FINAL

KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL

SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

MARKING GUIDELINES

PREPARATORY EXAMINATION

SEPTEMBER 2025

MARKS: 150

This marking guideline consists of 21 pages.

SECTION A: (COMPULSORY) **30 MARKS – 20 MINUTES**

QUESTION 1

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 number (1.1.1 to 1.1.8) in the ANSWER BOOK, for example 1.1.9 D.

1.1.1 D (appeal court) ✓✓

1.1.2 B (average revenue) ✓✓

1.1.3 C (profit maximisation point) ✓✓

1.1.4 B (externality) ✓✓

1.1.5 D (core inflation) ✓✓

1.1.6 A (branding) ✓✓

1.1.8 D (market failure) ✓✓

1.1.8 C (deforestation) ✓✓ (8 x 2) (16)

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

1.2.1 F (a firm has complete control over price) ✓

1.2.2 A (the point at which a business total revenue equals to total costs). ✓

1.2.3 D (natural resources that cannot be replaced within a short period of time). ✓

1.2.4 B (travels through a country to get to another country of destination). ✓

1.2.5 G (a strategy aimed at achieving the sustainable use and management of natural resources). ✓

1.2.6 H (a measure of the overall level of prices in an economy). ✓

1.2.7 I (when a firm temporarily stops production because the revenue it earns cannot cover its variable costs). ✓

1.2.8 E (a market structure where a few large firms dominate the industry). ✓ (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 Average cost. ✓

1.3.2 Hyperinflation. ✓

1.3.3 Monopolistic competition. ✓

1.3.4 Indigenous knowledge systems. ✓

1.3.5 Patent ✓

1.3.6 Price leadership. ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

2.1

2.1.1 Give any TWO examples of non-price competition.

- Branding ✓
- Advertising ✓
- product differentiation ✓
- after sale service ✓
- Door to door deliveries ✓
- Loyalty rewards for customers ✓

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

2.1.2 Why would an oligopoly firm be reluctant to decrease the price?

Under oligopoly, the demand curve is more elastic for price increases and inelastic for price decreases. This means lowering the price will not attract many new customers, since rivals quickly follow with their own cuts. ✓✓

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

2.2 DATA RESPONSE

2.2.1 Identify the market structure that is associated with the extract above. (1)

Monopoly. ✓

2.2.2 What is the nature of the product that is sold by a monopolist. **(1)**

Unique. ✓

2.2.3 Briefly describe the term *productive inefficiency.* **(2)**

Productive inefficiency is the failure to use resources in the best possible way, resulting in wasted inputs or producing less output than could be achieved with the available resources. ✓✓

(Accept any other relevant correct response)

2.2.4 Explain price determination under monopoly. **(2)**

Under monopoly, the firm determines output where marginal cost equals marginal revenue to maximize profit. It then uses the market demand curve to set the highest price consumers are willing to pay for that quantity. ✓✓

(Accept any other relevant correct response)

2.2.5 Why does a monopoly usually make an economic profit in the long run?

- A monopoly usually makes an economic profit in the long run because barriers to entry prevent new firms from entering the market and competing away profits. ✓✓
- With no competition, the monopolist can continue charging high prices above costs, allowing it to sustain profits over time. ✓✓

(Accept any other relevant correct response) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Identify the shutdown point on the graph above. **(1)**

Point A ✓

2.3.2 Name the part of MC curve that is above AVC. **(1)**

Supply curve ✓

2.3.3 Briefly describe the term *perfect competition*. **(2)**

Perfect competition is a market structure where there are many buyers and sellers, where products are identical. ✓✓

2.3.4 Explain the importance of producing where MC = MR. **(1 x 2)(2)**

- Producing where marginal cost (MC) equals marginal revenue (MR) is important because it is the point where a firm maximizes its profit. ✓✓
- If a firm produces more when MC > MR, it incurs a loss on extra units, and if it produces less when MC < MR, it misses out on potential profit. ✓✓
- Therefore, producing where MC = MR ensures efficient resource use and maximum profitability. ✓✓

(Accept any other relevant correct response)

