KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P1

COMMON TEST

JUNE 2024

MARKS: 150

TIME: 2 hours

This question paper consists of 13 pages.

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INSTRUCTIONS AND INFORMATION

1. Answer THREE questions as follows:

   - SECTION A: COMPULSORY
   - SECTION B: Answer any TWO questions from this section.
   - SECTION C: Answer any ONE of the two questions.

2. Number the answers correctly according to the numbering system used in this question paper.

3. Write the number of each question above each answer.

4. Read the questions carefully and start EACH question on a new page.

5. Leave at least ONE line between subsections of each question.

6. Start each question on a new page.

7. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

8. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.

9. Use ONLY blue or black ink.

10. Non-programmable pocket calculators may be used.

11. Write legibly and present your work neatly.

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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 number (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1. The market where consumers and producers make long term deposits and borrowing is called …market.

A. money
B. goods
C. capital
D. resources

1.1.2. 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

1.1.3. Action taken by government in respect of taxation and expenditure to influence economic activity is called… policy.

A. monetary
B. fiscal
C. exchange
D. credit

1.1.4. Indicators that change at the same time and in the same direction as the economy changes are known as … indicators.

A. leading
B. lagging
C. composite
D. co-incident

1.1.5. The Laffer curve shows the relationship between. . .

A. tax revenue and tax rate.
B. income and expenditure.
C. nominal and real figures.
D. tax revenue and wages.

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1.1.6. Long and time-consuming procedures that hampers service delivery is known as ...

A. corruption.
B. incompetence.
C. competence.
D. bureaucracy.

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. Removal of unnecessary restriction that prevents trade is called ...

A. sanctions
B. deregulation
C. disinvestment
D. regulation

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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 number (1.2.1–1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

COLUMN A		COLUMN B		
1.2.1	Moral suasion	A.	Shows income and expenditure estimates for a three-year period	
1.2.2	Nationalisation	B.	Levied on sale of goods and services.	
1.2.3	Indirect tax	C.	The record of transactions of the country with the rest of the world.	
1.2.4	Amplitude	D.	When government takes-over businesses that were previously owned by the private sector.	
1.2.5	Households	E.	Persuasion of banks by the South African Reserve Bank (SARB) to offer credit responsibly.	
1.2.6	Balance of payment	F.	The value of the alternative that must be forgone in order to pursue certain action.	
1.2.7	Opportunity cost	G.	When debit and credit entries on the balance of payment account are not in balance.	
1.2.8	Medium-term-expenditure framework	H.	The difference in the value of output at the peak and the value of output at the trough.	
		I.	The owners of the factors of production.	
			(8 x 1)	(8)

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1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

1.3.1 An economy that has no foreign sector as a participant.

1.3.2 Money paid by the government to a person/institution without any counter performance.

1.3.3 A negative economic growth rate for at least two consecutive quarters.

1.3.4 Goods that are supplied by the state because it is believed that they would be under-supplied.

1.3.5 Allows for all errors and omissions in calculating Gross Domestic Product.

1.3.6 An increase in the price of a currency in terms of another currency due to market forces. (6)

TOTAL SECTION A: 30

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QUESTION 2: MACROECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Name the TWO policies in which the new economic paradigm is embedded. (1x2) (2)

2.1.2 Why is it important to calculate the gross domestic product? (2x1) (2)

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

THE MULTIPLIER EFFECT...

South Africa has won the rights to host the 2027 International Cricket World Cup. The games will be hosted in the city of Johannesburg, Durban, Cape Town and Port Elizabeth. It is expected that the event will contribute directly and indirectly into the economy increasing GDP and stimulating employment opportunities. The Government is expected to spend to the region R100 Million in infrastructure development. The South African citizens normally save 20% of their income.

EXTRACT FROM: WWW.CITIZENS.CO.ZA

2.2.1. Name the type of injection that will happen in the South African economy. (1)

2.2.2. Identify the value of the marginal propensity to consume from the extract. (1)

2.2.3. Briefly describe the term *induced spending.* (2)

2.2.4. How does the marginal rate of taxation affect the multiplier? (2)

2.2.5. Use the formula: $k = \frac{1}{mps}$ to calculate the change in the South African national income given the marginal propensity to save is 0.2. (Show all calculations) (4)

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2.3 Study the information below and answer questions that follow.

