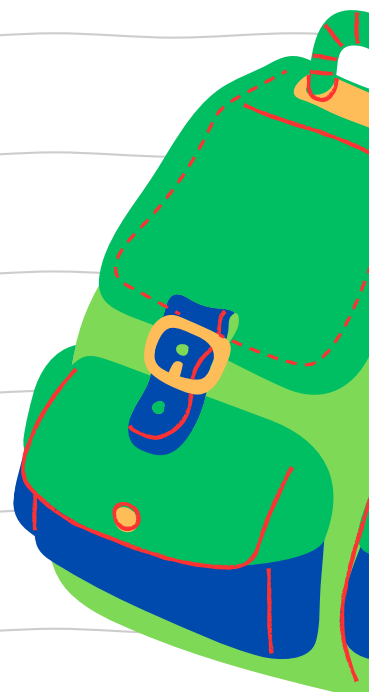


MATRIC EXAM REVISIONS

ECONOMICS
PAPER 1 (2018)



QUESTION PAPER





basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS P1
NOVEMBER 2018**

MARKS: 150

TIME: 2 hours

This question paper consists of 12 pages.

INSTRUCTIONS AND INFORMATION

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

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

SECTION A (COMPULSORY)**QUESTION 1****30 MARKS – 20 MINUTES**

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 An open economy is best described as a ... sector economy.

- A one
- B two
- C three
- D four

1.1.2 Investment is an example of a/an ... in the circular flow model.

- A leakage
- B injection
- C withdrawal
- D loss

1.1.3 Fiscal policy is an action taken by government in respect of taxation and ... to influence economic activity.

- A exchange control
- B money supply
- C expenditure
- D credit control

1.1.4 Economies of scale are associated with ...

- A mass production.
- B limited output.
- C long-term average cost increases.
- D increased wastage.

1.1.5 Production by the citizens of a country, locally and abroad, is called the ... product.

- A gross national
- B gross domestic
- C net national
- D net domestic

1.1.6 A physically enclosed area next to a harbour or airport where production for exports is encouraged through incentives, is known as the ...

- A spatial development initiatives.
- B industrial development zone.
- C special economic zone.
- D foreign investment grant.

1.1.7 The comparison of a country's export prices with import prices by means of indexes is referred to as the ...

- A exchange rate.
- B conditions of trade.
- C terms of trade.
- D inflation rate.

1.1.8 Economic development is measured in terms of the ...

- A per capita gross domestic product.
- B increase in the productive capacity.
- C nominal gross domestic product.
- D money supply.

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A–I) next to the question numbers (1.2.1 to 1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Nationalisation	A	number of years a person will live after birth
1.2.2	Medium-term expenditure framework	B	persuasion of banks by the South African Reserve Bank (SARB)
1.2.3	System of national accounts	C	indicator used to measure the change in the price of goods produced locally when it leaves the factory floor
1.2.4	Money flows	D	measures income inequality and wealth
1.2.5	Protectionism	E	movement of income and expenditure between participants in the economy
1.2.6	Gini coefficient	F	shows income and expenditure estimates for a three-year period
1.2.7	Life expectancy	G	prescribed by the United Nations to compile gross domestic product figures
1.2.8	Production price index	H	trade policy that tries to keep the domestic economy safe by restricting the import of goods and services
		I	transfer of functions and ownership of entities from the private to the public sector

(8 x 1) (8)

- 1.3 Give ONE term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.
- 1.3.1 A systematic record of all trade and financial transactions between one country and other countries for a particular period of time
- 1.3.2 Money paid by the government to a person/institution without any counterperformance
- 1.3.3 When a product is sold on a foreign market at a price that is lower than the cost of production in the country of origin
- 1.3.4 Increase in the productive capacity of a country
- 1.3.5 The rate at which commercial banks borrow money from the South African Reserve Bank
- 1.3.6 The policy that aims to stabilise prices by combating inflation (6 x 1) (6)
- TOTAL SECTION A: 30**

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

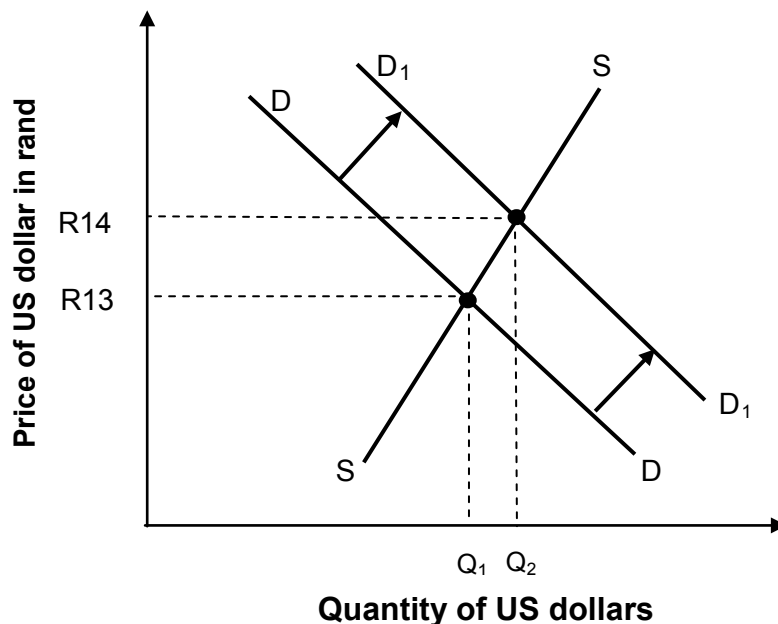
QUESTION 2: MACROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name the TWO financial markets in the circular-flow model. (2 x 1) (2)

2.1.2 What effect will a decrease in income levels have on international trade? (1 x 2) (2)

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

EXCHANGE RATES – THE RAND IS AT THE MERCY OF THE MARKET

2.2.1 Identify the exchange rate system in the graph above. (1)

2.2.2 What was the original rand/dollar exchange rate before the demand for US dollars increased? (1)

2.2.3 Briefly describe the term *exchange rate*. (2)

2.2.4 How has the increased demand for US dollars affected the value of the rand? (2)

2.2.5 What could the South African Reserve bank do to strengthen the value of the rand against the dollar? (2 x 2) (4)

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

NATIONAL ACCOUNT AGGREGATES – SOUTH AFRICA	
SUMMARY OF GROSS DOMESTIC PRODUCT (AT CURRENT PRICES)	R million 2016
Compensation of employees	2 051 326
Net operating surplus	1 130 210
Consumption of fixed capital	613 605
Gross value added at factor cost	3 795 141
Other taxes on production	86 008
Other subsidies on production	9 935
Gross value added at basic prices	3 871 214
Taxes on products	484 059
Subsidies on products	16 415
Gross domestic product at market prices	(A)?