2.3.5 Why should the firm avoid producing beyond profit maximizing point? **(2 x 2) (4)**

- A firm should avoid producing beyond the profit-maximizing point because marginal cost (MC) becomes greater than marginal revenue (MR), which leads to reduced profits. ✓✓
- Producing beyond that point also results in inefficient use of resources, therefore it is not sustainable for the firm's long-term profitability. ✓✓

(Accept any other relevant correct response)

2.4 **Briefly discuss lack of information and immobility of production factors as causes of market failure.** **(4 x 2)(8)**

Lack of information

- Lack of information causes market failure when consumers or producers do not have full knowledge to make correct economic decisions. ✓✓
- Consumers may buy harmful products without knowing the risks. ✓✓
- Producers may underinvest in beneficial goods because they are unaware of demand. ✓✓
- Lack of information leads to inefficient allocation of resources and welfare loss in the economy. ✓✓

(Accept any other relevant correct response) (Max 4)

Immobility of production factors

- Immobility of production factors causes market failure when resources such as land, labour, or capital cannot easily move to where they are mostly needed. ✓✓
- Labour may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital: factory buildings and infrastructure such as telephone lines, bridges, airports are not moveable at will. ✓✓

(Accept any other relevant correct response) (Max 4)
Allocate a maximum of 4 marks for mere listing of facts.

2.5 How does a firm under monopoly make economic loss? **(4 x 2)(8)**

- A firm under monopoly can make an economic loss if its costs of production are higher than the revenue it earns. ✓✓
- Poor management in a monopoly leads to inefficiency, waste of resources, and higher production costs, which may result in economic loss. ✓✓
- Corruption can also drain company funds through misuse of resources and unethical practices, reducing profitability and causing losses. ✓✓
- External factors such as government regulation, high taxes, or economic downturns may reduce profitability. ✓✓
- Therefore, even though a monopoly has market power, it is not guaranteed to always make profits. ✓✓

(Accept any other relevant correct response)

Allocate a maximum of 2 marks for mere listing of facts.

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO examples of world heritage sites. (2 x 1)(2)

- Robben Island ✓
- Cradle of Humankind ✓
- Sterkfontein ✓
- Mapungubwe ✓

(Accept any other correct relevant response)

3.1.2 How would the government use education to reduce pollution?(1 x 2)(2)

- The government can use education to raise awareness about the causes and harmful effects of pollution, encouraging people to adopt environmentally friendly behaviors. ✓✓
- It can also promote training and research in sustainable practices, leading to cleaner technologies and reduced environmental damage. ✓✓

(Accept any other correct relevant response

3.2 **DATA RESPONSE**

3.2.1 Identify the environmental problem depicted by the picture above. (1)

- Air pollution. ✓

3.2.2 Name any ONE environmental tax imposed by the government. (1)

- carbon tax. ✓
- plastic tax. ✓
- pollution tax. ✓
- green tax. ✓

(accept any other correct relevant response)

3.2.3 Briefly describe the term *social costs*. (2)

Social cost refers to the total cost of an economic activity, including both the private costs borne by producers or consumers and the external costs imposed on society, such as pollution or health impacts. ✓✓

(Accept any other correct relevant response)

3.2.4 Explain marketable permits as a measure to ensure sustainable development. **(2)**

- Marketable permits allow firms to buy and sell the right to pollute within a set limit, creating a financial incentive to reduce emissions. ✓✓
- Curbing total pollution and enabling trading, encourages efficient resource use while promoting sustainable development. ✓✓

(Accept any other correct relevant response)

3.2.5 Why would the government grant property rights?

- The government grants property rights to give individuals or firms legal ownership and control over resources or assets. ✓✓
- Granting property rights encourages people to use resources efficiently and invest in their maintenance or improvement. ✓✓
- Clear property rights also help prevent conflicts over resources and support economic growth. ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Identify the economic problem on the picture above.