RESERVE BANK HOLDS RATES STEADY WHILE IT WAITS FOR INFLATION CERTAINTY

DATE	INTEREST RATE DECISIONS
27 March 2024	8.25%
29 February 2024	8.25%
25 January 2024	8.25%
30 December 2023	8.25%
23 November 2023	8.25%
31 October 2023	8.25%
31 August 2023	8.25%
20 July 2023	8.25%
29 June 2023	8.25%

Adapted from *Tradingeconomics.com*

2.3.1. Identify the monetary instrument that is mainly used in South Africa. (1)

2.3.2. Which committee is responsible for making decisions on the tool shown on the table above? (1)

2.3.3. Briefly describe the term *extrapolation.* (2)

2.3.4. What is the negative impact of uncontrolled granting of credit on the economy? (4)

2.3.5. How can an increase in money supply positively influence the economy of South Africa? (2)

2.4 Differentiate between *exogenous approach* and *endogenous approach* in business cycles. (8)

2.5 Evaluate the role of the financial market on the South African economy. (8)

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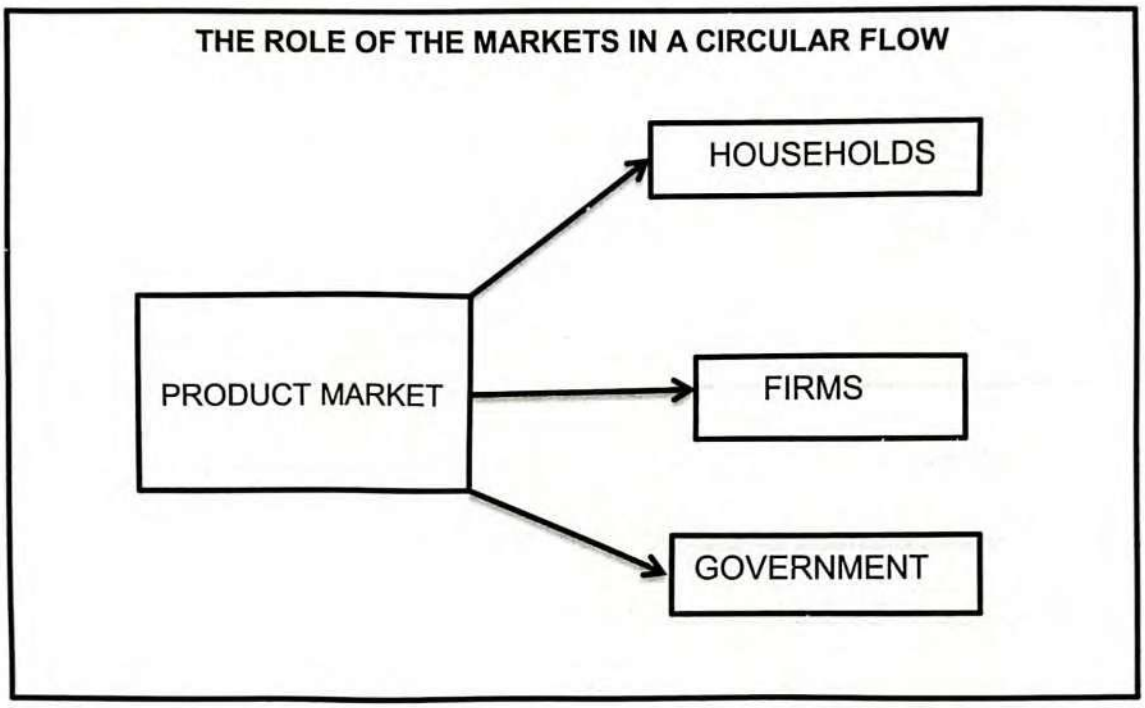
QUESTION 3: MACROECONOMICS 40 MARKS – 30 MINUTES

3.1

3.1.1. Name any TWO types of consumer goods. (2x1) (2)

3.1.2. How can an increase in government spending affect price levels? (1x2) (2)

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



3.2.1. Identify the market depicted on the above diagram. (1)

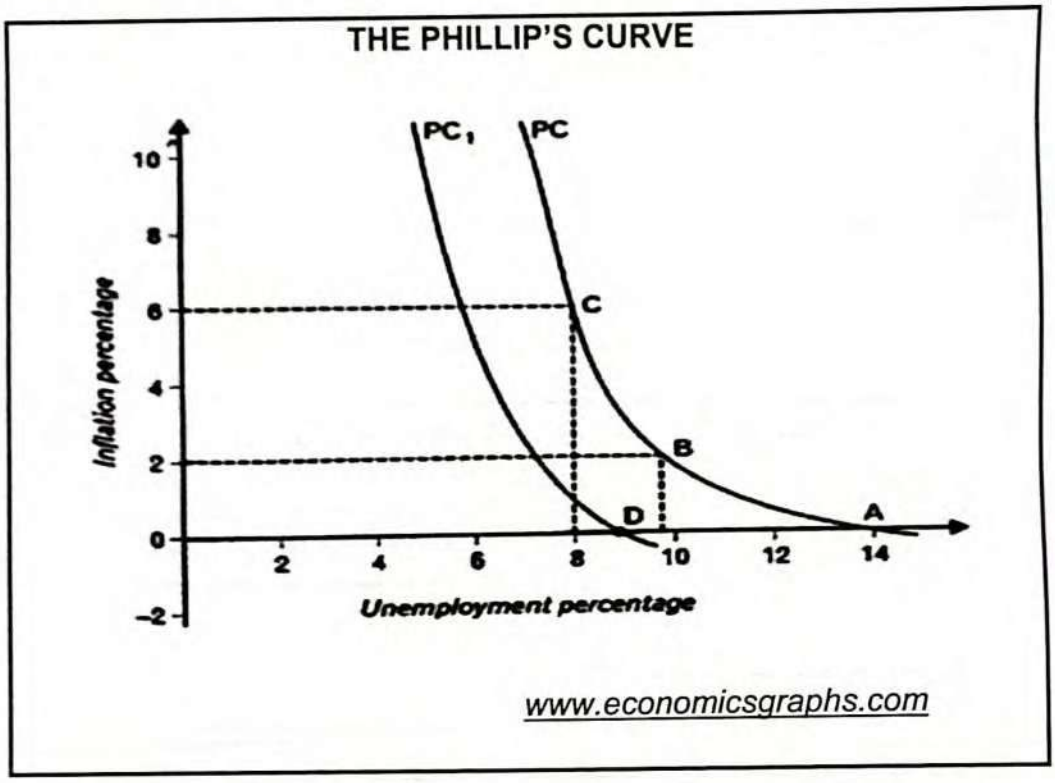
3.2.2. Name the participant that provides public goods and services from the above diagram. (1)

