



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2014

## ECONOMICS

### MARKING GUIDELINES

Time: 3 hours

300 marks

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**These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.**

**The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.**

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**SECTION A            MULTIPLE CHOICE****QUESTION 1**

- |    |      |   |     |
|----|------|---|-----|
| 1. | 1.1  | D | (3) |
|    | 1.2  | A | (3) |
|    | 1.3  | A | (3) |
|    | 1.4  | C | (3) |
|    | 1.5  | B | (3) |
|    | 1.6  | B | (3) |
|    | 1.7  | C | (3) |
|    | 1.8  | C | (3) |
|    | 1.9  | A | (3) |
|    | 1.10 | A | (3) |
|    | 1.11 | D | (3) |
|    | 1.12 | C | (3) |
|    | 1.13 | B | (3) |
|    | 1.14 | D | (3) |
|    | 1.15 | C | (3) |
|    | 1.16 | B | (3) |
|    | 1.17 | D | (3) |

<b>51 marks</b>
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**Maximum: 50**

**SECTION B**

**QUESTION 2 MACRO ECONOMICS**

2.1 2.1.1 It tells the government the amount by which it can expect the value of the equilibrium level of output to change for any change in the level of injections. It is the number of times a rise in national income exceeds the rise in injections of demand that caused it.  
Any other reasonable explanation. (2)

2.1.2  $M = 1/1 - 0.7 = 1/0.3 = 3.33$  (4)

2.1.3  $3.33 \times R400 \text{ mill} = R1\ 332 \text{ mill}$  or  $R1\ 333 \text{ mill}$  (allocate full marks if incorrect multiplier (from Q2.1.2) has been used and calculation is correct)  
Allocate marks if candidate has said  $R1\ 333 \text{ mill} - R400 \text{ mill} = R933 \text{ mill}$  (3)

2.2 2.2.1 1 777 444 (2)

2.2.2  $(2\ 911\ 356/104) \times 100 = 2\ 799\ 381$  OR  $2\ 799\ 380.77$  (3)

2.2.3  $[(3\ 000\ 892 - 2\ 799\ 381) / 2\ 799\ 381 \checkmark] \times 100 = 7.2\%$  (4)  
Full marks if use incorrect RGDP from Q2.2.2

2.3	2.3.1	Current account deficit may occur	<b>B/A</b>
	2.3.2	Pessimism about the future of the economy	<b>D/C</b>
	2.3.3	Investment in capital goods rises	<b>A</b>
	2.3.4	Consumer spending especially on durable goods falls	<b>C/D</b>
	2.3.5	Unemployment rises dramatically	<b>D</b>
	2.3.6	Boom/peak	<b>B</b>
	2.3.7	Unemployment falls	<b>A</b>
	2.3.8	Upswing/recovery	<b>A</b>
	2.3.9	High interest rates	<b>B/C</b>
	2.3.10	Downswing/recession	<b>C</b>
	2.3.11	Inflation is high	<b>B</b>
	2.3.12	Depression	<b>D</b>

A = 3 7 8 or (1)  
B = 1 6 (9) 11  
C = 4 (9) 10 or (2)  
D = 2 5 12 or (4) (12)

2.4 **Expansionary Monetary policy (max 6)**  
Decrease interest rates which will mean more money borrowed, therefore higher demand and more spending. Increase money supply.  
**Expansionary fiscal policy (max 6)**  
Decrease taxes consumers have more disposable income therefore higher demand and more spending. Increase government spending.  
**Evaluation (max 8)**  
High inflation has prevented interest rates from decreasing enough to encourage more borrowing and thus more spending. Government has budgeted to spend billions on infrastructure which should increase government expenditure. At this stage it is more likely that we see an increase in taxes to reduce budget deficit than a decrease in taxes. Growth has been very low – below 3%. One reason is the poor economic growth in the EU which leads to decrease in exports to EU. Interest rates are still reasonably low but consumers are still not spending. Platinum mining strikes in the first half of the year contributed to low economic growth followed by the strikes in the metal workers industry.  
Any other reasonable answer. (20)

**[50]**



**3.5 Externalities plus description plus explain plus government**

Are economic side effects that affect an uninvolved third party, someone not directly involved in the production.

Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on those people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution.

Chemical example Chemicals are overproduced and over consumed

Taxes, subsidies and regulations are the most common ways in which the government chooses to deal with externalities (any  $3 \times 2$  marks, with at least 2 marks for government response) (max 6 marks)

**Merit/demerit goods**

Merit goods are goods that society feels should be consumed by its citizens, e.g. education and healthcare.

People with more education have higher earning potential.

Merit goods are under produced and under consumed under conditions of perfect competition.

Demerit goods are goods that society feels its citizens should not consume, e.g. South Africans are not free to own as many guns as they like.

Demerit goods are overproduced and over consumed.

Therefore under allocation of resources to merit goods and over allocation of resources to demerit goods.

Government can provide merit goods or subsidise the production of merit goods.

Government uses regulations to prohibit the production and consumption of some demerit goods. (any  $3 \times 2$  marks, with at least 2 marks for government response) (max 6 marks)

**Public goods**

The main characteristic is non-excludability This means that if the good or service is produced for one consumer, no other consumer can be prevented from consuming it, e.g. street lighting, defence force. So people will wait and see if someone else pays for it and then just goes ahead and uses it.

It is no wonder then that public goods are under produced by the market system.

Too few consumers are prepared to pay for the good, would rather be free-riders.

Therefore there is under allocation of resources to the production of public goods and the market fails (any  $3 \times 2$  marks, with at least 2 marks for government response) (max 6 marks)

**Imperfect competition**

Monopolies and oligopolies restrict supply in order to maximise profits. Resources are therefore under allocated to the production of goods and services produced under conditions of imperfect competition.

Government can regulate imperfect competition through competition policy. In this way consumers can be protected. (any  $3 \times 2$  marks, with at least 2 marks for government response) (max 6 marks)

**Imperfect Information**

Under conditions of perfect competition, consumers and producers are assumed to have access to all the information that is necessary to enable them to make the most informed decisions about production and consumption.

But in the real world there is asymmetric information, e.g. seller of a used car has more info about the car than the buyer.

In some markets the producer has information about their products that they do not make available to buyers, e.g. in cigarette industry.

Under these conditions cigarettes are over produced and under consumed and allocative efficiency is generally not achieved.

Government can require the disclosure of information to consumers, shareholders. They can also impose standards that products have to meet. Establish codes of professional ethics, licensing requirements. (any 3 x 2 marks, with at least 2 marks for government response) (max 6 marks)

**Unequal distribution of income**

Unequal distribution of income is caused by the fact that some people are born to wealthy parents and have access to a good education and others not. Therefore people vary in their skill levels and their ability to produce output. Unequal distribution of income is viewed as a market failure. The market fails to ensure that everyone gets equal access to the output of the economy. Too many of the resources are used to produce output for the rich and too few for the poor. In the South African economy, a few people are very well off while 50% of the population lives in poverty.

Government needs to create equal opportunities. Might have to resort to redistribution. (any 3 × 2 marks, with at least 2 marks for government response) (max 6 marks)

**Immobility of factors of production**

Most markets cannot adjust to changes in demand and supply.

Difficult for labour to move between careers and geographic areas.

Faster technological changes require workers to adapt faster to skills changes.

It is difficult for capital (infrastructure) to quickly adapt to changes – state planning thus is vital. (any 3 × 2 marks, with at least 2 marks for government response) (max 6 marks)

**Barriers to entry**

When laws and regulations are put in place to exclude firms from entering the market.

For example, in SA Eskom is the only supplier of power.

Government could relax the laws and grant more licences to allow more role players to enter the market.

**Price discrimination**

When different consumers are charged different prices for the same product or service

(18)  
[50]