Inflation. ✓ (1)

3.3.2 Name any ONE cause of cost push inflation.

- Wages ✓
- key inputs ✓
- natural disasters ✓
- productivity ✓
- profit margins ✓ (1)

3.3.3 Briefly describe the term *headline inflation.*

- Headline inflation is the total inflation rate in an economy, including all goods and services, even those with volatile prices like food and fuel. ✓✓

(Accept any other correct relevant response) (2)

3.3.4 Explain the impact of inflation on consumers.

- Inflation reduces the purchasing power of money, meaning consumers can buy fewer goods and services with the same amount of money. ✓✓
- As prices rise, the cost of living increases, making it harder for households to maintain their standard of living. ✓✓

(Accept any other correct relevant response) (2)

3.3.5 How does the government use taxation to combat cost push inflation?

- The government can use taxation to combat cost-push inflation by reducing taxes on businesses, such as corporate tax or import duties. ✓✓
- Lower taxes reduce production costs, helping businesses keep prices stable. ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

3.4 Briefly discuss investors' expenditure and government expenditure as causes of demand-pull inflation.

Investors' expenditure

- Investors' expenditure can cause demand-pull inflation when businesses increase spending on projects and equipment's. ✓✓
- Extra investment raises overall demand in the economy, which can push prices up if supply cannot keep pace. ✓✓
- The increased competition for resources further fuels price increases. ✓✓

(Accept any other relevant correct response) (Max 4)

Government expenditure

- Government expenditure can cause demand-pull inflation when the state increases spending on goods, services, or infrastructure projects. ✓✓
- The extra spending boosts overall demand in the economy, which can push prices up if production cannot keep up. ✓✓
- Large public sector projects often compete with the private sector for resources, further driving prices higher. ✓✓

(Accept any other relevant correct response) (Max 4)

Allocate a maximum of 4 marks for mere listing of facts.

3.5 How can the government use climate change policy as a measure to ensure sustainable development?

- The government can use climate change policy to promote sustainable development by setting regulations that limit greenhouse gas emissions from industries and transportation. ✓✓
- It can invest in renewable energy sources, such as solar and wind power, to reduce dependence on fossil fuels. ✓✓
- Policies can encourage energy efficiency through incentives for eco-friendly technologies in homes and businesses. ✓✓
- The government can also protect natural resources by enforcing laws against deforestation and promoting sustainable agriculture. ✓✓
- Education and awareness campaigns can help citizens adopt environmentally friendly practices. ✓✓

(Accept any other relevant correct response) (4 x 2) (8)
Allocate a maximum of 2 marks for mere listing of facts.

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO examples of fixed costs.

- Salaries ✓
- Rent lease/ contracts / property taxes ✓
- Insurance ✓

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

4.1.2 Why would firms under perfect competition exit the market?

- Firms under perfect competition exit the market when the market price falls below their average total cost, causing persistent economic losses. ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 Identify the price charged by the oligopoly firm on the graph above.

- R50 ✓ (1)

4.2.2 Give the name of the above graph.

- Kinked demand curve ✓ (1)

4.2.3 Briefly describe the term *oligopoly.*

- An oligopoly is a market structure where a few large firms dominate the industry, and their decisions are interdependent, often leading to limited competition and potential collusion. ✓✓

(Accept any other relevant correct response) (2)

4.2.4 Explain non-price competition as a characteristic of oligopoly?

- Non-price competition in an oligopoly refers to firms competing through methods other than lowering prices, such as advertising, product differentiation, branding, packaging, and better customer service, to attract and retain consumers while avoiding price wars. ✓✓

(Accept any other relevant correct response (2)

4.2.5 Why would firms under oligopoly be interdependent?

- Firms under oligopoly are interdependent because each firm's decisions on price, output, or marketing directly affect the profits of its competitors. ✓✓
- Firms must anticipate and respond to rivals' actions to maintain their market position and profitability. ✓✓

(Accept any other relevant correct response (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 Identify the type of tourism in the picture above. (1)

Inbound tourism
Eco-tourism

4.3.2 Name the reason for tourism activity in the above picture.

Leisure ✓ (1)

4.3.3 Briefly describe the term *eco-tourism*.

Eco-tourism is a type of tourism that focuses on visiting natural areas in a responsible way to conserve the environment and support local communities. ✓✓

