GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2025

MARKING GUIDELINES

ECONOMICS (PAPER 1) (10731)

23 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 B (To avoid double counting.) ✓✓

1.1.2 B (Upswing) ✓✓

1.1.3 A (Regressive tax) ✓✓

1.1.4 C (portfolio) ✓✓

1.1.5 A (child malnutrition) ✓✓

1.1.6 C (A desirable mix) ✓✓

1.1.7 D (economic union) ✓✓

1.1.8 B (Services to Business Process) ✓✓ (16)

1.2 MATCHING ITEMS

1.2.1 E ✓ characterised by too much paperwork and rules

1.2.2 I ✓ the key means of measuring a country's economic and social development

1.2.3 A ✓ encourages banks to act in a desirable manner

1.2.4 B ✓ spending by firms on capital goods

1.2.5 F ✓ restricts the flow of foreign currency

1.2.6 C ✓ aims to promote equal opportunities for all

1.2.7 D ✓ expanding the manufacturing sector of an economy

1.2.8 G✓ the removal or reduction of trade restrictions on trade between countries (8)

1.3 **GIVE THE TERM**

1.3.1 Gross National income/National income/Net National income ✓

1.3.2 Rent seeking ✓

1.3.3 Disinvestment ✓

1.3.4 Corridor/Growth Corridor ✓

1.3.5 Industrial Policy Action Plan ✓ / Nasional industrial policy framework ✓/ Industrial development policy✓

1.3.6 Demographics ✓Demography (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name TWO types of business cycles. (2 x 1)**

- Kitchin cycle ✓
- Juglar cycle ✓
- Kuznets cycle ✓
- Kondratieff cycle ✓

(2 x 1) (2)

2.1.2 **Why would a decrease in South African exports cause the value of the rand to decrease?**

- A decline in South African exports results in lower earnings in foreign currencies, which reduces the demand for the Rand as exporters convert less foreign income into the local currency. ✓✓
- When exports decline, foreign buyers purchase fewer South African goods, leading to a lower demand for the Rand in the foreign exchange market. ✓✓
- A drop in exports negatively impacts the trade balance, leading to a deficit if imports remain high. A trade deficit puts downward pressure on the currency. ✓✓
- A decline in exports can signal economic weakness, causing investors to withdraw capital or hesitate to invest in South Africa. This reduced capital inflow leads to a depreciation of the Rand. ✓✓
- Lower exports worsen the trade balance, increasing the current account deficit, which puts downwards pressure on the Rand's value. ✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **Identify the participant who owns the factors of production in the model?**

Households ✓ (1)

2.2.2 **Name one real flow item that moves from households to firms in the model.**

- Factors of production ✓ (1)

2.2.3 **Briefly describe the term *induced consumption*.**

Induced consumption is the part of spending on goods and services that changes with income levels. ✓✓

(Accept any other correct relevant response.) (2)

2.2.4 **How does an increase in government spending create a multiplier effect in the economy?**

- The additional spending will create multiplier effect because it circulates multiple times through the economy. ✓✓
- An increase in government spending injects more money into the economy, boosting demand for goods and services which stimulate economic activities. ✓✓
- The increase in income from government spending encourages more spending which expands the size of the multiplier. ✓✓

(Accept any other correct relevant response.) (2)

2.2.5 **Explain how higher taxes on households will impact total spending in the economy?**

- An increase in taxation decreases individual disposable income, leaving them with less money for spending on goods and services. ✓✓
- A decrease in disposable income results in reduced consumer spending, which is a key component of aggregate demand. ✓✓
- Indirect tax increases the price of goods and will reduce demand. ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Identify one debit item in the current account of the Balance of Payments**

- Merchandise imports ✓
- Imports of goods ✓
- Imports of services ✓

(also includes credit items)
(Accept any other correct relevant response) (1)

2.3.2 **Name the current account item that records donations.**

Current transfers ✓ (1)

2.3.3 **Briefly describe the term *Direct Investment.***

An investment in fixed property or the acquisition of a significant 10% or more shares in a business. ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 **How can a current account surplus benefit to the South African economy?**

- It indicates that a country is exporting more that it is importing, contributing to a positive trade balance. ✓✓
- A current account surplus results in higher foreign exchange earnings, boosting the country's foreign reserves and enhancing financial stability. ✓✓
- When a country is exporting more, it can be interpreted as a sign of high productivity.

