



# basic education

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Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS**

**NOVEMBER 2011**

**MEMORANDUM**

**MARKS: 300**

**This memorandum consists of 30 pages.**

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

1.1 Multiple-choice questions.

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

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

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

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

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

**TOTAL SECTION A: 50**

**SECTION B**

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

**QUESTION 2**

2.1 Choose the correct word from those given in brackets:

2.1.1 financial ✓✓

2.1.2 opposite ✓✓

2.1.3 trade ✓✓

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

2.2 List any THREE examples of community goods.

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

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

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

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

(3)

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

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

2.3.4 Current transfers ✓✓ (2)

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

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

2.4.2

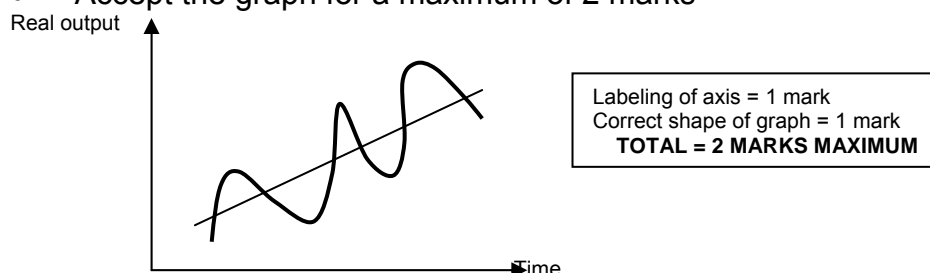
- It is more labour intensive ✓✓ /
- Greatest contributor to the GDP in terms of unskilled labour ✓✓
- Accept any other relevant answer (2)

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

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

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

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



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

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

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

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

(8)  
**[50]**

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

3.1.1 negative ✓✓

3.1.2 maximum / minimum ✓✓

3.1.3 the same ✓✓

3.1.4 allocative ✓✓

(4 x 2) (8)

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

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

**3.3 Study the graph below and answer the questions that follow:**3.3.1  $A / MC = MR$  ✓✓

(2)

3.3.2 Unique product with no close substitutes ✓✓

(2)

3.3.3 Economic profit ✓✓

Income = 200 X R80 = R16 000 ✓

Cost = 200 X R60 = R12 000 ✓

Economic profit = R4 000 ✓✓ / OR

Accept alternative calculation of profit e.g.

 $80 - 60$  ✓ = 20 $20 \times 200$  ✓ = R4 000 ✓✓

(6)

**3.4 Study the graph below and answer the questions that follow.**3.4.1 Oligopoly / imperfect market structure ✓✓

(2)

3.4.2 Price fixing / cartels are hurting the poor ✓✓  
Any other relevant description

(2)

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

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

(Any 1 x 2) (2)

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

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

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

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

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

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



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

4.1.1 regulation ✓✓

4.1.2 central ✓✓

4.1.3 decentralisation ✓✓

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Factors that influence development strategies:**

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

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

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

(Any 2 X 4)

(8)  
[50]

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

5.1.1 Government ✓✓

5.1.2 Destination ✓✓

5.1.3 Direct environmental stress ✓✓

5.1.4 Recycling ✓✓

(4 x 2) (8)

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

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

(Any 3 x 2) (6)

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

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

(Any 1 x 3) (3)

- 5.3.2
- Reduce emission of CO<sub>2</sub> / reducing carbon dioxide (levels of carbon) ✓✓✓

(3)

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

(2 x 2) (4)

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

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

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

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

If only examples are given, a maximum of 4 marks can be allocated.
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**5.6 Discuss any TWO benefits of tourism for the household.**

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

(Any 2 X 4)

(8)  
[50]

Candidates should provide an appropriate explanation for all listed benefits.

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

6.1.1 leading ✓✓

6.1.2 infrastructure ✓✓

6.1.3 GDP ✓✓

6.1.4 renewable ✓✓

(4 x 2) (8)

**6.2 Give THREE reasons for the growth in international tourism**

- Increase in disposable income ✓✓
  - Reduction in working hours ✓✓
  - More awareness of leisure and recreation ✓✓
  - Improved transport, communication and accommodation facilities ✓✓
  - Increases in advertising and promotion ✓✓
  - Awareness of the benefits of holidays and travel ✓✓
  - Ease of obtaining foreign exchange and making payments ✓✓
  - Cheaper flights ✓✓
  - Favourable exchange rates ✓✓
  - Peaceful political transformation ✓✓
  - Dramatic increase in the MICE (Meetings, Incentives, Conferences and Exhibitions) ✓✓
  - Global travel trends ✓✓
  - Improvement in the tourism infrastructure ✓✓
  - Improved coordination with neighbouring countries ✓✓
  - Well established National Parks ✓✓
  - Companies who are leaders in best-practice ✓✓
- Any other relevant fact. (Any 3 x 2) (6)

