



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2015

## ECONOMICS

Time: 3 hours

300 marks

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### PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 15 pages. Please check that your question paper is complete.
  2. Read the questions carefully.
  3. All questions are **COMPULSORY**.
  4. Answer SECTION A on the inside front cover of the Answer Book provided and SECTION 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 your answers exactly as the questions are numbered.
  7. Please leave lines open between answers.
  8. It is in your best interest to write legibly and to present your work neatly.
  9. Non-programmable calculators may be used.
  10. Please do not **write** in pencil as work in pencil will not be marked. However, any sketches or diagrams may be done in pencil.
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**SECTION A****QUESTION 1**

**Select the correct alternative and indicate the answer by making a cross (X) in the column over the corresponding letter on the inside front cover of your Answer Book.**

- 1.1 Which one of the following is classified as an economic resource?
- A Consumption
  - B Productivity
  - C Production
  - D Entrepreneurship
- (2)
- 1.2 A business cycle refers to the ...
- A changes in the level of economic activity.
  - B upswing in economic activity.
  - C downswing in economic activity.
  - D changes in prices.
- (2)
- 1.3 Raising revenue by taxation is part of the ... policy.
- A Monetary
  - B Fiscal
  - C Supply Side
  - D None of the above
- (2)
- 1.4 Cross-price elasticity of demand is defined as the ...
- A responsiveness of the price of one good to a change in demand for another.
  - B responsiveness of demand for one good to a change in demand for another.
  - C responsiveness of demand for one good to a change in the price of another.
  - D responsiveness of the price of one good to a change in the price of another.
- (2)
- 1.5 The price elasticity of supply of bananas:
- A depends on the level of consumer income.
  - B depends on whether they are a luxury or a necessity.
  - C is normally negative rather than positive.
  - D is likely to be greater the longer the period of time under consideration.
- (2)
- 1.6 Total utility ... as more units are consumed.
- A increases at a constant rate
  - B increases at a decreasing rate
  - C increases at an increasing rate
  - D decreases
- (2)

- 1.7 Which one of the following is the government's largest source of revenue in South Africa?
- A Taxes on income and wealth
  - B Taxes on goods and services
  - C The money received from privatisation
  - D Income from state-owned enterprises
- (2)
- 1.8 Which one of the following acronyms is NOT a South African economic development policy?
- A MPC
  - B NGP
  - C RDP
  - D ASGISA
- (2)
- 1.9 This country is South Africa's biggest individual trading partner.
- A Germany
  - B Great Britain
  - C Japan
  - D China
- (2)
- 1.10 The Phillips curve shows the relationship between the ...
- A nominal interest rate and the real interest rate.
  - B real interest rate and the unemployment rate.
  - C unemployment rate and the inflation rate.
  - D expected rate of inflation and the nominal interest rate.
- (2)
- 1.11 Which one of the following statements about a merit good is true?
- A It may be provided by the free market, but not in sufficient quantities.
  - B Once the good has been supplied to one consumer there is no extra cost in supplying it to others.
  - C It is always provided free of charge to consumers.
  - D It tends to be provided by the government because it is non-excludable.
- (3)
- 1.12 Which one of the following is most likely to increase the demand for the US dollar on the South African foreign exchange market?
- A A fall in the interest rates in the USA.
  - B An expected decline in the value of the rand relative to the dollar.
  - C A recession in South Africa.
  - D A decrease in international tourism.
- (3)

1.13 If the rand depreciates against the dollar:

- A South African export prices in dollar terms will increase.
- B the rand price of South African imports will decrease.
- C the balance on the current account of the South African balance of payments should improve.
- D the South African rate of inflation will decrease. (3)

1.14 The income elasticity of demand for a good is  $-3$ . Which one of the following statements is correct?

- A A 20% increase in income leads to a 60% fall in quantity demanded.
- B A 10% increase in price leads to a 30% fall in quantity demanded.
- C The good is a normal good.
- D Demand for the good is income inelastic. (3)

1.15 Which combination of example and policy, **A**, **B**, **C** or **D**, is most likely to be consistent with the source of market failure identified?