[Source: Quarterly Bulletin SARB, June 2017]

- 2.3.1 Identify the factor of production in the table above that receives the biggest portion of the national income. (1)
- 2.3.2 Which method was used to calculate the figures above? (1)
- 2.3.3 Briefly describe the term *basic prices*. (2)
- 2.3.4 Briefly explain how subsidies can influence production. (2)
- 2.3.5 Calculate the gross domestic product at market prices (A). Show ALL calculations. (4)
- 2.4 Briefly discuss *pricing policy* and *parastatals* as problems of public sector provisioning. (2 x 4) (8)
- 2.5 Calculate the change in aggregate income if there is an injection of R20 billion into the economy with a marginal propensity to save of 0,3. Show how the multiplier effect could influence the government to create more jobs. Show ALL calculations. (8)

[40]

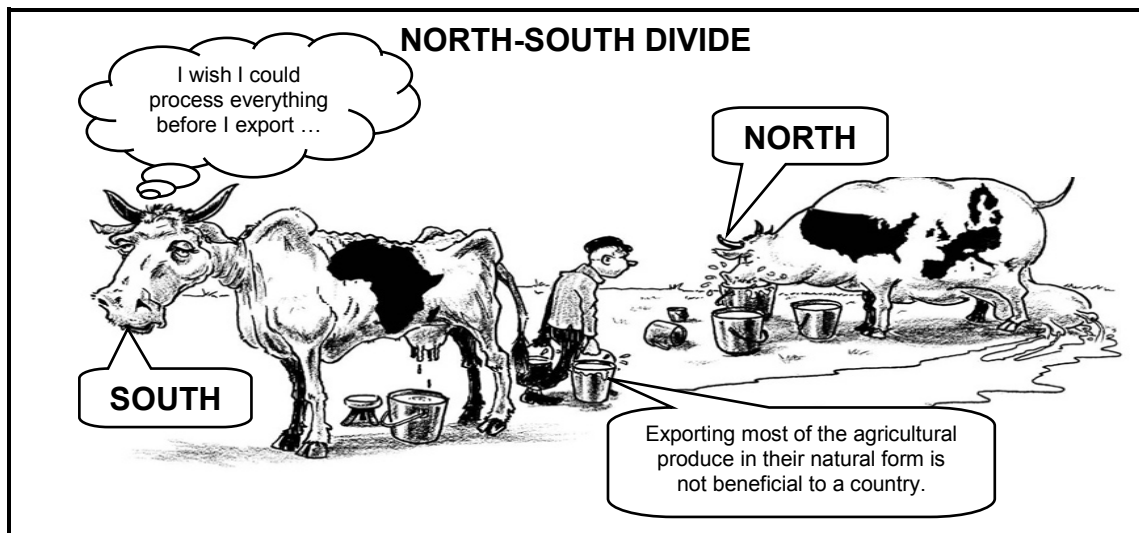
QUESTION 3: ECONOMIC PURSUITS**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO redress policies that South Africa has used since 1994. (2 x 1) (2)

3.1.2 What effect will increased urbanisation have on the economy? (1 x 2) (2)

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

[Adapted from www.wikipedia, 2016]

3.2.1 Name any ONE agricultural product exported to countries in the north. (1)

3.2.2 Give any reason for the poor economic conditions of the countries in the south. (1)

3.2.3 Briefly describe the term *North-South divide*. (2)

3.2.4 Explain *standards of living* of countries in the Northern Hemisphere. (2)

3.2.5 What positive impact will globalisation have on the North-South divide? (2 x 2) (4)

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

SMALL BUSINESS DEVELOPMENT IN SOUTH AFRICA

Small, medium and microenterprises are the engines of growth in South Africa, and contribute between 52% and 57% of the GDP. It provides 60% of all jobs, compared to the corporate and public sectors combined. The government provides training, employment subsidies and financing to SMMEs.

[Adapted from *Stats SA Quarterly Labour Force Survey*, 2016]

- 3.3.1 What positive effect could small business development have on markets? (1)
- 3.3.2 Why is it important that the government provides financial aid to SMMEs? (1)
- 3.3.3 Briefly describe the term *economically active population*. (2)
- 3.3.4 Briefly explain how the Department of Trade and Industry (DTI) supports small business development in South Africa. (2)
- 3.3.5 How can the establishment of more SMMEs be promoted in South Africa? (2 x 2) (4)
- 3.4 How can the Critical Infrastructure Programme (CIP) and the Foreign Investment Grant (FIG) improve industrial development in South Africa? (2 x 4) (8)
- 3.5 Evaluate the potential success of special economic zones in South Africa. (8)
- [40]**