3.2.3. Briefly describe the term *circular flow*. (2)

3.2.4. Explain the role of the business sector in the economy. (2)

3.2.5. How can a good relationship with other countries benefit South Africans? (4)

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



3.3.1. Identify the natural rate of unemployment in the graph above. (1)

3.3.2. Name one demand biased policy used to curb inflation. (1)

3.3.3. Briefly describe the term *real business cycle.* (2)

3.3.4. What is the effect of a decrease in unemployment on the inflation rate? (2)

3.3.5. How can the government move PC to PC1 without triggering too much inflation? (4)

3.4. Distinguish between *recovery phase* and *depression phase* of business cycle. (8)

3.5. How can a decrease in final consumption by households affect the economy? (8)

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QUESTION 4: MACROECONOMICS 40 MARKS – 30 MINUTES

4.1. Answer the following questions.

4.1.1. Name the TWO periods of business cycles. (1x2) (2)

4.1.2. How can subsidies on production benefit the economy of the country? (2x1) (2)

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

GROSS VALUE ADDED METHOD-SOUTH AFRICA		
R Millions	**2022**	**2023**
Primary sector	491 860	62 753
Secondary Sector	941 459	1 042 456
Tertiary Sector	3 596 256	3 902 399
Gross Value Added @ basic prices	**(A)**	**5 572 608**

Adapted from the SARBQB, June 2023

4.2.1. Identify the method for calculating the gross domestic product shown above. (1)

4.2.2. Name the sector that is responsible for the extraction of raw material. (1)

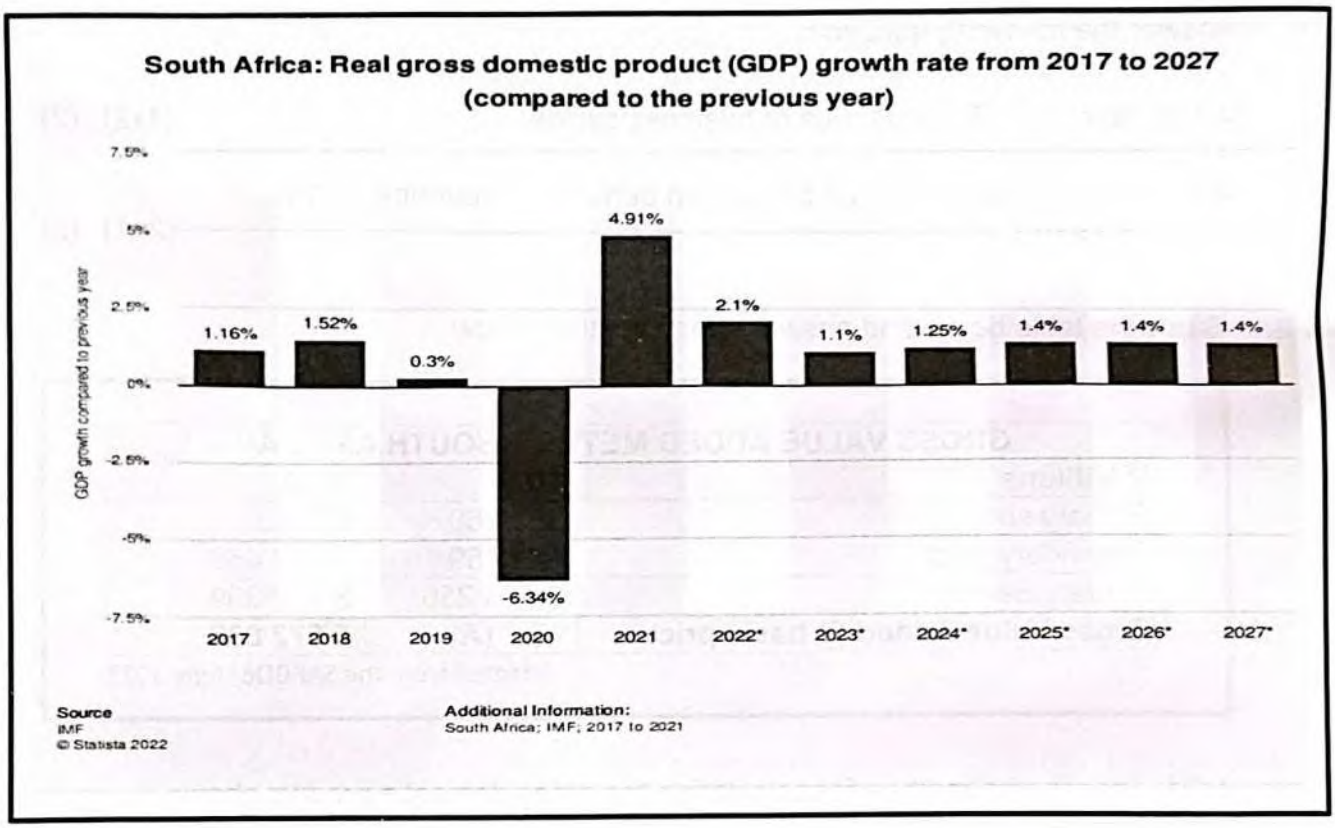
4.2.3. Briefly describe the term *basic price*. (2)