(Accept any other relevant correct response) (2)

4.3.4 Explain the importance of tourism growth to the government?

- Tourism growth is important to the government because it generates revenue and create jobs, boosting the country's economy. ✓✓
- It also promotes infrastructure development and enhances the nation's international image. ✓✓

(Accept any other relevant correct response) (2)

4.3.5 How can political instabilities negatively affect tourism?

- Political instabilities can negatively affect tourism because they create safety concerns, discouraging both domestic and foreign tourists from visiting. ✓✓
- This reduces tourism revenue and harm businesses that rely on tourist spending. ✓✓

(Accept any other relevant correct response) (2 x 2) (4)

4.4 Briefly discuss conservation and preservation of environment.

Conservation

- Conservation of the environment is the sustainable use and management of natural resources to protect ecosystems and biodiversity for present and future generations. ✓✓
- It involves practices such as reducing pollution, protecting wildlife, preventing deforestation and promoting renewable energy. ✓✓

(Accept any other relevant correct response) (Max 4)

Preservation

- Preservation of the environment is the protection of natural areas and resources from human interference to maintain their original condition. ✓✓
- It focuses on keeping ecosystems, wildlife, and natural landscapes untouched and preventing any form of exploitation or degradation. ✓✓

(Accept any other relevant correct response) (Max 4)

(A maximum of 4 marks may be allocated for mere listing of facts/ examples)

4.5 How would tourism positively affect the economy of a country?

- Tourism positively affects a country's economy by creating jobs in hotels, restaurants, transport, and entertainment sectors, reducing unemployment. ✓✓
- It generates foreign exchange earnings when international tourists spend money, which strengthens the country's currency and trade balance. ✓✓
- Tourism also encourages investment in infrastructure, such as airports, roads, and public facilities, which benefits both tourists and residents. ✓✓
- Local businesses, including artisans and service providers, gain increased income, stimulating economic growth. ✓✓
- Tourism can diversify the economy, reducing dependence on a single industry and promoting sustainable development. ✓✓

(Accept any other relevant correct response) (4 x 2) (8)

Allocate a maximum of 2 marks for mere listing of facts.

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the TWO questions in the ANSWER BOOK.

Your answer will be assessed as follows:

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

- **Discuss in detail state intervention as a consequence of market failures, with the aid of relevant graphs.**

- **How can competition policy be used to reduce inefficiency in the market?**

INTRODUCTION

When market failure occurs, consequences such as inefficiencies, spill-over effects, imperfect competition and government intervention are likely to prevail. ✓✓ (Max 2)

(Accept any other correct relevant introduction)

BODY: MAIN PART

Direct control ✓

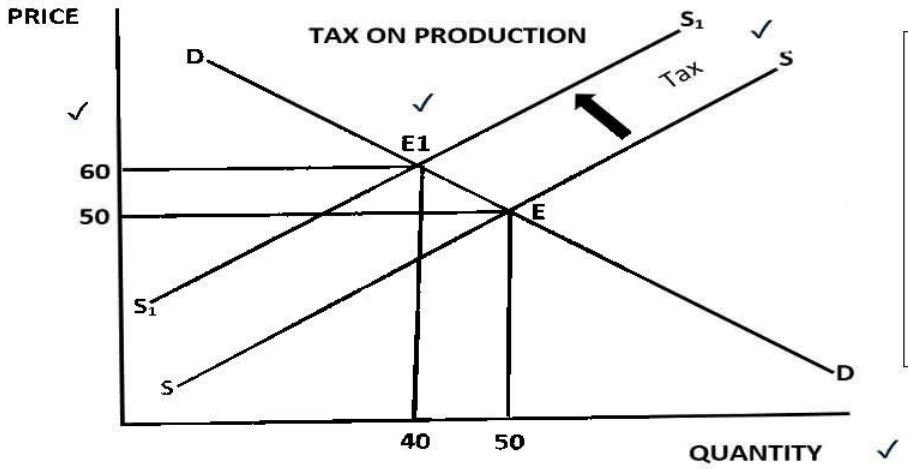
- The state can pass laws or use existing legislative frameworks to control businesses and industries, individuals who generate negative externalities. ✓✓
- In South Africa, emissions of potentially dangerous chemicals, air and scenic pollution and environmental preservation are controlled through various Acts or regulations. ✓✓
- Advertising by the tobacco industry is prohibited and alcohol may not be sold on Sundays or to persons' under the age of 18 years. ✓✓