**Table 1**

	Source of market failure	Example of market failure	Policy to correct market failure
A	Missing market	Health care	State provision
B	Positive externality	Education	Minimum price
C	Merit good	Petrol	Indirect taxation
D	Negative externality	Coal-fired power station	Pollution permit

(3)

1.16 **Table 2: Balance of Payments**

Item	Amount (R-billion)
Balance on current account	– 68 416
Net direct investments	– 33 538
Capital transfer account	60
Net portfolio investments	47 575
Net other investments	66 897

[Source: <SARB Quarterly Bulletin 2014>]

The balance on the financial account is ...

- A R 12 578 billion
- B R 80 994 billion
- C R 80 934 billion
- D R 12 518 billion (3)

- 1.17 'The USA has a higher GDP per capita than Iceland, but a lower Human Development Index ranking than Iceland.' This means that:
- A Average family size is higher in Iceland.
  - B Life expectancy is higher in Iceland.
  - C School enrolments are higher in the USA.
  - D The population of the USA is larger. (3)
- 1.18 Which one of the following is most likely to be an example of a supply-side policy in South Africa?
- A A reduction in the rate of interest to reduce inflation.
  - B An increase in government expenditure on state pensions.
  - C A reduction in company taxes to encourage greater investment.
  - D Buying of foreign reserves which leads to depreciation of the rand. (3)
- 1.19 Restricting entry into an occupation will ... supply into that occupation and ... wages.
- A increase; increase
  - B increase; decrease
  - C decrease; increase
  - D decrease; decrease (3)
- 1.20 Inflation in an economy is currently at 10%. Which of the following changes in monetary and fiscal policy, **A**, **B**, **C** or **D**, is most likely to reduce the rate of inflation in the economy?

**Table 3**

	<b>Interest rates</b>	<b>Government expenditure</b>	<b>Taxation revenue</b>
A	Increase	Increase	Decrease
B	Decrease	Decrease	Increase
C	Increase	Decrease	Increase
D	Decrease	Increase	Increase

(3)

<b>50 marks</b>
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**SECTION B****QUESTION 2      MACRO ECONOMICS**

2.1 Study Table 4 below and answer the questions that follow.

**Table 4: National account figures 2013 at current prices**

Item	R-million
Taxes on products	373 564
Operating surpluses	1 045 002
Compensation of employees	1 610 646
Primary payments to the rest of the world	157 229
Other subsidies on production	7 503
Consumption of fixed capital	461 065
Other taxes on production	63 752
Primary payments from the rest of the world	64 441
Subsidies on products	12 199

[Source: <SARB Quarterly Bulletin>]

2.1.1 Which method of calculating the national accounts is used in Table 4? (2)

2.1.2 Explain the difference between GDP at Current Prices and GDP at constant prices. In your answer indicate which method economists find more useful. (4)

2.1.3 Calculate the GDP at market prices for 2013. Show all calculations. (6)

2.2 **'Government spending can initiate a powerful stimulus to an economy through the multiplier process. The size of the multiplier is, however, smaller in open economies.'**

2.2.1 Define the economic term 'multiplier'. (2)

2.2.2 Why is the size of the multiplier smaller in open economies? (2)

2.2.3 Using a relevant example of government spending, analyse the possible impact of the multiplier process on an economy's **unemployment rate** and **economic growth**. (6)

**2.3 'For an economy to recover from a recession there is a need to encourage spending, ideally by businesses but also by households in the short term.'**

2.3.1 Define the economic term 'recession'. (2)

2.3.2 Briefly explain THREE characteristics of a recession. (6)

2.3.3 **Evaluate**, within the context of the text above, how interest rates can be used to bring about a recovery from a recession in an economy. (8)