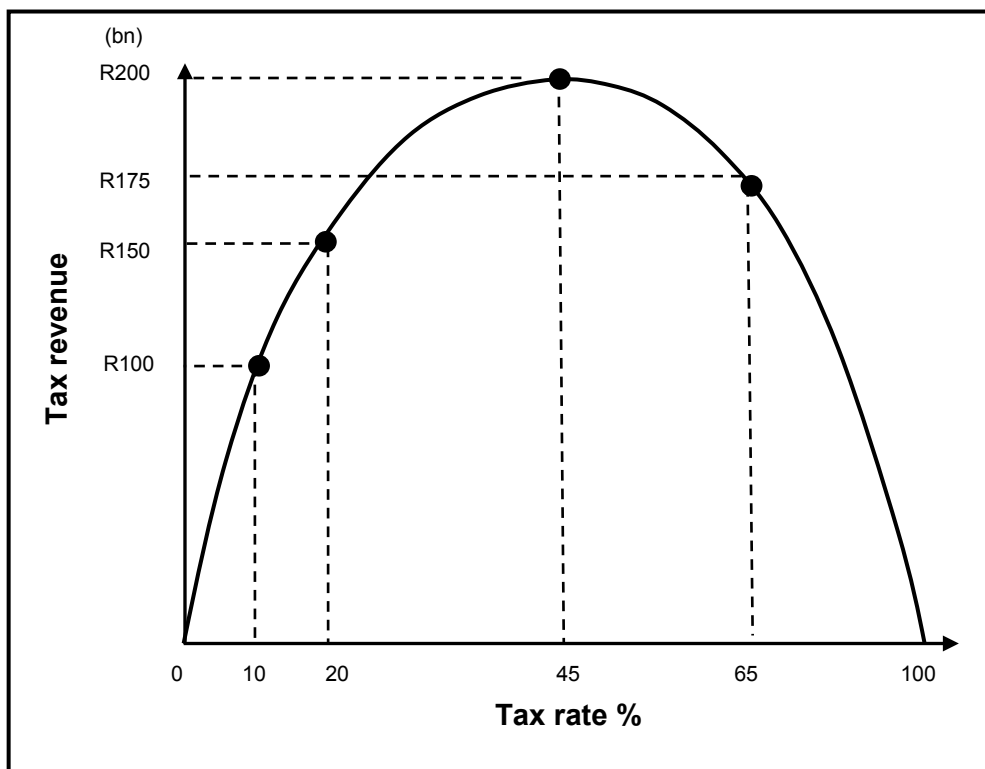
QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Give any TWO examples of production indicators. (2 x 1) (2)

4.1.2 Why do developed countries favour the idea of free trade? (1 x 2) (2)

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



4.2.1 Identify the curve in the graph above. (1)

4.2.2 At what tax rate will government revenue be maximised? (1)

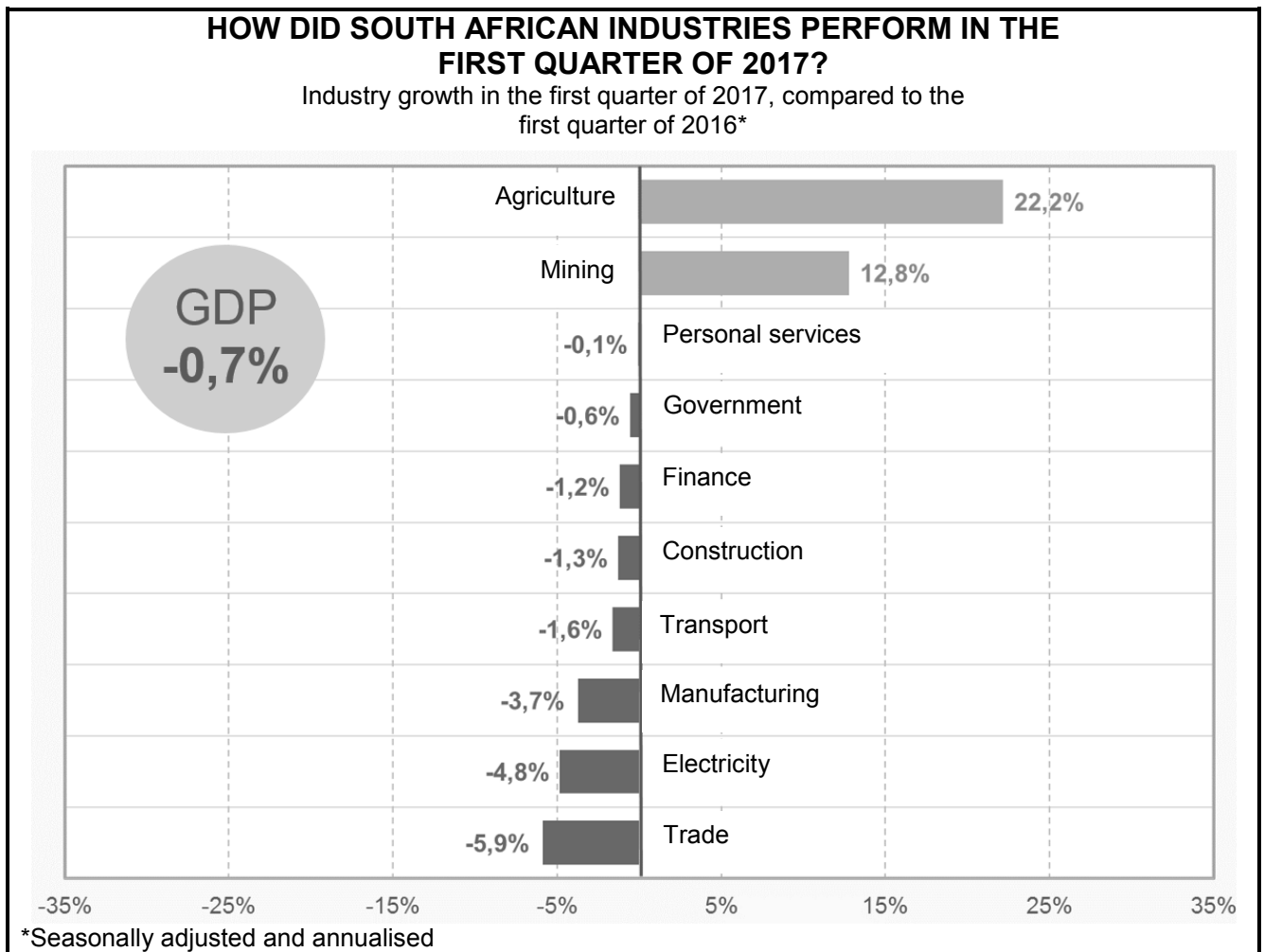
4.2.3 How much revenue will the government receive if the tax rate is 100%? (2)

4.2.4 What effect will a decrease in the tax rate from 65% to 45% have on tax revenue? (2)

4.2.5 What consequences could a 1% VAT increase have on the different role players in the South African economy? (2 x 2) (4)

4.3 Study the bar graph below and answer the questions that follow.

GROSS DOMESTIC PRODUCT – AN ECONOMIC INDICATOR



[Adapted from Stats SA GDP, 2017]