4.2.4. Why are unfinished products excluded when calculating the gross domestic product? (2)

4.2.5. Calculate the Gross Value Added (A) for 2022 on the above table. (Show all your calculations). (4)

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4.3. Study the information below and answer questions that follow.



4.3.1. Identify the measurement of business cycle shown above. (1)

4.3.2. Name ONE type of business cycles. (1)

4.3.3. Briefly describe the term *trough.* (2)

4.3.4. What is the negative impact of the economy staying long in a slump (downswing)? (2)

4.3.5. How can infrastructural development improve the state of the economy? (4)

4.4. Without the use of a graph, briefly discuss the multiplier effect. (8)

4.5. How can the South African government reduce the high unemployment rate? (8)

TOTAL MARKS SECTION B: 80

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SECTION C

Answer **ONE** question from this section in the ANSWER BOOK
Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: **Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/ Analyse/Compare/ Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate	Max. 26
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	Max. 10
Conclusion: Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgment 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 – 30 MINUTES

- Discuss in detail the main objectives of the public sector in the economy. (26)
- How successful is the South African government in providing services to the public? (10)

QUESTION 6: MACROECONOMICS — 40 MARKS – 30 MINUTES

- Discuss in detail the reasons for international trade. (26)
- How does South Africa benefit from international trade? (10)

TOTAL MARKS SECTION C: 40

GRAND MARKS TOTAL: 150

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FINAL

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JUNE 2024

MARKING GUIDELINE

MARKS: 150

TIME: 2 hours

This marking guideline consists of 18 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1. MULTIPLE CHOICE

1.1.1 C – Capital✓✓

1.1.2 A – gross national✓✓

1.1.3 B – fiscal✓✓

1.1.4 D – coincident✓✓

1.1.5 A – tax revenue and tax rate✓✓

1.1.6 D – bureaucracy✓✓

1.1.7 C – terms of trade✓✓

1.1.8 B – deregulation✓✓ **(2X8) (16)**

1.2. MATCHING ITEMS

1.2.1. E - Persuasion of banks by the South African Reserve Bank (SARB) to offer credit responsibly. ✓

1.2.2. D - When government takes-over businesses that were previously owned by private sector. ✓

1.2.3. B - Levied on sale of goods and services. ✓

1.2.4. H - The difference in the value of output at the peak and the value of output at the trough. ✓

1.2.5. I - The owners of the factors of production. ✓

1.2.6. C - The record of transactions of the country with the rest of the world. ✓

1.2.7. F - The value of the alternative that must be forgone in order to pursue certain action. ✓

1.2.8. A - Shows income and expenditure estimates for a three-year period. ✓

(1X8) (8)

1.3. CONCEPTS

1.3.1. Closed economy✓

1.3.2. Transfer payments✓

1.3.3. Recession✓

1.3.4. Merit goods✓

1.3.5. Residual item✓

1.3.6. Appreciation✓ **(1X8) (8)**

QUESTION 2: MACROECONOMICS 40 MARKS – 30 MINUTES

2.1. Answer the following questions.

2.1.1 Name the TWO policies in which the new economic paradigm is embedded. (1X2) (2)

- Demand-side policies✓
- supply-side policies✓

2.1.2 Why is it important to calculate the gross domestic product? (2X1) (2)

- GDP statistics are used to measure the performance level of economic activities. ✓✓
- GDP growth is used a basis of making economic decisions. ✓✓
- Governments use these statistics to choose policies to be used to address economic challenges. ✓✓

(Accept any other relevant and correct response)

2.2. DATA-RESPONSE

2.2.1. Name the type of injection that will happen in the South African economy. (1)

Government spending✓

2.2.2. Identify the value of the marginal propensity to consume from the extract. (1)

0.8✓/ 80%✓

2.2.3. Briefly describe the term *induced spending* (2)

Induced spending refers to the expenditure that is dependent on the level of income. ✓✓