**QUESTION 4 ECONOMIC PURSUITS**

- 4.1 Data/statistical measure of an aspect of the economy. Shows how the economy is performing in a certain area. (2)
- 4.2 4.2.1 An increase in the productive capacity of an economy from one time period to the next or increase in real GDP (2)
- 4.2.2 Using the change in REAL GDP from one time period to the next OR give formulae:  $\frac{\text{Real GDP Y2} - \text{Real GDP Y1}}{\text{Real GDP Y1}} \times 100$  (2)
- 4.2.3 South Africa has a much higher unemployment rate. South Africa's unemployment rate is one of the highest in the world. (2)
- 4.2.4 Inflation targeting range is between 3-6% (compulsory to earn full marks) The SARB, and MPC monitors the inflation rate and if inflation rate goes over 6%, Gill Marcus will increase interest rates Any other reasonable answer. (4)
- 4.2.5 Stagflation is a situation where there is high inflation along with low economic growth and high unemployment. (max 2 for definition) South Africa has major structural issues re labour and growth but still has some leeway to drop interest rates Inflation is a threat as it is on the edge of the target and could easily jump out going forward. The depreciating Rand could be a threat in this regard Recent trends show growth down, unemployment up and inflation up so a stagflation threat is a risk, especially if growth falls further/goes into the negative Decrease in foreign investment is also a threat. Mining sector strikes caused slow-down in growth in first half of the year. (max 10) Refers to unemployment, inflation, economic growth figures in table (max 3) Any other reasonable answers. (10)
- 4.3 4.3.1 What is HDI (max 2 marks). Explanation of statistic (can get 4 marks) HDI is an indication of the ability of people to live a long and healthy life, to communicate and to have sufficient means to afford a decent living, i.e. measures standard of living. Takes into account GDP per capita, literacy rates and life expectancy. The closer to 1 the HDI is, the better the standard of living the population have. South Africa is currently ranked 121<sup>st</sup> out of about 186 countries. Nearly half of the South African population live in poverty. (max 4) Any other reasonable answer. (4)
- 4.3.2 What is Gini co-efficient (max 2 marks). Explanation of statistic (can get 4 marks) Gini co-efficient measures how unequal/equal the distribution of income is in a country. 0 is very equal and 1 is very unequal. South Africa has a very big gap between the very rich and the very poor. (4)

- 4.4 Restrictions on trade include tariffs, quotas and exchange controls. (any 2 × 1 mark) They are intended to raise the price or restrict the quantity of imports. (max 4)

**Disadvantages** of restrictions (protectionism)

The case against restrictions is that they prevent the benefits of free trade, lower living standards, reduce choice, lower employment and may provoke retaliation, inefficiency in production. Any other reasonable answer. (max 4 × 2 = 8)

**Advantages** (max 8)

Prevent unemployment Keep local producers in business by eliminating competition thus preserving jobs (max 4)

Stops unfair strategic efforts by international firms to flood the local market with cheap goods, i.e. dumping thus causing local producers who cannot compete to go out of business (max 4)

Protection of infant industries – Newly established industries find it almost impossible to compete with the cheaper cost of production of long established firms in developed countries (max 4)

Improve balance of payments position Limits the amount of money leaving the country hence leading to a more favourable balance of payments position (max 4)

To guard against over reliance on other countries for strategic goods

Prevents a situation where the country is reliant on another country for strategic goods like food and weapons (max 4)

Revenue for the state through tariffs (max 4)

(20)

Also accept (4 x 2 marks)

**[50]**

**QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS**

- 5.1 5.1.1 Producer (or production) price index (2)

5.1.2 CPI pertains to cost of living and indicates by how much prices in general have gone up.

PPI pertains to cost of production. Price of goods as they leave the factory gates. (4)

- 5.2 Food inflation is often higher than headline inflation in South Africa There are many poor people in South Africa who either don't earn an income or who earn very little. They spend most of their income on food.

When food inflation is high it means they can buy less food than before

Wage increases are often based on headline inflation and so, even with an increase in income, people are no better off

Any other reasonable answer. (10)

- 5.3 5.3.1 Excessive inflation, extremely rapid increase in the price of goods and services, inflation that is out of control.  
Inflation that is 50% or more  
Accept any other relevant definition. (2)
- 5.3.2 Deflation (2)
- 5.3.3 Businesses find it almost impossible to survive.  
They produce goods and services but by the time they sell them the prices are too low to recover the costs of production.  
Businesses have to lay off workers or cut salaries and wages.  
Therefore creates unemployment South Africa can't afford more unemployment.  
Deflation in South Africa would result in a drop in total production and income Not good for an economy that already has a growth rate that is too low.  
Borrowers are adversely affected – deflation continuously increases the real value of debt. (any 5 × 2 marks) (10)