- 4.3.1 Which figure indicates that the GDP growth rate was not satisfactory? (1)
- 4.3.2 Identify the sector that contributed least to the GDP above. (1)
- 4.3.3 Give a reason why trade performed so poorly in respect of the total GDP. (2)
- 4.3.4 Why are only real GDP figures used to compare economic production that occurred in different years? (2)
- 4.3.5 What can the South African government do to ensure a better economic growth performance? (2 x 2) (4)
- 4.4 Briefly discuss *health* as a social indicator. (4 x 2) (8)
- 4.5 How can developing countries ensure the survival of labour-intensive industries in a global economy? (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	Max. 2
Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain Additional part: Give own opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest	Max. 26 Max. 10
Conclusion Any higher-order conclusion should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MACROECONOMICS**40 MARKS – 40 MINUTES**

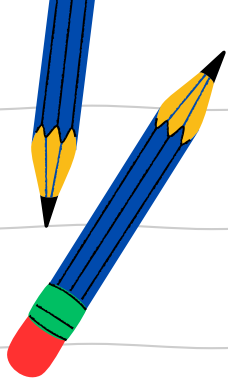
- Discuss ALL the features underpinning the forecasting of business cycles, excluding the economic indicators. (26 marks)
- Why is price stability important to prevent extreme fluctuations in business cycles? (10 marks)

[40]**QUESTION 6: ECONOMIC PURSUITS****40 MARKS – 40 MINUTES**

- Discuss the demand-side approach in promoting economic growth. (26 marks)
- Evaluate the success of the expanded public works programme to reduce poverty and unemployment. (10 marks)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

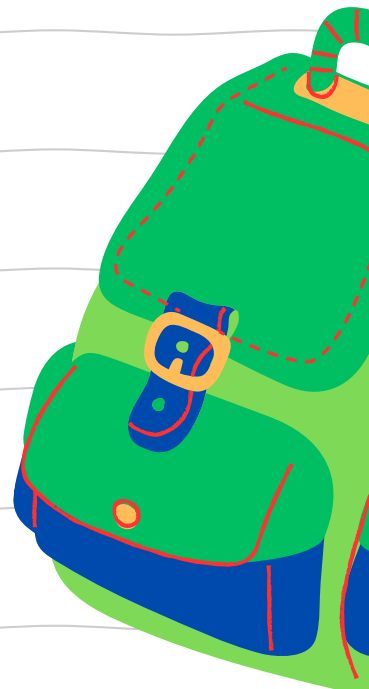


MATRIC EXAM REVISIONS

ECONOMICS
PAPER 1 (2018)



ANSWER PAPER





basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS PAPER 1

NOVEMBER 2018

MARKING GUIDELINES

MARKS: 150

This marking guideline consists of 20 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 D – four ✓✓
 1.1.2 B – injection ✓✓
 1.1.3 C – expenditure ✓✓
 1.1.4 A – mass production ✓✓
 1.1.5 A – gross national ✓✓
 1.1.6 B – industrial development zone ✓✓
 1.1.7 C – terms of trade ✓✓
 1.1.8 A – per capita gross domestic product ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 I - the transfer of functions and ownership of entities from the private to the public sector ✓
 1.2.2 F - it shows income and expenditure estimates for a three year period ✓
 1.2.3 G - prescribed by the United Nations to compile the gross domestic product figures ✓
 1.2.4 E - the movement of income and expenditure between participants in the economy ✓
 1.2.5 H - a trade policy that tries to keep the domestic economy safe by restricting the import of goods and services ✓
 1.2.6 D - measures income inequality and wealth ✓
 1.2.7 A – the number of years a person will live after birth ✓
 1.2.8 C - the indicator used to measure the change in prices of goods produced locally when it leave the factory floor ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Balance of payments ✓
 1.3.2 Transfer payment ✓
 1.3.3 Dumping ✓
 1.3.4 Economic growth ✓
 1.3.5 Repo rate / repurchase rate ✓
 1.3.6 Monetary ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer TWO of the three questions in this section in the ANSWER BOOK.

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name the TWO financial markets in the circular flow model.**

- Money ✓
- Capital ✓
- Foreign exchange market / Forex ✓ (2 x 1) (2)

2.1.2 **What effect will a decrease in income levels have on international trade?**

- A decrease in income levels implies less money to spend on goods and services internationally ✓✓
 - decrease in demand domestically and internationally which will reduce international trade ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify the exchange rate system depicted in the graph above.**

Free floating ✓ (1)

2.2.2 **What was the original rand/dollar exchange rate before the demand for US dollar increased?**

R13,00 = \$1 ✓ (1)

2.2.3 **Briefly describe the term *exchange rate*.**

The rate at which one currency is exchanged for another / the value of one country's currency in terms of another country's currency ✓✓ (2)

2.2.4 **How has the increased demand for US dollars affected the value of the rand?**

The value of the rand depreciated from R13,00 to R14,00 against the dollar / depreciated by R1 / rand has weakened ✓✓ (2)

2.2.5 **What could Reserve Bank do to strengthen the value of the rand against the dollar?**

The Reserve Bank could strengthen the value of the rand by:

- selling US dollars in reserve in the foreign exchange market to create an oversupply ✓✓
- selling gold reserves on the international market to create an oversupply ✓✓
- obtaining assistance (financial support) from the International Monetary Fund to increase the inflow of foreign exchange ✓✓
- increasing the repo rate to stimulate investment by foreigners in the South African economy ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.3 **DATA RESPONSE**

2.3.1 **Identify the factor of production in the table above, which receives the biggest portion of the national income.**

Labour ✓

(1)

2.3.2 **Which method was used to calculate the above figures?**

Income ✓

(1)

2.3.3 **Briefly describe the term *basic prices*.**

Basic prices is the cost to the producer adding taxes on production and subtracting subsidies on production ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 **Briefly explain how subsidies can influence production.**

Subsidies on products are payable by government to suppliers to: reduce their costs of production / encourages them to increase output ✓✓

(2)

2.3.5 **Calculate the Gross Domestic Product at market prices (A). (Show all calculations)**

