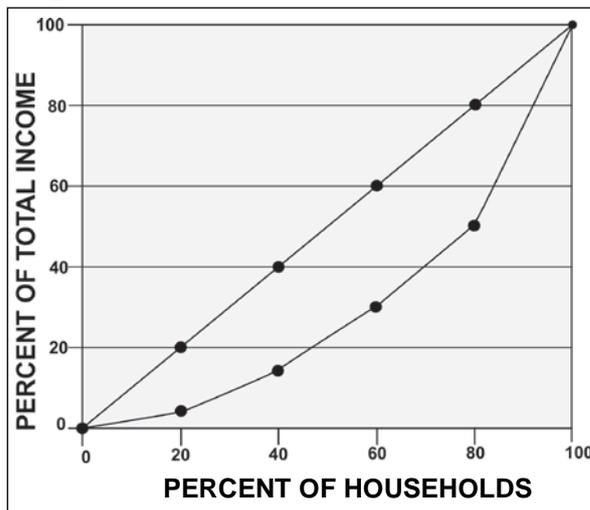
Use the information above to answer the questions that follow:

4.2.1 Identify two countries in the above table that are considered developing countries. Give ONE reason for your answer. (4)

4.2.2 Explain the debt to GDP indicator of South Africa. (2)

4.2.3 If you had to leave South Africa to go and live in another country and your main concern was standard of living, which country would you choose to go to? Explain which indicators you would use to help you make your decision. (8)

4.3 Graph 2



[Source: Google images]

4.3.1 What is the above graph depicting? (2)

4.3.2 Discuss THREE characteristics of a **developing** country. (12)

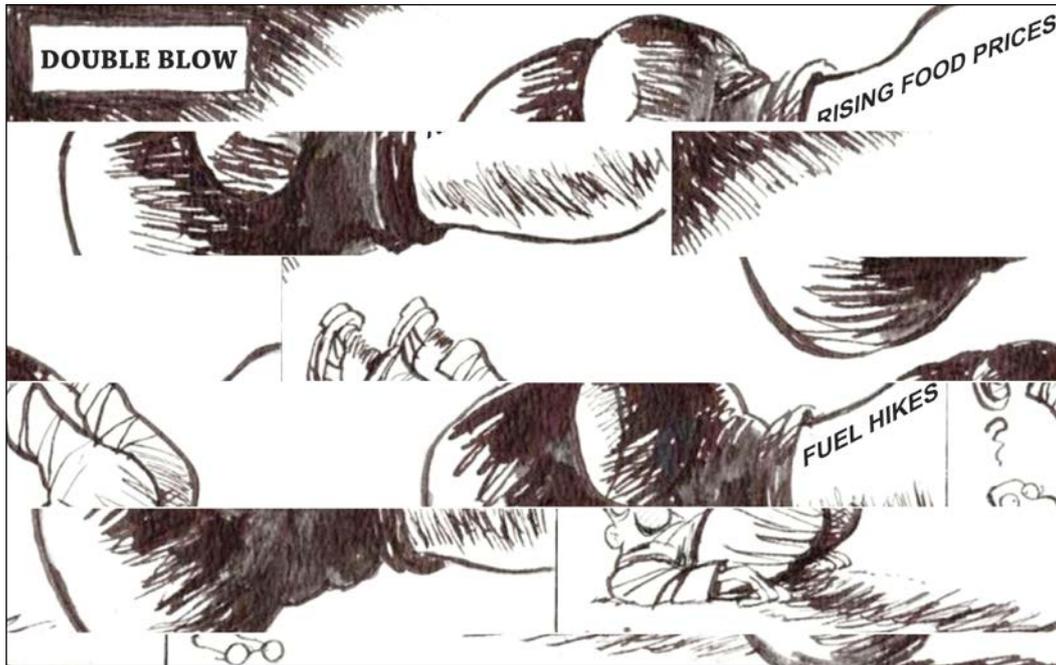
4.4 'Resources cannot be shifted instantly and without costs between industries. When an economy is opened up to international trade, unemployment and bankruptcy are inevitable.'