(Accept any other relevant and correct response)

2.2.4. How does the marginal rate of taxation affect the multiplier? (2)

- A huge tax rate reduces disposable income for households hence reducing the size of the multiplier. ✓✓
- A reasonable tax rate will allow households to spend more on goods and services hence kicking the multiplier effect. ✓✓

(Accept any other relevant and correct response)

2.2.5. Use the formula:K = $\frac{1}{mps}$ to calculate the change in the South African national income given the marginal propensity to save is 0.2. (Show all calculations) (4)

K = $\frac{1}{mps}$✓

K = $\frac{1✓}{0,2✓}$

K = 5✓

2.3. DATA-RESPONSE

2.3.1. Identify the monetary instrument that is mainly used in South African. (1)

Repo rate✓/ repurchase rate✓ Interest rate✓

2.3.2. Which committee is responsible for making decisions on the tool shown on the table above?

Monetary Policy Committee✓/ MPC✓

2.3.3. Briefly describe the term *extrapolation.* (2)

Extrapolation refers to a technique that economists use to predict the future by using past data. ✓✓

(Accept any other relevant and correct response)

2.3.4. What is the negative impact of uncontrolled granting of credit on the economy? (4)

- When people borrow more money than what they really need, high inflation rate can be experienced. ✓✓
- Uncontrolled borrowing can make it difficult to determine expenditure since aggregate demand is over estimated. ✓✓

(Accept any other relevant and correct response)

2.3.5. How can an increase in money supply positively influence the economy of South Africa? (2)

- When money supply increases, South Africans have more disposable income to spend thereby increasing aggregate demand. ✓✓
- With more money supply, market demand can make South African businesses to realize high profit margins hence improving their overall efficiency. ✓✓
- An increase in money supply allows the business sector to take advantage of resources thereby operating at their optimum capacity, this is good for international relations. ✓✓
- The country can realize their optimum level of production therefore improving its real GDP and economic growth. ✓✓

(Accept any other relevant and correct response)

2.4 Differentiate between exogenous approach and endogenous approach in business cycles. (8)

<u>Exogenous approach</u>

- The exogenous approach is called the sunspot theory. ✓✓
- It is believed that markets are inherently stable. ✓✓
- Departures from the equilibrium state are caused by factors that emanate from outside of the market. ✓✓
- When disequilibria occur, market forces kick-in and bring the economy to its natural state/ equilibrium. ✓✓
- Government interference is not part of the normal forces operating in the market. ✓✓

(Accept any other relevant and correct response)

(Max. 4 marks)

Endogenous approach

- The endogenous is also known as the Kynesian approach or interventionists. ✓✓
- Holds the view that markets are inherently unstable. ✓✓
- Level of economic activity constantly tends to be continually above or below its potential. ✓✓
- Government must intervene in the economy process to smoothen the peaks and troughs as far as possible. ✓✓

(Accept any other relevant and correct response)

(Max. 4 marks)

2.5. Evaluate the role of the financial market on the South African economy. (8)

- The financial sector provides the platform where participants can invest their income to improve their lives and boosting economic growth. ✓✓
- This sector plays a vital role by lending-out money to those who are in financial need thus increasing aggregate spending on the economy and providing for the needs. ✓✓
- The financial sector provides a place where other participants can save their income for future use, this helps the economy to withstand difficult climate. ✓✓
- Those who want to establish new business can use the credit facilities in the financial sector to acquire funds. ✓✓
- This sector directly and indirectly creates employment opportunities thereby increasing the per-capita income of the country. ✓✓

(Accept any other relevant and correct response)

QUESTION 3: MACROECONOMICS

3.1.1. Name any TWO types of consumer goods.
Durable goods✓/ semi-durable goods✓/non-durable goods✓/ services✓ **(1X2) (2)**

3.1.2. How can an increase in government spending affect price levels? (2X1) (2)

- An increase in government spending can stimulate production by lowering costs of production. ✓✓
- Provisioning by the state can improve the standard of living hence the cost of living. ✓✓

(Accept any other relevant and correct response)

3.2. DATA-RESPONSE

3.2.1. Identify the market depicted on the above diagram. (1)
Goods market✓/ Product market✓

3.2.2. Name the participant that provides public goods and services from the above diagram. (1)
Government✓

3.2.3. Briefly describe the term *circular flow*. (2)
Circular flow is a simplification showing how the economy works and the relationship between income, production and spending in the economy. ✓✓
(Accept any other relevant and correct response)

3.2.4. Explain the role of the business sector in the economy. (2)

- Businesses use the factors of production to produce goods and services on which the households spend their income. ✓✓
- Businesses place goods on the product market which is bought by households to satisfy their needs. ✓✓
- Businesses receive income which comes from sales made to other participants. ✓✓

(Accept any other relevant and correct response)