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

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

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

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

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

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

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

Management failure ✓✓ / behaviour of politicians ✓✓

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

Apathy ✓✓

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

Lack of motivation ✓✓

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

Objectives are not attainable ✓✓

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

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

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



## 6.6 Discuss the effect of tourism on GDP and Employment.

### GROSS DOMESTIC PRODUCT:

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

### EMPLOYMENT:

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

(2 x 4)

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

**SECTION C**

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

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

**QUESTION 7**

**Discuss the main supply reasons for international trade.**

**INTRODUCTION**

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

Any other relevant introduction.

(Max 3 marks)

**BODY****SUPPLY REASONS:**

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

**4. Technology** ✓✓

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

**5. Specialisation** ✓✓

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

**6. Capital** ✓✓

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

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

(Max 40)

**CONCLUSION**

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

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

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
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(Max 5 marks)

**QUESTION 8**

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

**INTRODUCTION**

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

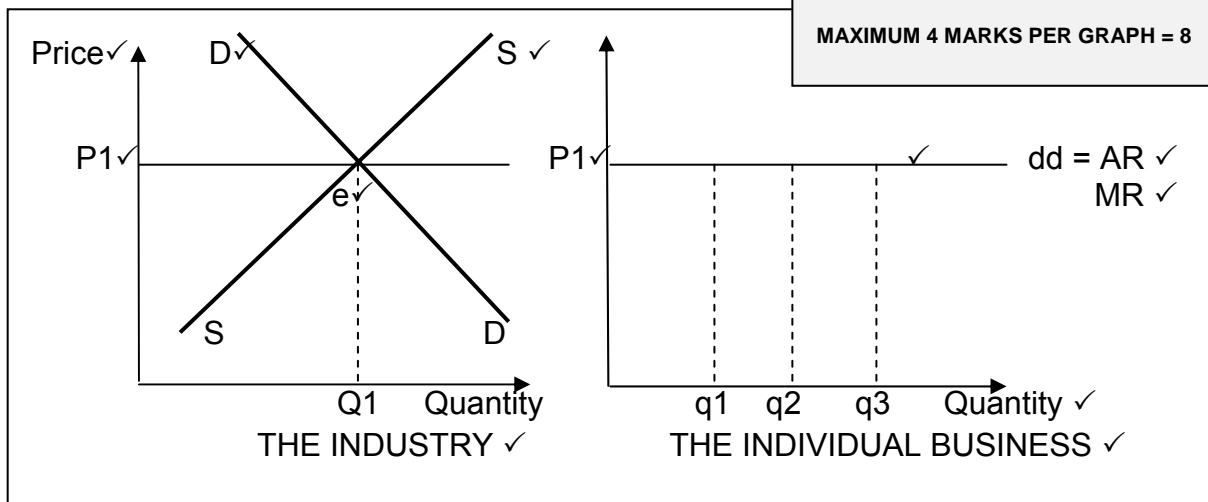
**BODY**

**1. THE INDIVIDUAL BUSINESS**

**1.1 In the market**

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

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

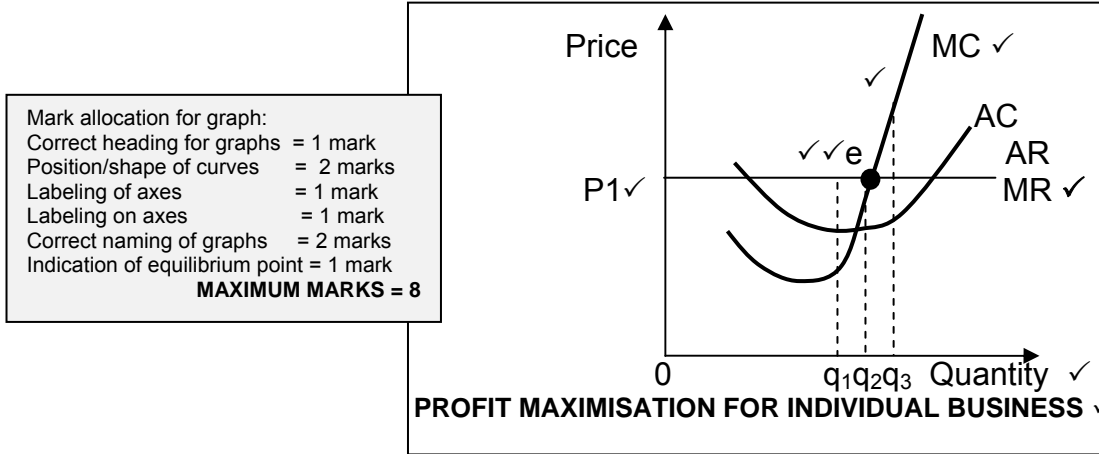


- For each unit sold, business receives same price: therefore  $P1 = AR = MR$  equals individual demand curve ✓✓
- Economic cost = opportunity cost = explicit cost + implicit cost ✓✓
- Explicit cost = actual expenditure of business e.g. wages, interest, leasing of land, raw materials ✓✓
- Implicit cost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

**1.2 Production, profits, losses and supply**

**1.2.1 Maximum profit for individual business**

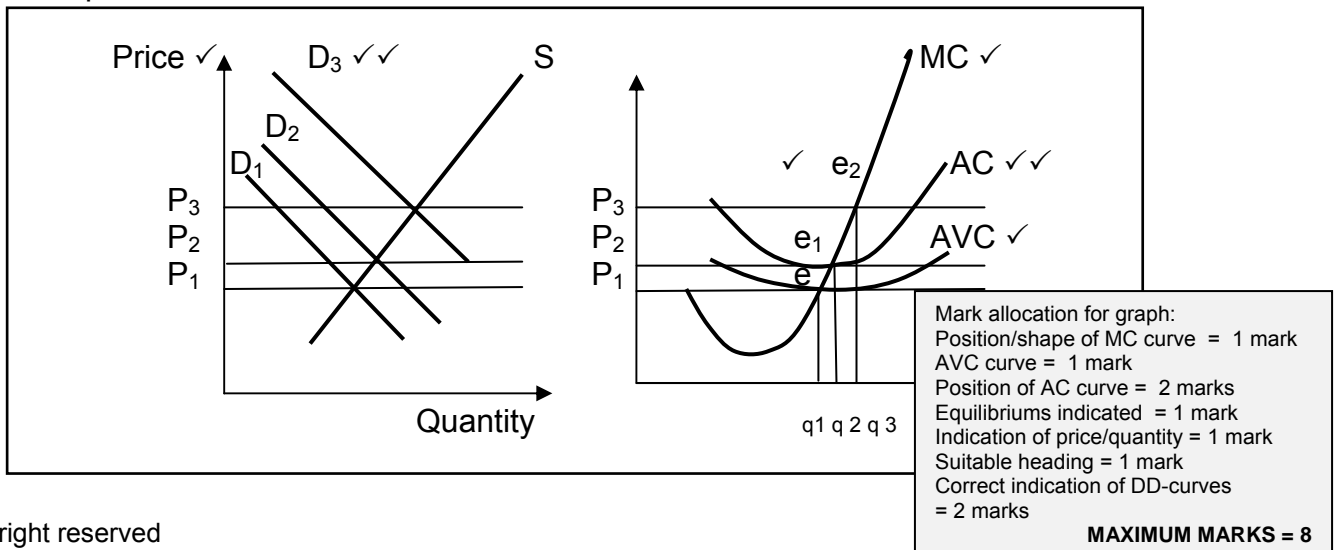
- Demand curve for individual business is a horizontal line at market price ✓✓
- To obtain maximum profits, the market price + own cost structure is taken into account to determine production output. ✓✓
- Graphs:



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

**1.2.2 Production + supply for business**

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

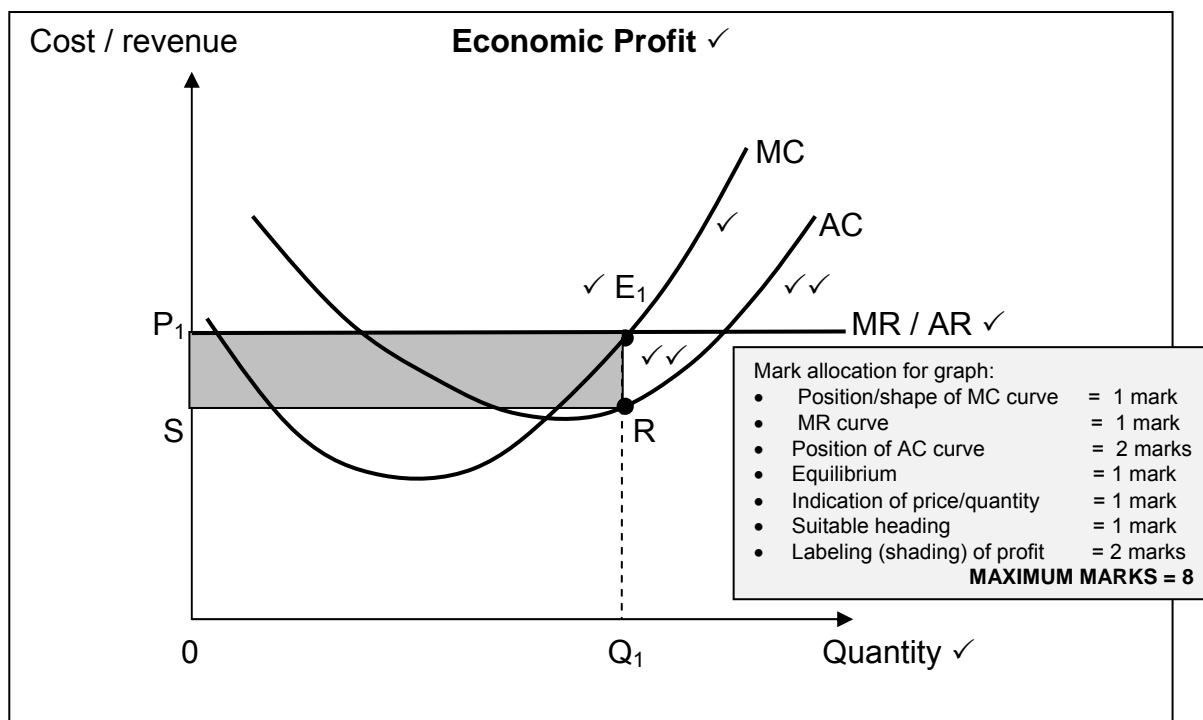


- Market price rises due to increase in demand ✓✓
- Horizontal demand curve for business' product shifts upwards – intersecting SMC curve at point to right of previous point of intersection (e1, e2, e3) ✓✓
- Each point shows maximizing profit where  $MC = MR$  ✓✓
- Points e plot business's supply at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

**Equilibrium positions:**

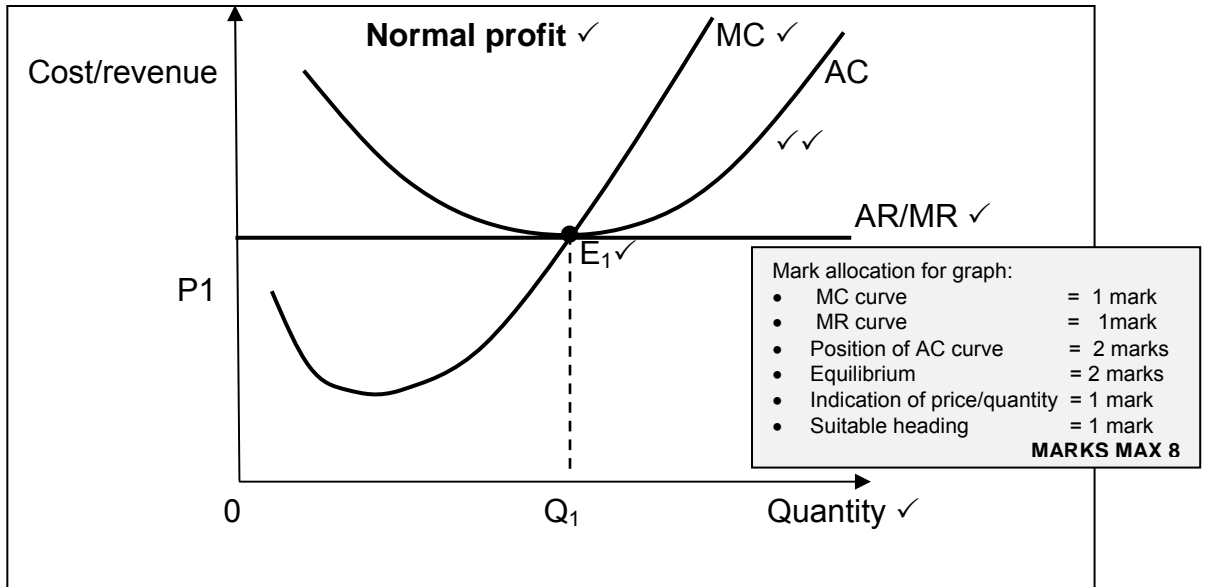
- In a perfect market the individual business faces a perfectly horizontal demand curve. ✓✓
- The market price is determined by the industry (demand and supply curves). ✓✓
- This means that individual businesses are price takers i.e. they are not able to influence prices. ✓✓
- An individual business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