Gross value added at basic prices 3 871 214 ✓

PLUS: Taxes on products 484 059 ✓

MIN : Subsidies on products 16 415 ✓

GDP at Market Prices 4 338 858 ✓

OR

3 871 214 ✓ + 484 059 ✓ – 16 415 ✓ = **4 338 858 ✓**

(4)

2.4 Briefly discuss *pricing policy* and *parastatals* as problems of public sector provisioning.

Pricing policy:

- State-owned enterprises do not work within the market system of demand and supply ✓✓
- It creates problems in determining the price for public goods and services compared to the private sector where price is determined by demand and supply ✓✓
- The state sets the price of goods in the following ways:
 - Free of charge: providing community or collective goods such as policing or health is completely funded by increased taxes, placing a burden on taxpayers ✓✓
 - User charges: e-toll fees levied on the users of those roads are mostly not paid ✓✓
 - Subsidies: Government may charge the user at a reduced fee ✓✓
 - It is difficult for government to establish the correct pricing ✓✓ (Max 4)

(Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples, 1 max)

Parastatals:

- Service provisioning of parastatals such as Eskom and Transnet lead to monopolies ✓✓
- SOEs are created when government starts a new business or nationalize an existing one ✓✓
- These typical monopolies are known for high prices where the consumer has no say ✓✓
- Inefficiency in service provisioning such as SAA led to irregular service delivery and a waste of state revenue ✓✓
- Infrastructure is mostly provided by government and sometimes lacks maintenance ✓✓ (Max 4)

(Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples, 1 max)

Candidates should indicate the challenge to government, because they do not have a market system to determine prices (2 marks). The other two marks can be allocated for any other fact related to the topic.

(8)

2.5 Calculate the change in aggregate income, if there is an injection of R20bn in the economy with a marginal propensity to save of 0.3, and show how the multiplier effect could influence the government to create more jobs. Show ALL calculations.

• Calculation:

– Injection = R20bn

– mps = 0.3

– Multiplier = $\frac{1}{mps}$

= $\frac{1}{0.3}$ ✓

0.3

= 3.3 ✓

– Change in National Income = R20bn x 3.3 ✓
= R66bn / R66,6 / R67 ✓ (Max 4)

- Jobs created there will result in more income and spending in the economy which will lead to even more jobs being created – knock-on effect ✓✓
- Government can also decrease taxation, putting more money in the pockets of the consumer. The extra money will be spent by the consumer, leading to increased employment ✓✓
- Government can decrease company taxes that might lead to increased investment by businesses focussing on labour intensive production methods ✓✓ (Max 4)

(Accept any other correct relevant higher order response)

(If candidates used the figures calculated to explain the effect, marks should be allocated)

(8)
[40]

QUESTION 3: ECONOMIC PURSUITS**3.1 Answer the following questions.**

3.1.1 Give any TWO redress policies that South Africa used since 1994.

- RDP ✓
 - Black economic empowerment (BEE) ✓
 - Broad-based black economic empowerment (BBBEE) ✓
 - Affirmative action / Employment equity ✓
 - Land redistribution ✓
 - Land restitution ✓
 - Education ✓
- (2 x 1) (2)

3.1.2 What effect will increased urbanisation have on the economy?

An economy with increased urbanisation might experience a/an:

- lack of services ✓✓
- shortage of schools and/or houses ✓✓
- shortage of land ✓✓
- increase in unemployment ✓✓
- increase in population in urban areas ✓✓
- per capita income increases ✓✓
- helps with the overall development of the economy ✓✓
- the demand for goods and services may lead to increased GDP ✓✓

(Accept any other correct relevant response) (1 x 2) (2)

3.2 DATA RESPONSE

3.2.1 Name any ONE agricultural product exported to countries in the North.

Milk / meat / nuts / wheat / oranges ✓
(Accept any other correct relevant response) (1)

3.2.2 Give any reason for the poor economic conditions of the countries in the South.

A lack of:
skills / capital / investment / good education / good governance ✓
(Accept any other correct relevant response) (1)

3.2.3 Briefly describe the term *North/South divide*.

Refers to developed countries in the Northern hemisphere and the developing countries in the Southern hemisphere, that shows the division between the rich countries of the North and the poorer countries of the South ✓✓
(Accept any other correct relevant response) (2)

3.2.4 **Explain *standards of living* in countries in the Northern Hemisphere.**

- Real GDP per capita is high in the North ✓✓
- Life expectancy is 75 years in the developed countries ✓✓
- Education and literacy level is high in the North ✓✓

(Accept any other correct relevant response)

(2)

3.2.5 **What positive impact will globalisation have on the North-South divide?**

- Poverty levels can be reduced in developing countries by increasing the skills and better the education to the workforce ✓✓
- To ensure better participation in the economy in using the latest technology ✓✓
- Economic growth can improve in developing countries by increased production earmarked for the international market ✓✓
- Production and trade focussing on raw materials being processed before exporting it ✓✓ subsidies awarded in the agricultural sector to ensure enough raw materials for processing in the manufacturing sector ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 **DATA RESPONSE**

3.3.1 **What positive effect would small business development have on markets?**

Markets will be more effective and efficient where a variety of businesses are competing / job creation / better prices for consumers ✓

(Accept any other correct relevant response)

(1)

3.3.2 **Why is it important that the government provide financial aid to SMMEs?**

- SMMEs contributes to extensively to growth ✓
- Job creation compared to other sectors ✓
- Correcting the imbalances of the past / poverty reduction ✓
- Protecting infant industries from closing down ✓

(Accept any other correct relevant response)

(1)

3.3.3 **Briefly describe the term *economically active population*.**

Includes people between the ages of 15 and 64 years who want to work and who are actively looking for work it includes the employed and unemployed ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 **Briefly explain how the department of trade and industry (DTI) supports small business development in South Africa.**

- By creating employment for structurally unemployed people ✓✓
 - Focussing on incentives for small businesses ✓✓
 - Promoting entrepreneurial development amongst women and the youth ✓✓
 - By providing easy capital, information and business advice ✓✓
 - Providing training in general ✓✓
- (Accept any other correct relevant response)

(2)

3.3.5 **How can the establishment of more SMMEs be promoted in South Africa?**

More SMMEs can be promoted by:

- helping them with research and development in their specific areas of performance ✓✓
 - providing them with funding ✓✓
 - monitoring their business operations and provide support ✓✓
 - providing them with tax incentives ✓✓
- (Accept any other correct relevant response)

Any (2 x 2)

(4)

3.4 **How can the critical infrastructure programme (CIP) and foreign investment grant (FIG) improve industrial development in South Africa?**

Government uses the following incentives to improve industrial development by:

Critical infrastructure programme:

- offering a grant between 10% and 30% of the total development costs of projects designed to improve infrastructure in South Africa **(CIP)** ✓✓
- ensuring completion of projects by paying out the grants after completion ✓✓ (max 4)

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for the mere listing of facts/examples, 1 max)

Foreign investment grant:

- assisting foreign investors who want to invest in the new manufacturing business in South Africa, by paying a cash incentive **(FIG)** ✓✓
- covering the cost of relocating machinery and equipment from abroad ✓✓
- making it available to any registered company who would like to operate in the manufacturing sector ✓✓ (max 4)

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples, 1 max)

(2 x 4)

(8)

3.5 Evaluate the potential success of special economic zones in South Africa.

- SEZ programme aimed to promote economic growth and industrialisation and achieved limited success with industrialisation ✓✓
- Most outcomes of SEZs expanded the manufacturing sector and created more industries ✓✓
- The Manufacturing Circle blueprint to create 1 million manufacturing jobs in the next decade, converting the Vaal Triangle into SEZ ✓✓
- Draft legislation set the basis for a broader range of industrial parks and economic infrastructure made provision for effective clustering of employment ✓✓
- China's largest car manufacturer (BAIC) invested in South Africa with a R11 billion plant in Coega (SEZ) ✓✓
- SEZ's broadened the scope set by IDZs and were located in all provinces in areas where SA wanted industrial development through tax incentives ✓✓
- South Africa has companies with knowledge about international markets. Added to the SEZ programme to boost investment, employment, training and exports ✓✓
- The private sector was allowed to propose, set up and manage industrial parks, aligned to objectives of the SEZ. ✓✓
- Private funding was used to finance internal infrastructure that is connected to the national logistics infrastructure ✓✓
- Stumbling blocks still exist such as legislation, consistency and alignment with other policies, approval of six special economic zones in 2018 budget was welcomed ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)

(Allocate a maximum of 2 marks for the mere listing of facts/examples)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 Answer the following questions.****4.1.1 Give any TWO examples of production indicators.**

- Nominal GDP / GDP at current prices ✓
- Real GDP / GDP at constant prices ✓
- Per capita GDP ✓ (2 x 1) (2)

4.1.2 Why do developed countries favour the idea of free trade?

- Free trade increases competition and this encourages innovation especially in developed countries that have the know-how ✓✓
 - Developed countries have free access to resources worldwide, needed for mass production in expanded markets ✓✓
 - Developed countries benefit from trade agreements with poor countries ✓✓
 - Free trade reduce regulations (regulations on the protection of labour, environment and consumers). Free trade increase power of multinationals ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Identify the curve depicted in the graph.**

Laffer ✓ (1)

4.2.2 At what tax rate will government revenue be maximised?

45% ✓ (1)

4.2.3 How much revenue will the government receive if the tax rate is 100%?

No revenue / zero ✓✓ (2)

4.2.4 What effect will a decrease in the tax rate, from 65 – 45%, have on tax revenue?

A decrease in the tax rate will lead to an increase in tax revenue (from R175 to R200) by encouraging people to work ✓✓
(Accept any other correct relevant response) (2)

4.2.5 **What consequences could a 1% increase in VAT have on the different role players in the South African economy?**

The increase of VAT by 1% could affect role-players by:

- increasing the revenue to the government if the same/more is spend by businesses and households ✓✓
- resulting in a fall in output (production) because fewer consumers will be able to afford to buy the same goods and services as before ✓✓
- leading to a decline in the satisfaction of wants of consumers, mainly poor consumers in buying luxury goods ✓✓
- causing an increase in tax - especially the high income earners (luxury goods) where they are responsible for 85% of VAT income ✓✓
- 19 basic food items are excluded from VAT ✓✓ that benefit most lower income earners
- leading to a decrease in sales that will reduce profits ✓✓ (Accept any other correct relevant response) (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Which figure indicated that the GDP growth rate was not satisfactory?**

-0,7% ✓ (1)

4.3.2 **Identify the sector that contributed least to the GDP above.**

Tertiary ✓ (1)

4.3.3 **Give a reason why trade performed so poorly to the total GDP above.**

- Poor value of the rand ✓✓
- Unrest in certain areas where production is located ✓✓ (Accept any other correct relevant response) (2)

4.3.4 **Why are only real GDP-figures used to compare economic production that occurred in different years?**

Real GDP figures are used to make comparisons between different years, because the inflation rate has been removed / figures are not inflated ✓✓ (2)

4.3.5 **What can the South African government do to ensure a better economic growth performance?**

The government can ensure better economic growth by:

- developing comparative performance standards ✓✓
- setting achievable targets ✓✓
- ensuring sufficient and relevant infrastructure development ✓✓
- ensuring effective compliance by all sectors in the economy ✓✓ (Accept any other correct relevant response) (Any 2 x 2) (4)

4.4 Briefly discuss health as a social indicator.

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

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/max 2 for examples)

(4 x 2) (8)

4.5 How can developing countries ensure the survival of labour intensive industries in a global economy?

Labour intensive industries could survive in developing countries by:

- protecting jobs and wage levels by limiting unfair competition which may force local industries to reduce production and cut the factors of production ✓✓
- reducing wages or salaries in order to remain competitive in the international market ✓✓
- reducing high levels of poverty and unemployment which is of critical importance to protect jobs ✓✓
- protecting labour intensive industries that cannot compete with established foreign competitors ✓✓
- protecting strategic industries e.g. the mining industry needed for long-term sustainability ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for the mere listing of facts/examples)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5: MACROECONOMICS**40 MARKS – 40 MINUTES**