**2.4 'In recent years, SA's trade balance has continued to worsen despite a fall in the value of the rand.'**

2.4.1 Describe the economic term 'trade balance deficit'. (2)

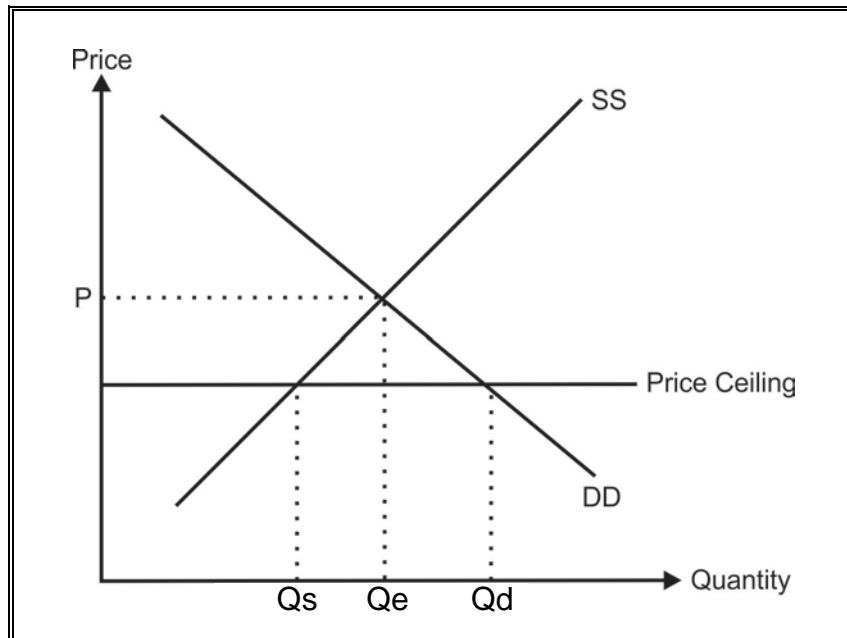
2.4.2 Explain what effect 'a fall in the value of the rand' would have on the trade balance. (4)

2.4.3 Use your knowledge of the South African economy in recent years to discuss THREE reasons for the trade balance continuing to worsen. (6)

**[50]**

**QUESTION 3      MICRO ECONOMICS**

3.1 Study Graph 1 below and answer the question that follows.

**Graph 1**

[Source: <<http://12s63econs.wiki.hci.edu.sg/Group+2>>]

With reference to the graph, analyse TWO economic consequences of **maximum prices**.

(4)

3.2 **'Market failure occurs when the market system is unable to achieve an efficient allocation of resources.'**

Discuss the following causes of market failure:

3.2.1 Imperfect information

(4)

3.2.2 Imperfect competition

(4)

3.3 Use a **table**, as indicated in Table 5 below, to differentiate between market forms.

**Table 5: Market Structures**

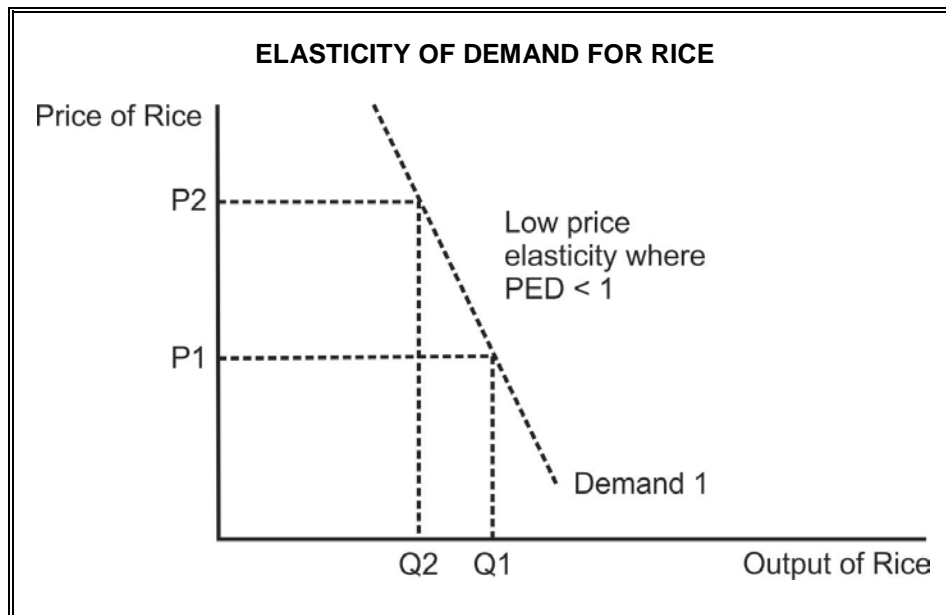
Criteria	Monopolistic competition	Oligopoly	Monopoly
Number of firms			
Entry into market			
Nature of the product			

(9)



3.4 Study Graph 2 below and answer the questions that follow.

**Graph 2**



[Source: <www.tutor2u.net>]

3.4.1 According to the graph, is the demand for rice price elastic or inelastic? (1)

3.4.2 Define the economic term 'Price Elasticity of Demand'. (2)

3.4.3 Discuss in detail TWO factors that influence the price elasticity of demand (PED) for rice. (10)

3.5 **'The foreign exchange market is considered to be a good example of a perfect market.'**



[Source: <WikiProject\_Numismatics\_logo.svg>]

Discuss this statement by comparing the foreign exchange market to FOUR criteria of a perfect market.