Imperfect markets ✓

- Formulating or implementing a competition policy to increase the level of competition. ✓✓
- Using laws on competition to prevent exorbitant prices charged by firms, to ensure that entry to the market is free, prevent harmful collusion and encourage foreign competition which helps to keep prices low. ✓✓
- Granting licences to more businesses in the case of state monopolies. Imposing price controls to decrease prices of goods and services. ✓✓

Levying of taxes on producers ✓

- The government will intervene in the market by levying taxes to recover external costs. ✓✓
- These taxes will increase the price and will result in a decrease in production of a certain goods. ✓✓



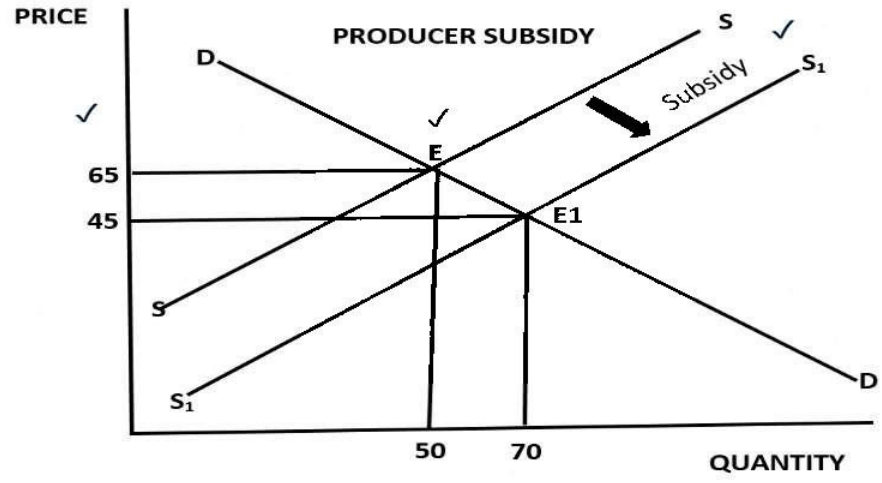
- Labelling of and on Axis = 1 mark
- Correct drawing and indication of original tax = 1 mark
- Correct indication of equilibrium after tax = 1 mark
- Correct indication of new supply curve = 1 mark

Total = 4 marks

- Levying taxes could be used as a strategy of reducing production and consumption of demerit goods as well as generating revenue for the state. ✓✓
- Firms and consumers will then be allocating resources in a more efficient way. ✓✓

Providing producer subsidies ✓

- The government provides subsidies to producers to encourage them to produce more goods and services. ✓✓



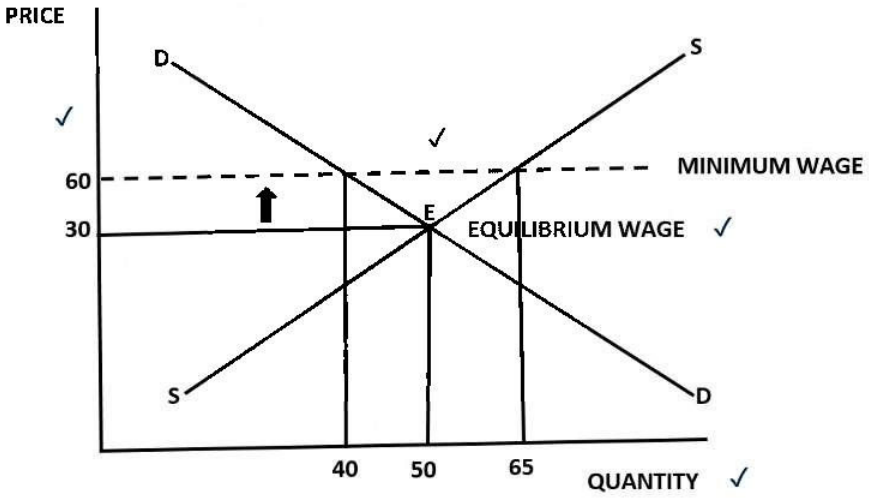
- Labelling of and on Axis = 1 mark
- Correct drawing and indication of subsidy = 1 mark
- Correct indication of equilibrium after subsidy = 1 mark
- Correct indication of new supply curve = 1 mark