- **Discuss ALL the features underpinning forecasting of business cycles, excluding the economic indicators.** (26 marks)
- **Why is price stability important to prevent extreme fluctuation in business cycles?** (10 marks) [40]

INTRODUCTION

- There are a number of techniques available to help economists to forecast business cycles like economic indicators ✓✓
- A business cycle can be described as successive periods of contraction and expansion of economic activities ✓✓
- The pattern of expansion and contraction of aggregate economic activity, measured as real Gross Domestic Product, displays around its overall trend ✓✓
- The process of making predictions about changing conditions of future events that may significantly affect the economy ✓✓
(Accept any other correct relevant response) (Max. 2)

BODY: MAIN PART**Extrapolation** ✓

- Past data is used, where predictions are made about the future based on assumptions related to trends ✓✓
- Extrapolation means to estimate something unknown from the facts and information that is known ✓✓
- Extending a trend into the future may provide information on what is likely to happen ✓✓
- If a business cycle has passed through a trough and entered into a boom phase, forecasters may predict that the economy will grow in the months to follow ✓✓
- Extrapolation techniques are sometimes used to predict future share prices ✓✓
- The trend of the curve must be followed to complement the completed section. Take a calculated decision to continue beyond the level of a resistance point ✓✓

Amplitude ✓

- It is the difference between the value of total output between peak and trough measured from the trend line to the peak and trough ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity ✓✓
- The amplitude shows two things:
 - The power of the underlying forces, e.g. interest rates, exports or consumer spending ✓✓
 - A large amplitude during the upswing signifies strong underlying forces – which result in longer cycles ✓✓
 - The extent of change: the larger the amplitude, the more extreme the changes that may occur ✓✓

- During an upswing, unemployment may decrease from 20% to 10% (a decrease of 50%) / inflation may increase from 3% to 6% (i.e. 100%) / a surplus on the current account (BOP) can change from a surplus to a deficit ✓✓

Trend ✓

- The trend indicates the general direction in which the indexes that were used in the business cycle, moves ✓✓
- When the economy is growing, there is an upward trend, but when the economy is decreasing, there is a downward trend ✓✓
- The trend will change when the time series data change their behaviour patterns of the past ✓✓
- Resistance points indicates forces in the economy preventing it from repeating the performance – unfavourable forces need to change or be removed for growth to exceed previous tendencies ✓✓
- It normally has a positive slope because the production capacity of the economy increases over time ✓✓
- Channels are formed when output growth reaches successive higher turning points (upward channel) ✓✓

Length ✓

- Length is measured from peak to peak or from trough to trough ✓✓
- Longer cycles show strength and shorter cycles show weakness with regard to economic activities ✓✓
- Cycles may overshoot with the effect that some composite indicators increase to beyond its normal level ✓✓

Moving averages ✓

- This method is repeatedly calculating a series of different average values along a time series to produce a smooth curve ✓✓
- It is used to analyse the changes in a series of data over a certain period of time ✓✓
- To eliminate the effect of sharp fluctuations in the business cycle, economists use moving averages to smooth out the business cycle so that it looks more like a straight or slightly curved line ✓✓

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of facts/examples)

(Candidates would receive 2 marks if they indicated the amplitude, length and trend line on a graph)

(Max 26)

ADDITIONAL PART**Price stability is important in preventing extreme fluctuations in business cycles because it:**

- contributes to high levels of economic activity and employment ✓✓
- improves the transparency of the price mechanism so that people can recognise changes in relative prices without being confused by changes in the overall price ✓✓
- allows people to make well-informed consumption decisions ✓✓
- encourages foreign investment to promote growth ✓✓
- helps to allocate resources more efficiently ✓✓
- avoids unproductive activities that are sometimes used to protect one against the impact of high inflation ✓✓
- avoids the risk of deflation which makes it more difficult implement policies guarding against it ✓✓
- implements inflation targeting, by reducing distortion of inflation or deflation which exacerbate the distortionary impact on the economic behaviour of tax and social security ✓✓
- prevents an arbitrary redistribution of wealth and income as a result of unexpected fluctuations ✓✓
- keeps interest rates unchanged to ensure continued growth in the economy without big fluctuations ✓✓
- adapts the cash reserve requirements which will compel banks to limit credit/money in circulation ✓✓

(Accept any other correct relevant higher order response)

(Max.10)

Candidates can express the above answer in a negative way, when arguing if price stability is not achieved, e.g. there will be low levels of economic activity and employment**CONCLUSION**

Policy makers should closely watch all these indicators because external factors are very significant for South African business cycles ✓✓

Different methods can be used in forecasting like the quantitative method that is based on mathematical models or qualitative methods being used in long term forecasting ✓✓

(Accept any other correct relevant higher order response)

(Max. 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

- **Discuss the demand-side approach to promote economic growth.** (26 marks)
- **Evaluate the success of the Expanded Public Work Programme to reduce poverty and unemployment.** (10 marks) [40]

INTRODUCTION

The demand-side approach involves discretionary changes in monetary and fiscal policies with the aim of changing the levels of aggregate demand and supply ✓✓
(Accept any other correct relevant response) (Max 2)

MAIN PART

International best practice argues that developing economies should run their economies in a way that creates economic growth ✓✓

This would help social transformation, human capital formation and redistribution of income ✓✓

A demand-side approach involves discretionary changes in monetary and fiscal policies with the aim of changing the level of *aggregate demand* ✓✓

- Monetary policy is driven by the South African Reserve Bank (SARB). ✓✓ It is used to influence interest rates and the supply of money in the economy to stabilise prices ✓✓
- Fiscal policy is driven by the Department of Finance. ✓✓ It aims to facilitate government political and economic objectives. ✓✓ Governments can use fiscal policy to change taxes and government expenditure which can stimulate or inhibit economic growth and development ✓✓

Monetary policy approach ✓

- The monetary policy approach consists of the decisions by the central bank as part of the monetary authorities to influence the interest rates and money supply in the economy, by implementing inflation targets set by government ✓✓
- The central bank manages the availability of money by means of open market transactions and cash requirements ✓✓
- Manage the cost of money by means of interest rates ✓✓
- Variations in the levels of interest rates increase or decrease the cost of credit and determine the quantity of money through the workings of the money multiplier ✓✓
- Variations of exchange rates for the purpose of the changing terms of trade are used as an auxiliary method to bring about the changes in the stock of money ✓✓