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

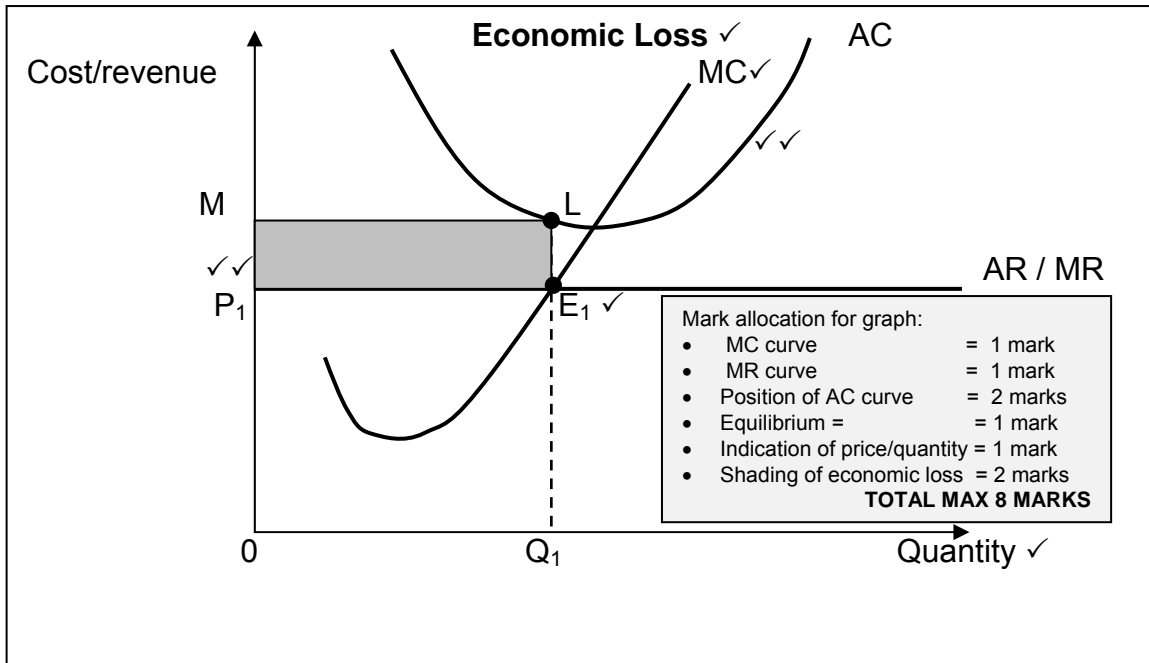


[50]

- Equilibrium is at  $E_1$  i.e. The firm will produce where  $MC = MR$  ✓✓
  - At this point  $Q_1$  goods are produced at a price of  $P_1$ . ✓✓
  - The averages cost for  $Q_1$  units is point R on the AC curve. ✓✓
  - Price /AR is greater than AC. ✓✓ (  $TR > TC$  )
- Therefore economic profit is represented by the area  $P_1SRE_1$  ✓✓



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



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

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

**CONCLUSION**

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

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

(Max 2)

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

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(Max 5 marks)



**QUESTION 9**

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

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

**INTRODUCTION**

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

Any other relevant introduction.

(Max 3)

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

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

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

(Max 12)

## 2. Employment

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

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

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

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

## 3. Money supply

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

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

**4. Inflation rate (CPI)**

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

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

**[50]****CONCLUSION**

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

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(Max 5 marks)

**QUESTION 10**

**Discuss the causes and consequences of demand-pull inflation.**

**INTRODUCTION**

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

**BODY**

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

**Consequences:**

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

**CONCLUSION**

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

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**[50]****TOTAL SECTION C: 100****GRAND TOTAL: 300**