(16)

**[50]**

## QUESTION 4 ECONOMIC PURSUITS AND MIXED QUESTIONS

4.1 Study the following cartoon in Source 1 and answer the questions that follow.

### Source 1



[Source: <<http://africartoons.com/cartoon/14855>>]

- 4.1.1 Describe TWO forms of protectionism. (4)
- 4.1.2 With reference to the cartoon above, discuss TWO possible reasons for the EU using trade barriers to protect their economies. (8)
- 4.1.3 Use a diagram ONLY to illustrate the effect that an EU ban on South African citrus imports would have on the price of citrus fruits within the EU. (6)

4.2 Questions 4.2 and 4.3 are based on the cartoon in Source 2 below.

Source 2



[Source: <[http://africartoons.com/sites/default/files/images/20140530\\_miles\\_ddispatch.jpg](http://africartoons.com/sites/default/files/images/20140530_miles_ddispatch.jpg)>]

- 4.2.1 What does the acronym NDP stand for? (1)
- 4.2.2 Name the TWO main aims of the NDP. (4)
- 4.2.3 Explain THREE of the issues identified in the cartoon and **evaluate** how they limit the economic growth of the South African economy. (6)
- 4.3 Briefly explain what the indicators below measure and what the expected change would be if the NDP is a success:
- 4.3.1 GDP per capita
- 4.3.2 Gini co-efficient
- 4.3.3 HDI ranking
- 4.3.4 Under 5 mortality (12)
- 4.4 Using examples and characteristics differentiate between **emerging, developed** and **developing economies**. (9)

[50]

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

5.1 Explain the following concepts:

5.1.1 disinflation (2)

5.1.2 stagflation (2)

5.1.3 PPI (2)

5.2 Discuss **THREE** consequences of inflation. (12)

5.3 **Table 6: South African inflation: December 2014**

Index	Dec 2011	Dec 2012	Dec 2013	Nov 2014	Dec 2014
CPI Headline	94.6	100	105.4	110.5	111.0

5.3.1 Which year is the base year? (2)

5.3.2 Calculate the monthly inflation **and** the yearly inflation for December 2014. Show all calculations. (6)

5.3.3 Based on the yearly inflation rate calculated in Question 5.3.2, do you believe that the South African Reserve Bank should adjust the repo rate? Give a reason for your answer. (4)

5.4 **'South Africa looks into introducing a minimum wage into all sectors.'**

5.4.1 Explain TWO reasons for a government introducing a minimum wage. (4)

5.4.2 Use a diagram and a discussion to analyse the impact of a minimum wage on the labour market. (8)

5.4.3 **'An increase in the minimum wage will increase costs for the firms paying below minimum wage, who will then increase their selling price.'**

Explain this statement and briefly **evaluate** the possible effect of this statement.

(8)  
[50]

<b>200 marks</b>
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**SECTION C****QUESTION 6 DATA RESPONSE**

Study the following information and answer the questions that follow.

**Question 6.1 is based on Source 3.**

**Source 3**

[Source: <<http://africartoons.com>>]

- 6.1      6.1.1    Define the economic term 'parastatal'. (2)
- 6.1.2    With reference to **Source 3**, discuss **THREE** advantages and **THREE** disadvantages of privatising parastatals in South Africa. (12)

**Questions 6.2 and 6.3 are based on Source 4.****Source 4****SA growth outlook dims on Eskom woes**

The South African Reserve Bank slashed its growth forecast for this year, saying the country's power crisis was poised to offset the benefit of lower global oil prices on the domestic front. Although the inflation risks had improved as a result of the slump in global crude oil prices, continued concerns remain about the effect of domestic constraints on growth, especially the continuing power crisis.

Load shedding causes untold damage to various industries, including mining and industrial manufacturing.

The bank's forecast for growth in 2015 has been revised down to 2,2% from 2,5% and that for 2016 to 2,4% from 2,9%.

The Reserve Bank now expects inflation to average 3,8% in 2015, compared with the previous forecast of 5,3%, and to reach a low of 3,5% in the second quarter of this year, compared with 5,1% previously.