The South African monetary policy implements the demand–side approach by:

Controlling the repo rate ✓

To affect the interests rates that commercial banks can offer for two purposes:

- Influence credit creation by making credit more expensive or cheaper ✓✓
- Stabilise the exchange rates by encouraging capital inflows and outflows in order to take care of a deficit or a surplus on the current account of the balance of payments ✓✓

Conducting open market transactions ✓

- To restrict bank credit, the SARB sells securities and when the banks buy these securities, money flows from the banks to SARB ✓✓
- The banks then have less money to lend and cannot extend as much credit as before ✓✓
- To encourage credit creation, the SARB buys securities in the open market. Money then flows into the banking system ✓✓
- Banks use money to create money ✓✓

Moral suasion ✓

- The SARB consults with banks and persuades them to act in a manner that is desirable in terms of the economic conditions that prevail at the time ✓✓
- The persuasion is often linked to the transactions by SARB in the money market ✓✓ e.g. the buying and selling of bills and bonds ✓
- If the banks are generous in extending credit, the SARB can call on them to be less lenient. However, simultaneously it can sell paper in the market and drain excess liquidity so that banks have less money to lend ✓✓

South Africa national budget is the main tool to drive fiscal policy and implements the fiscal policy through:**Progressive personal income taxes:** ✓

- The higher income earners are taxed at higher rates than lower income earners ✓✓
- These taxes are used to finance social developments / the poor benefit more than those with higher incomes ✓✓

Wealth taxes ✓

- Properties such as houses, offices and factories in the urban areas are taxed annually ✓✓
- Transfer duties are paid when properties are bought or sold ✓✓
- Capital gains tax is levied on gains earned on the sale of capital goods such as property and shares ✓✓

Cash benefits ✓

- old-age pensions, disability grants, child support grants and unemployment insurance are important cash grants ✓✓
- these are also known as social security's payments ✓✓

Benefits in kinds ✓

- These include the provision for healthcare, education and social meals, protection, municipal services and infrastructure ✓✓
- Where user-fee are charged, poor people and low income earners benefit more than others because they pay nothing or less than higher income earners ✓✓
- Limited quantities of electricity and water are provided ✓✓

Other redistributions ✓

- Some microeconomic policies have advantage that favour poor and low-income earners ✓✓ e.g. EPWP, SIP, SMMEs ✓

Land redistribution and restitution ✓

- The purpose of land restitution is to return land or pay cash to those who lost their land because of discriminatory laws and practice after June 1913 while land redistribution focuses on land for residential purposes and productive use ✓✓
- The aim is to redistribute agricultural land to the previously disadvantaged persons ✓✓

Property subsidies ✓

- Subsidies help beneficiaries to acquire ownership of fixed residential property ✓✓
- Government's housing subsidy schemes provide funding options to all eligible persons earning less than R3 500 per month/ the money for this scheme comes from the main budget ✓✓

A different approach could include:**Consumption spending by consumers** ✓

- **Increase in production** ✓
 - An increase in the production of goods and services leads to an increase in the disposable income of consumers ✓✓
 - Increased production can be the result of increased government spending, higher investment spending by businesses or higher exports ✓✓
- **Government fiscal policy** ✓
 - The government can reduce income tax or indirect tax, such as excise duties on liquor and cigarettes. ✓✓
- **Government monetary policy** ✓
 - By reducing the interest rate, the cost of credit is lowered/households can now afford to borrow more money, increasing their disposable income and consumption spending. ✓✓
- **Government programmes to satisfy basic needs** ✓
 - The government can assist poor households to satisfy their basic needs, such as clean water, healthcare, etc. (economic growth/development) ✓✓

Investment spending by firms ✓

- Involves investments in factory buildings, machines and tools, called capital formation ✓✓
- These investments increase the production capacity of businesses and the economy ✓✓
- Investments lead to reduced unemployment, which contribute to economic development ✓✓
- The government invests in the infrastructure, such as transport and communication, in support of firms ✓✓

Government spending in the economy ✓

- The government plans its expenditure on public services and economic affairs to ensure economic growth ✓✓
- The government further plans its social expenditure on socio-economic aspects, such as poverty ✓✓

- The public works programme (EPWP) is used to address the problems of unemployment and low income earners ✓✓
- **Examples** include road construction, road maintenance and low-cost housing ✓

Exports and imports

- **Imports** ✓ are important to the South African economy as it provides consumers with a wider choice of goods/services ✓✓
- The wider choice of consumer goods leads to economic development/growth ✓✓
- Imports also provide essential capital goods and intermediate goods, such as machinery, equipment, chemicals, petroleum products and vehicle spares ✓✓
- An increase in economic growth leads to an increase in imports and a deficit on the BOP (current account) ✓✓
- **Exports** ✓ are part of the domestic demand, as they earn extra income for the exporting firms ✓✓
- Our exports are used to pay for the country's imports, contributing to increasing economic growth and to control the BOP of the country ✓✓
- Government actions to promote exports include trade agreements, maintaining a realistic exchange rate and providing export incentives ✓✓

(Accept any other correct relevant response)

Max (26)

(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART

The Expanded Public Work Programme reduced poverty and unemployment by:

- focussing more on previously disadvantaged groups, insuring that measures are implemented to ensure redress and affirmative action in the workplace and business environment ✓✓
- improving the social benefits to the community e.g. health issues can be solved ✓✓
- improving the standard of living, by changing the workers' outlook in life to be able to satisfy more wants ✓✓
- creating employment opportunities for the poor and vulnerable, by using labour-intensive methods to be able to accommodate as many people as possible ✓✓
- giving people skills that they can use to find jobs when their work in the EPWP is done ✓✓
- building future entrepreneurial abilities (SMME's) to contribute in solving major unemployment ✓✓ (Max 10)

(Accept any other correct relevant response)

CONCLUSION

Sustainable economic growth and development in a country is not a given unless the government applies strict and effective policies to manage the economy ✓✓

(Accept any other correct relevant higher order response)

Max (2)

[40]

TOTAL SECTION C:

40

GRAND TOTAL:

150