3.2.5. How can a good relationship with other countries benefit South Africans? (4)

- Expand demand of goods and services for the country as more customer base can be covered. ✓✓
- The country can import what is not offered in the local market thus increase consumer choice. ✓✓
- Foreign capital can be earned when goods are exported to other countries which will increase National Income. ✓✓
- It leads to an improved standard of living since the income earned would be used to improve the country's infrastructure. ✓✓

(Accept any other relevant and correct response)

3.3. DATA-RESPONSE

3.3.1. Identify the natural rate of unemployment in the graph above. (1)

14%✓

3.3.2. Name one demand biased policy used to curb inflation. (1)

- Fiscal policy✓
- monetary policy✓

3.3.3. Briefly describe the term *real business cycle.* (2)

Real business cycles are obtained when the effects of irregular events, seasons and long-term growth trends are removed from the time series. ✓✓

(Accept any other relevant and correct response)

3.3.4. What is the effect of a decrease in unemployment on the inflation rate? (2)

Inflation rate and the unemployment rate have an inverse relationship, when rate of unemployment decreases, this will result in more disposal income and an increase in consumer spending, as a result the inflation rate will increase. ✓✓

(Accept any other relevant and correct response)

3.3.5. How can the government move PC to PC1 without triggering too much inflation? (4)

- The government can reduce unemployment without triggering inflation by focusing on supply side measures to stimulate the economy. ✓✓
- This can be done by reducing the cost of production by improving key infrastructure as well as subsiding new firms. ✓✓
- The government can improve the efficiency of key input such as labour by providing improved education and training. ✓✓
- The government must improve the efficiency of markets by deregulation of unnecessary laws that prevents market entry as well as promoting competition. ✓✓

(Accept any other relevant and correct response)

3.4. Distinguish between *recovery phase* and *depression phase* of business cycle.

Recovery phase

- This phase is reached when there is a greater demand for goods and services. ✓✓
- This leads to an increase in the production capacity of the economic activities. ✓✓
- More jobs are created as producers try to match the increasing demand. ✓✓
- Business confidence rises and spending by firms consequently increases. ✓✓
- There is an increased performance in the level of economic activities and the country enters into a period of prosperity. ✓✓

(Mark to a maximum of 4 marks)

(Accept any other relevant and correct response)

Depression phase

- During a depression money is in short supply, leading to a further decline in spending. ✓✓
- There is negative impact on investment spending. ✓✓
- Economic activity is at its lowest, and a trough is reached. ✓✓
- Cost of production increases which decreases economic growth. ✓✓
- This encourages foreign trade and leads to a recovery. ✓✓

(Mark to a maximum of 4 marks)

(Accept any other relevant and correct response)

3.5. How can a decrease in final consumption by households affect the economy? (8)

- A decrease in final consumption by households can cause a contraction on the country's economy thereby slowing down the economic growth. ✓✓
- A reduced aggregate demand can shrink the productive capacity of the country thus reducing the real GDP. ✓✓
- A decline in consumption can hinder industrial development hence causing disinvestment. ✓✓
- Less spending by households reduces the per capita income therefore lowering the standard of living. ✓✓
- A reduction in turn-over for businesses can force a shut-down, reduce working hours and cause retrenchments. ✓✓
- A decrease in consumption spending by households increases the dependency rate to the government which hinders economic development for the country. ✓✓

(Accept any other relevant and correct response)

QUESTION 4: MACROECONOMICS

4.1. Answer the following questions.

4.1.1. Name the TWO periods of business cycles. (1X2) (2)

- Contraction/ downswing✓
- Expansion/ upswing ✓

4.1.2. How can subsidies on production benefit the economy of the country? (2X1) (2)

- Subsidies lower the production costs hence the general price levels. ✓✓
- When the state offer subsides, some of the costs are covered thus giving businesses the opportunity to expand their businesses. ✓✓
  (Accept any other relevant and correct response)

4.2. DATA-RESPONSE

4.2.1. Identify the method for calculating the gross domestic product shown above. (1)

Production method✓

4.2.2. Name the sector that is responsible for the extraction of raw material.

Primary sector✓ **(1)**

4.2.3. Briefly describe the term *basic price*.

The income received by the producer for a unit of goods produced minus any tax payable, plus subsidy receivable. ✓✓ or
Refers to the prices of goods at the factory before tax and subsidies are considered. ✓✓ **(2)**

(Accept any other relevant and correct response)

4.2.4. Why are unfinished products excluded when calculating the gross domestic product? (2)

- Intermediate goods are excluded to avoid double-counting which gives inflated values. ✓✓
- Gross domestic products measures final goods and not intermediate goods which would still undergo production. ✓✓

(Accept any other relevant and correct response)

4.2.5. Calculate the Gross Value Added (A) for 2022 on the above table. Show all your calculations. (4)

491 860✓ + 941 459✓ + 3 596 256✓ = 5 029 575✓

4.3. DATA-RESPONSE

4.3.1. Identify the measurement of business cycle shown above. (1)

GDP✓/ Gross Domestic Product✓

4.3.2. Name ONE type of business cycles. (1)

Kuznets cycles✓/ Juglar cycles✓/ Kondratief cycles✓/ Kitchin cycles✓

4.3.3. Briefly describe the term *trough.* (2)

Trough is the point where the contraction on the level of economic activities is at its lowest. ✓✓