Sanlam Investment economist Arthur Kamp said just as the Reserve Bank did not necessarily raise interest rates when oil price spikes pushed up headline inflation, so it did not necessarily cut interest rates when oil prices dampened headline inflation.

The rand exchange rate against the dollar remained an upside risk to the inflation outlook and was vulnerable to the timing and pace of US policies. Higher real interest rates in the USA could lead to depreciation of the rand. Further depreciation of the rand against the dollar could also erode the positive benefits of lower oil prices on inflation.

Along with the exchange rate, wage and salary increases in excess of inflation and productivity growth remained an upside risk to the inflation outlook.

[Adapted from source: <<http://www.iol.co.za/business/sa-growth-outlook-dims-on-eskom-woes>>]

6.2. **Source 4** refers to 'inflation risks'.

6.2.1 Identify **THREE** examples of factors that influence inflation listed in **Source 4**, and discuss how they can **increase** inflation. (12)

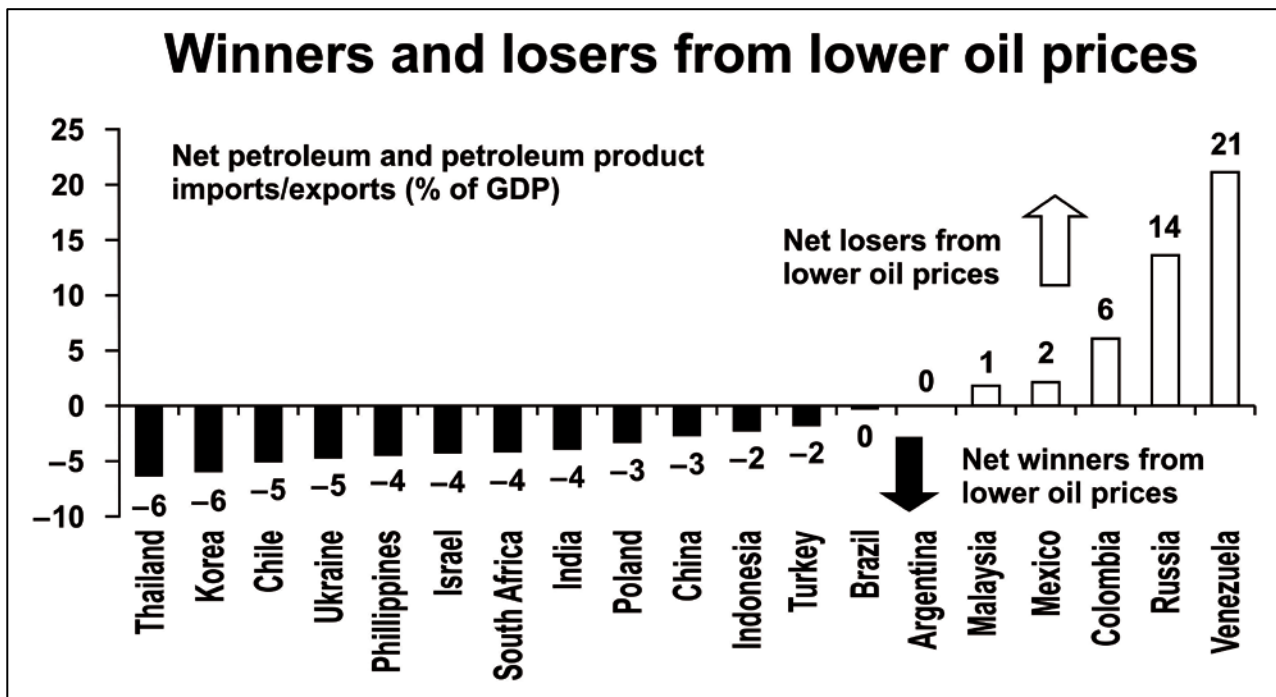
6.2.2 Name **THREE** macro-economic objectives of the government. (6)

6.3 **'Higher real interest rates in the USA could lead to depreciation of the rand.'**  
(**Source 4**)

Use a diagram of the **direct** method of the South African exchange rate, and a discussion, to explain the meaning of the statement above. (10)

Question 6.4 is based on Source 5.

Source 5



[Source: <Deutsche Bank, IMF>]

- 6.4 According to **Source 5**, which country's GDP will decrease the most as a result of the lower oil prices? (2)
- 6.5 Assess the effect that a lower oil price would have on the South African economy. (6)

**50 marks**

**Total: 300 marks**