Total = 4 marks

- Subsidies increase supply of specific goods and services such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered, increasing consumption. ✓✓

Minimum wages ✓

- A minimum wage is the lowest remuneration that employers are required by law to pay their workers. ✓✓
- Income for the workers will increase and as a result their standard of living will improve. (improve welfare and ensure basic needs are met). ✓✓



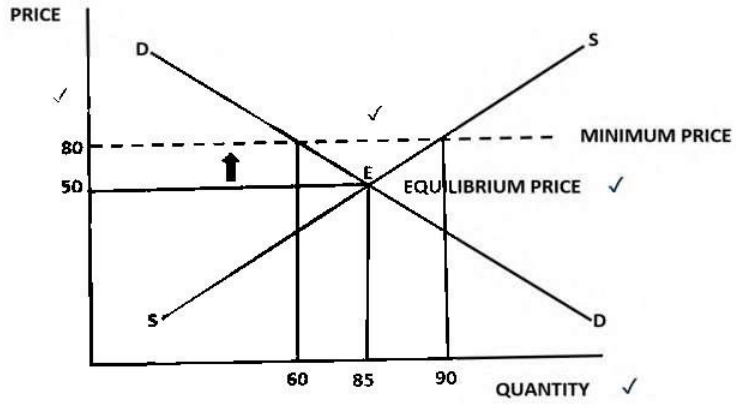
- Labelling of and on Axis = 1 mark
- Correct drawing and indication of minimum wage = 1 mark
- Correct indication of equilibrium market wage = 1 mark
- Correct indication of changes after implementation of minimum wage = 1 mark

Total = 4 marks

- If a minimum wage is set above the equilibrium market wage, supply of labour will exceed the demand for labour. ✓✓
- This will increase the cost of labour, resulting in higher cost of production for businesses. ✓✓
- Some workers may be retrenched and increase unemployment while production decreases.
- Minimum wages will lead to more bargaining power of workers. ✓✓

Minimum prices ✓

- The government is obliged to intervene to ensure sufficient supplies of staple food in the market. ✓✓



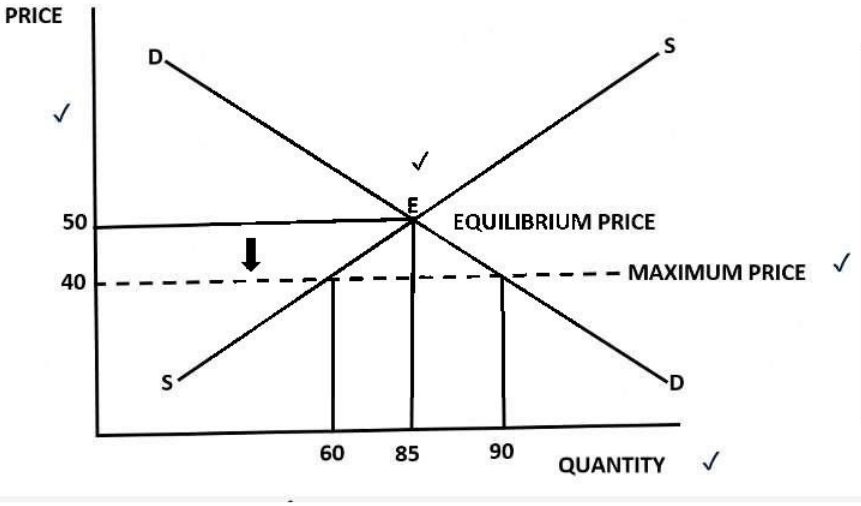
- Labelling of and on Axis = 1 mark
- Correct drawing and indication of minimum price = 1 mark
- Correct indication of equilibrium market price = 1 mark
- Correct indication changes after implementation of minimum prices = 1 mark