5.4

Criteria	Monopolistic competition	Monopoly
1. Number of firms	Many ✓	One ✓
2. Nature of the product	heterogeneous/ differentiated ✓	Unique product ✓
3. Entry into the market	Free ✓	Completely blocked ✓
4. Access to information	Incomplete ✓	Complete ✓
5. Firms control over the price	Some control over the price ✓	Considerable control over the price ✓
6. Economic profit	-----	Economic profit in the long and short term ✓

(any 4 × 2 marks) (8)

- 5.5 5.5.1 Oligopoly (2)
- 5.5.2 Oligopolists do not compete with each other on price because price wars will not benefit them.  
Non-price competition builds brand loyalty and product recognition, e.g. after sales service, loyalty rewards.  
They compete with each other on product differentiation where they make their product slightly different from the others  
Advertising: oligopoly firms advertise their products heavily, e.g. Vodacom, MTN and Cell C are constantly advertising.  
Product proliferation – Each business (Vodacom, MTN, etc.) produces a range of products to cater for as many different markets as possible.  
Packaging can also play an important role in non-price competition.  
Consumers will tend to buy the product with the more attractive packaging. (any 4 × 2 marks) (8)

- 5.6 To stop monopoly and oligopoly from using their market power to maximise their economic profits at the expense of consumers. ✓  
To ensure that firms do not merge to exercise market power ✓  
To stop firms from colluding and fixing prices (any 2)  
Any other reasonable answer. (2)

[50]

**200 marks**

**SECTION C****QUESTION 6 DATA RESPONSE**

- 6.1 Study the table below and answer the questions that follow:
- 6.1.1 One currency expressed in terms of another. (2)
- 6.1.2 218 (2)
- 6.1.3 India. R1 can buy more Indian Rupees than any other currency (5.66). It would be the cheapest place to visit. (4)
- 6.2 Labour strikes in South Africa Investors are nervous to invest in South Africa  
As a result of the strikes output has been reduced which means that there will be less to export. Concerns that the global economy is slowing down is affecting investor confidence in SA Disappointing data out of USA and Europe has caused a decrease in commodity prices which has negatively affected South Africa's income from its mining industry. SA is very dependent on demand from China for its resources. Thus, if China is not growing as quickly it will negatively affect the demand for SA resources (any  $6 \times 2$  marks)  
Marks allocated to responses that don't come specifically from sources given.  
Any other reasonable answer. (12)
- 6.3 6.3.1 Congress of South African trade unions (2)
- 6.3.2 Most of South Africa's resources are owned by the wealthy elite who are also predominantly white. The gap between the rich and the poor is getting wider and many South Africans are living in poverty. Workers/ labourers who are barely able to make ends meet on their salaries, are tired of working hard to create wealth for the elite. Any other reasonable answer. (6)
- 6.4 6.4.1 Inverse relationship between inflation and unemployment. If unemployment decreases then inflation will increase. (2)
- 6.4.2 An increase in aggregate demand will lead to an increase in production and a higher economic growth rate. This will lead to firms employing more people and unemployment decreasing. This increase in AD will also lead to an increase in prices which results in inflation. Less unemployment also means workers can demand higher wages. Therefore, there is less unemployment but higher inflation. (8)
- 6.5 6.5.1 Depreciate (2)
- 6.5.2 Answers must be specific about why South Africans are demanding dollars (no marks for saying 'increase in demand for dollars')  
An increase in the number/value of capital goods purchased from America by South African firms, due to an increase in the level of production in South Africa.  
An increase in the number/value of imported consumer goods purchased from America by South African households due to an increase in their disposable income.  
An increase in capital outflows as South Africans buy more American financial assets.  
South Africans going on holiday/business to America  
South Africans buying dollars for currency speculation ( $2 \times 2$  marks) (4)

- 6.6 6.6.1  $124\,332 + 71\,050 - 31\,369 - 842\,775 + 48\,501 - 145\,006 + 696\,180 - 118\,508 = -197\,595$  –1 mark for each incorrect figure (4)
- 6.6.2 Deficit on current account. This means more money is leaving South Africa than coming into the country. (2)

<b>50 marks</b>
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**Total: 300 marks**