Discuss FOUR arguments in favour of protectionism. (20)

[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1



[Source: *The Witness*, 4 September 2012]

5.1.1 'When inflation occurs in a country there are always winners and losers.'

Assess who would be the 'losers' in South Africa if inflation was too high and give reasons why. (8)

5.1.2 **Evaluate** how the South African government can use monetary and fiscal policies to **combat high inflation**. (14)

5.1.3 Explain the concept 'inflation targeting' in South Africa. (4)

5.2 Draw and label a typical business cycle and indicate on the cycle where you think South Africa is currently. Give **TWO** reasons for your decision. (10)

5.3 Using only a diagram illustrate the increase in the supply of the US dollar on the South African exchange rate market and its effect on the Rand/Dollar exchange rate. Has the Rand appreciated or depreciated? (8)

5.4 Fill in the missing information from A to F.

SDI	Where is it located?	Main industries
Wild Coast SDI	A	B
Platinum SDI	C	D
Coast 2 Coast Corridor	E	F

(6)
[50]

200 marks

SECTION C**QUESTION 6 DATA RESPONSE**

Study the following information and answer the questions that follow.

Article 1

More than a century and a half after its discovery, oil continues to play an essential role in the global economy, despite fears that reliance on petroleum is fuelling rapid climate change. Over the last decade, the price of oil has taken a roller coaster ride, usually in a cyclical pattern that is in sync with the global economy. A strong economy tends to increase the **demand** for oil and drive up the price, while a weak economy generally has the opposite effect. ... and the surge in gas prices in 2012 raised fears that it might damage the still-vulnerable economic recovery. Oil consumption has dropped more than 5 percent since 2005, while natural gas use has risen 10 percent.

[Source: <www.nytimes.com> 13 June 2012]

Article 2

Total CEO: OPEC can prevent oil-price drop

Total SA's Chairman and Chief Executive Christophe de Margerie said he expects OPEC to act to avert a slide in oil prices when oil ministers meet next week in Vienna, underscoring the energy major's concerns about the sharp drop in crude. "OPEC has all the means to prevent (crude) oil prices falling too low," Mr de Margerie said ... With Europe facing a major economic crisis that threatens to engulf the European single currency, and with the latest data casting doubt on the strength of the US economic recovery, it is unlikely that OPEC will announce any plans to cut production to boost the crude oil prices. Saudi Arabia, the world's largest oil producer and OPEC's eminent member, has already substantially increased its production to compensate for the drop in output resulting from the implementation of an embargo against Iran, another OPEC member, which will come in full force on 1 July. The Saudi's move created a temporary oversupply of the market which should be reabsorbed as geopolitical tensions remain acute, he said, in a reference to the sanctions against Iran and the civil unrest in Syria which forced the French major to stop production there earlier this year.

[Source: <www.hellenicshippingnews.com> 13 June 2012]

Graph 3: World oil price 2007 – 2012



- 6.1 Define the following terms:
 - 6.1.1 Equilibrium price (2)
 - 6.1.2 Global economy (2)
- 6.2 Use **only a graph** to explain what will happen to the price of oil if there is an increase in the economic growth rate in the major economies of the world. (6)
- 6.3 'In July 2008 the oil price peaked at \$145 per barrel.'
Assess what effect a repeat of this high price would have on the South African economy. (10)
- 6.4 'OPEC has all the means to prevent (crude) oil prices falling too low.' (Article 2)
 - 6.4.1 What does the acronym OPEC stand for? (2)
 - 6.4.2 Besides the countries mentioned in Article 2 above, name **TWO other** members of OPEC. (2)
 - 6.4.3 Use a graph and an explanation to **predict** what OPEC might do to drive up the price of oil, so that they can be more profitable. (12)

6.5 'The demand for fuel is relatively inelastic in the short term but relatively elastic in the long term.'

Discuss this statement. (10)

6.6 'OPEC is considered to be an example of a cartel.'

Define the term cartel. (4)

[50]

50 marks

Total: 300 marks