(Accept any other relevant and correct response)

4.3.4. What is the negative impact of the economy staying long in a slump (downswing)? (2)

- Economic slumps are synonymous to slow growth rate, this can lower the standard of living. ✓✓
- Downturns are associated with a loss of profits for businesses and consequently high rate of unemployment and poverty. ✓✓

(Accept any other relevant and correct response)

4.3.5. How can infrastructural development improve the state of the economy? (4)

- An improvement in infrastructure attracts foreign investors thereby improving the economic growth rate of the country. ✓✓
- Better infrastructure allows businesses to take advantage of resources available to produce goods and services. ✓✓
- A good infrastructure stimulates growth and improves the country's GDP as more people are interested in establishing new businesses. ✓✓

(Accept any other relevant and correct response)

4.4. Without the use of a graph, briefly discuss the multiplier effect. (8)

- The multiplier relates to how much national income changes as a result of an injection or withdrawal such as an investment. ✓✓
- Initially there is an increase in injections into the economy, which would lead to a proportionate increase in national income. ✓✓
- The extra spending would have knock-on effect and create even more spending. ✓✓
- Assume the firm increase investment spending by 1000, total spending will also increase by R1000 and total income will also increase by R1000. ✓✓
- When households earn income, they can spend or save their income, this can kick the multiplier. ✓✓

(Accept any other relevant and correct response)

4.5. How can the South African government reduce the high unemployment rate? (8)

- The government can improve the quality of labour by spendind on scarce skills. ✓✓
- Subsidies can be given to producers with the aim of lowering costs and increasing employment. ✓✓
- The state can implement the Extended-Public-Work-Programs with the aim of bringing development while creating employment opportunities. ✓✓
- The government can source foreign direct investment, where foreign companies invest by establishing new companies in the country. ✓✓
- The government can implement policies such as the GEAR which creates employment. ✓✓
- Tertiary industries like the tourism industry can be used to create immediate employment. ✓✓

(Accept any other relevant and correct response)

QUESTION 5: MACROECONOMICS

Discuss in detail the main objectives of the public sector in the economy. (26)

INTRODUCTION

The main objectives of the state are to serve the people and help in bringing about a systematic development for all citizens. ✓✓ **(2)**
(Accept any other relevant correct introduction)

BODY MAIN PART:

1. **Economic growth**✓
   - Economic growth refers to an increase in the production of goods and services in the economy. ✓✓
   - For economic development to take place, the economic growth rate must be higher than the population rate. ✓✓
   - The state must ensure sustainable growth as it leads to an improvement in the standard of living. ✓✓

2. **Full employment**✓
   - Full employment means that all persons who would like to work and who are looking for work should be able to find work or create work for themselves. ✓✓
   - Attaining high levels of employment is one of the most important economic objectives for all governments. ✓✓

3. **Exchange rate stability**✓
   - The state tries to protect the country's currency from excess depreciation and appreciation. ✓✓
   - Depreciation and appreciation creates uncertainty for producers and investors and should therefore be limited. ✓✓
   - Monetary and fiscal policies are used to ensure that exchange rates remain relatively stable for as long as possible. ✓✓

4. **Price stability**✓
   - A market economy performs much better when prices are relatively stable. ✓✓
   - In South Africa the relative price stability means maintaining an inflation rate of between 3% and 6%.✓✓

5. **Economic equity**✓
   - A redistribution of income and wealth is essential in market economies. ✓✓
   - In South Africa the state uses a progressive tax system to provide free services to the poor. ✓✓
   - Free social services such as basic education, primary healthcare, basic economic services and to pay cash grants to poor and other vulnerable people. ✓✓

(Accept any other relevant correct answer) (26)

How successful is the South African government in providing services to the public?

The South African government is successful in providing services to the public because:

- Investment on infrastructural development project has been made to improve the standard of living for the citizens. ✓✓
- Provision of clean water, proper sanitation and cleaning services has been made to disadvantaged communities. ✓✓
- Effort has been made to improve the overall efficiency of state organs and improved accountability so that funds allocated to provide services will not be lost. ✓✓
- Job creation strategies like E.P.W.P. have been implemented while in turn providing for basic needs. ✓✓
- Emergency funds have been provided to bail-out state owned enterprises and to improve their overall efficiency. ✓✓
- Improvement in terms of community participation e.g. people's parliament, Ward committees, etc. are being implemented so as to improve service delivery. ✓✓

(Accept any other relevant and correct response) **(10)**

OR

The South African government is not successful in providing services to the public because:

- Infrastructural development project have only covered a fraction of the country at the moment thus leaving some of the rural areas underdeveloped. ✓✓
- Some areas are without clean water, proper sanitation and cleaning services which opens a development gap in the country. ✓✓
- Inefficiency caused by incompetent civil servants, corruption, rent-seeking, etc. hinder the service delivery by state organs. ✓✓
- Job creation strategies like E.P.W.P. can only provide jobs for a fraction of the country's population. ✓✓
- Emergency funds to bail-out state owned enterprises with the aim of improving their overall efficiency places a heavy financial burden to the government. ✓✓
- Platforms for community participation are not open to each and every individual because of bureaucracy. ✓✓

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

Conclusion

The government uses the national budget to try and achieve objective. Tax revenue is the major source of income. ✓✓ **(2)**

(Accept any other relevant correct response)

[40]

QUESTION 6: MACROECONOMICS

Discuss in details the reasons for international trade. (26)

INTRODUCTION

Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically✓✓ **(2)**

(Accept any other relevant and correct introduction)

BODY: MAIN PART

Supply reasons:

1. Availability of natural resources✓

   - These resources are not evenly distributed across all countries of the world. ✓✓
   - They vary from one country to another, and can only be exploited in places where the resources exist. ✓✓
   - South Africa is well equipped with different natural resources, but less resourced with skilled labour and capital. ✓✓
   - An example is Japan and Ireland, which have an abundance of skilled labour, but they lack natural resources. ✓✓

2. Availability of labour resources✓

   - Labour differs between different countries in terms of skills, knowledge, training, quality, quantity and also cost. ✓✓
   - Some countries have highly skilled, well-paid workers, and high productivity levels, such as Switzerland. ✓✓

3. The availability of capital✓

   - In some countries they need to modernize their industries and economies with advanced machinery, equipment (plants), but cannot manufacture this equipment, because they lack the capital to do so. ✓✓
   - This factor has therefore increased the need for international trade. ✓✓

4. Lack of entrepreneurship✓

   - Those countries that have good entrepreneurial skills offer more goods and services for trade. ✓✓
   - Efficiency determines the supply of goods and services produced at lower prices and also reduce the opportunity cost of acquiring them. ✓✓

5. Climatic conditions✓

- These countries make it possible for others to produce certain goods at a lower price than other countries. ✓✓
- An example is Brazil, which is the largest producer of coffee. ✓
- Countries have different climatic conditions and are therefore able to produce different products. ✓✓

Demand reasons for international trade:

1. Technological resources✓
   - The developmental levels and innovation processes of countries will always differ and as a result other countries may have them in abundance, while others may not. ✓✓
   - Countries such as Germany and the USA are able to use capital which embodies high levels of technology, while other countries do not have access to the latest technology, such as basic internet services and healthcare. ✓✓
   - Those countries that have high technological labour forces are able to produce certain goods and services at a low unit cost, such as the developed countries. ✓✓

2. The size of the population impacts demand✓
   - If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
   - Local suppliers may not be able to satisfy this demand. ✓✓

3. The population's income levels effect demand. ✓
   - Changes in income cause a change in the demand for goods and services. ✓✓
   - An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓

4. An increase in the wealth of the population leads to greater demand for goods. ✓
   - People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓

5. Preferences and tastes✓
   - Preferences and tastes can play a part in the determination of prices**.** ✓✓
   - Customers in different countries have a preference for a specific product which they do not produce and need to import, and it will have a higher value than in other countries.✓✓

6. Consumption patterns✓
   - The difference in consumption patterns is determined by the level of economic development in the country, e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

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7. The level of economic development and income/technical level✓
   - The consumption patterns of developed countries will differ from those of developing countries. ✓✓
   - The need for basic necessities, such as food in developing countries may result in more needed goods being imported. (demand for technical items) ✓✓

8. International migration✓
   - Different cultures, religions and lifestyles of immigrants will result in certain goods and services being important. ✓✓
   - South Africa is a multi-cultural country, demanding various traditional food, clothes, etc. ✓✓

(Mark to a maximum of 26 marks)

(Accept any other relevant and correct response)

ADDITIONAL PART

How does South Africa benefit from international trade?

- International trade expands the local market thereby improving the productivity for local industries, this result to mass production. ✓✓
- In a case where local goods are exported to other countries, the quality of such goods is improved to maintain high demand. ✓✓
- Competition from multinational industries reduces the prices of local goods thereby benefiting consumers. ✓✓
- South Africa can use international trade to attract investors who in turn can create job opportunities for South Africans. ✓✓
- International trade improves the efficiency of resources and accelerates economic growth. ✓✓
- The country can benefit by importing necessary skills from other countries using its open-border policy. ✓✓
- South Africans can improve their standard of living by taking advantage of international trade by acquiring goods that are of international standards. ✓✓

(Mark to a maximum of 10 marks)

(Accept any other relevant and correct response)

Conclusion

International trade can be beneficial yet harmful to the country's economy, it becomes detrimental to strike the balance between what you can offer and what you can buy from the rest of the world to maintain a balance in trade.✓✓ (2)

(Accept any other relevant and correct response)

TOTAL MARKS SECTION C: 40

GRAND TOTAL MARKS: 150

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