Total = 4 marks

- The approach of setting minimum prices or price floors will be used so that it will be worthwhile for producers (to make a comfortable profit) to produce essential goods in desired quantities. ✓✓
- These are prices that are set above the market price by the government. ✓✓
- Minimum prices, however, have unwanted side-effects as they cause a surplus in the Market. ✓✓
- Surplus products become a challenge to dispose of as they should rather be sold at lower costs, dumped to other countries which is prohibited by the WTO or be destroyed. ✓✓

Maximum prices ✓

- The government will set a maximum price if the price is deemed to be too high for essential goods (basic goods). ✓✓



- Labelling of and on Axis = 1 mark
- Correct drawing and indication of maximum price = 1 mark
- Correct indication of equilibrium market price = 1 mark
- Correct indication of a change after implementation of a maximum price = 1 mark

Total = 4 marks

- The maximum price that is set by the government below the market price is known as a *price ceiling* or maximum price. ✓✓
- The government will intervene in the market by passing laws that suppliers may not charge more than the maximum price. ✓✓
- The immediate effect of maximum prices on the market is the quantity supplied drops thus causing shortages. ✓✓
- Shortages in supply for certain goods in the market will result in the establishment of the *'black markets'*. ✓✓

Redistribution of wealth ✓

- The South African government uses a progressive income tax system to redistribute income and wealth. ✓✓
- Traditional methods such as levying various taxes, provisioning of free services, benefits in kind and cash benefits are used to reduce the income gap. ✓✓
- The government can also implement redress methods such as BBBEE, affirmative action, land restitution, land redistribution and property subsidies to redistribute wealth among the population. ✓✓

Government involvement in production ✓

- Subsidising merit goods to increase production and consumption, imposing taxes on demerit goods to reduce production. ✓✓
- Levying income taxes, indirect taxes and wealth taxes to provide community goods free of charge. ✓✓
- Providing collective goods such as refuse removal, waste disposal and sewerage drainage for a user fee. ✓✓

(Accept any other correct relevant response) (Max 26)

(A maximum of 8 marks may be allocated for subheadings and examples)
(A maximum of 4 marks for the graphs and a maximum of 4 marks for the Explanation of a graph)

ADDITIONAL PART

How can competition policy be used to reduce inefficiency in the market?

- Competition policy can reduce inefficiency in the market by preventing monopolies and unfair practices that limit consumer choice. ✓✓
- Competition policy can be used to encourage more firms to enter the market, which increases competition and improves efficiency. ✓✓
- Competition policy can be used to prohibit collusion and price fixing to ensure fair pricing and better quality goods and services. ✓✓
- The policy also promotes innovation, as firms must improve products to remain competitive. ✓✓
- Competition policy helps create a fair, efficient, and consumer-friendly market environment. ✓✓

(Accept any other relevant correct response) (Max 10)

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

Conclusion

Market failure may also result in inefficiencies in the way resources are allocated and used in producing goods and services. ✓✓

(Accept any other correct relevant higher order conclusion) (Max 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

Discuss in detail the measures to combat inflation. (26 marks)
Analyse the success of inflation targeting in South Africa. (10 marks)

Introduction

Inflation refers to a sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money. ✓✓

(Accept any other correct relevant introduction) (Max 2)

Body

Main Part

MONETARY POLICY MEASURES ✓✓

Monetary policy measures to combat inflation are taken by the South African Reserve Bank (SARB) and government through the implementation of one or more of the following instruments:

Interest rates ✓

- The SARB curbs inflation by increasing the repo rate which makes it expensive to borrow money. ✓✓
- Banks pass on the increased cost of borrowing (repo rate) to their clients by increasing the interest rate. ✓✓
- High interest rate discourages consumers from taking unnecessary credit, discouraging consumer spending. ✓✓
- A decrease in credit creation results to a reduction in the money supply thereby reducing demand-pull inflation. ✓✓
- The increase in interest rates stabilises the value of the currency which helps to reduce cost-push inflation through lower import cost. ✓✓

Open market transactions ✓

- The SARB can directly decrease the supply of money by selling government securities in the open market. ✓✓
- When banks buy these securities money flows from banks to the SARB which reduces money supply. ✓✓
- Reduction in money supply will reduce aggregate demand controlling demand-pull inflation. ✓✓

Cash Reserve Requirements ✓

- Commercial banks are required to hold a certain minimum cash reserve with the central bank. ✓✓
- An increase in the cash reserve requirement limits the amount of money that banks can give out as credit and help to curb inflation. ✓✓

Moral suasion ✓

- The SARB can persuade commercial banks to act in a responsible manner when granting credit under inflationary conditions. ✓✓
- Moral suasion helps to reduce inflation because credit will be granted to fewer consumers. ✓✓

FISCAL POLICY MEASURES ✓

Inflation can be combated through fiscal changes in taxation and government expenditure. ✓✓

The following are actions that can be taken:

Government expenditure ✓

- The state can reduce expenditure by postponing some government projects such as roads, hospitals and schools. ✓✓
- Aggregate demand will decrease thereby reducing demand-pull inflation. ✓✓
- The government may finance a budget deficit from the non-banking sector to limit inflation. ✓✓

Taxation ✓

- Government can increase direct taxation such as personal income tax to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- The state can impose surcharges on imported goods which will increase their prices, discouraging consumer spending. ✓✓
- A loan levy can be used to reduce disposable income of consumers. ✓✓
- The government may reduce taxes on savings or introduce tax-free savings accounts to encourage saving and reduce spending. ✓✓

OTHER MEASURES

Additional measures that can be used to combat inflation include:

Increase productivity. ✓

Improved education and training allow for more people to be employed and ensure that they are more productive. ✓✓

Price Control: ✓

The government ensures that certain essential goods remain affordable by fixing their price. ✓✓

Wage Policy: ✓✓

A wage policy should keep wage increases in line with inflation rate. ✓✓

Stricter conditions for consumer credit: ✓

The National Credit Regulator may impose strict requirement on consumer credit which will reduce aggregate demand. ✓✓

Import controls are relaxed: ✓

More imports may help to supplement local supply of goods and services, reducing inflation caused by product shortages. ✓✓

Floating exchange rate: ✓

Prices are automatically adjusted to international conditions which allow free operation of the price mechanism (real prices). ✓✓

Indexation: ✓

Refers to a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indexes to eliminate the effects of inflation. ✓✓

(Accept any other correct relevant response) (26 marks)

(Allocate a **maximum of 8 marks** for subheadings and examples)

ADDITIONAL PART

Analyse the success of inflation targeting in South Africa.

- Inflation targeting in South Africa, introduced in 2000, has helped maintain price stability by keeping inflation mostly within the 3 – 6% target range. ✓✓
- It has improved transparency and accountability, as the South African Reserve Bank (SARB) clearly communicates its policy goals and decisions. ✓✓
- However, challenges such as rising fuel prices, food costs, and a volatile exchange rate have often pushed inflation above the target. ✓✓
- While inflation targeting has built credibility and investor confidence, critics argue that it sometimes comes at the expense of economic growth and employment. ✓✓
- It has been moderately successful in stabilizing inflation but less effective in addressing structural issues in the economy. ✓✓

(Accept any other correct relevant response) (10 marks)
(Allocate a maximum of 2 marks for mere listing of facts)

Conclusion

If inflation is not well managed through appropriate monetary and fiscal policies, it can reduce purchasing power, increase uncertainty, and discourage investment. In the long run, this can slow economic growth, worsen inequality, and create instability in the economy.

(Accept any other correct relevant higher order conclusion) (Max.2) **[40]**

TOTAL SECTION C: 40

GRAND TOTAL: 150