(Accept any other correct relevant response.) (2)

2.3.5 **Explain the impact of changes in the trade balance on the current account balance.**

- When a country exports more goods than it imports, it experiences a trade surplus, which positively impacts the current account. ✓✓
- Conversely, if imports exceed exports, the country faces a trade deficit, negatively affecting the current account. ✓✓

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

2.4 **Briefly discuss the necessity of the public sector in the economy.**

- The government provides subsidies to encourage the production and consumption of merit goods such as education and healthcare, as they offer social benefits. ✓✓
- To conserve resources, government must intervene to protect the environment if the environment is exposed to insensitive and even careless use it may be damaged. ✓✓ E.g. the oceans for fishing, the air we breathe, natural scenery. ✓
- To conserve resources, the government intervenes to protect the environment from careless and harmful use, preventing damage to natural resources such as oceans, air, and scenic landscapes. ✓✓
- The public sector promotes policies that ensure equal opportunities for all members of society. ✓✓
- Community goods, such as streetlights, are provided free of charge, ensuring that everyone benefits and no individual is excluded. ✓✓
- The government imposes taxes to discourage the production and consumption of demerit goods like cigarettes, as they are harmful to society. ✓✓
- It is the responsibility of the government to manage the collective interests of its citizens. ✓✓
- The public sector supports infrastructure development, including roads, schools, and hospitals, which contribute to economic growth. ✓✓
- By implementing relevant policies, the public sector helps stabilise the economy. ✓✓

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

2.5 **What are the economic consequences of rising import prices for South African consumers?**

- Increased import prices lead to higher prices for goods and services, especially for essential imported items like fuel, food, and electronics. ✓✓
- Consumers can afford fewer goods and services as their income does not stretch as far due to rising prices. ✓✓
- Higher import prices contribute to overall inflation, increasing the cost of necessities and reducing affordability. ✓✓
- Lower demand for Imported goods – consumers may shift towards locally produced alternatives if imported products become too expensive. ✓✓
- The South African Reserve Bank may increase interest rates to control inflation, making credit and loans more expensive for consumers. ✓✓
- Low-income households are more affected by rising import prices as they spend a larger portion of their income on necessities. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 2 marks for the mere listing of facts/examples) (4 x 2) (8)
[40]

QUESTION 3: ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 **Name any TWO fiscal policy instruments to promote growth.**

- Progressive personal income tax ✓
- Wealth taxes ✓
- Cash benefits ✓
- Natural benefits ✓
- Land redistribution ✓
- Land restitution ✓
- Property subsidies ✓

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

3.1.2 **How does the WTO influence tariffs and taxes on imported goods?**

- The WTO influences tariffs and taxes on imported goods primarily by setting the rules for global trade and providing a forum for countries to negotiate lower trade balances. ✓✓
- The WTO promotes trade liberalisation by encouraging the removal of restrictions that limits the free flow of goods and services between member countries. ✓✓

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

3.2 **DATA RESPONSE**

3.2.1 **Identify the main action plan of the NDP from the information above.**

The Medium-Term Strategic Framework ✓ (1)

3.2.2 **Which government body is responsible for the NDP?**

The National Planning Commission ✓ (1)

3.2.3 **Briefly describe the term *Gini-coefficient.***

The Gini coefficient is a statistical measure of income or wealth inequality within a population, ranging from 0 (perfect equality) to 1 (maximum inequality) ✓✓
(Accept any other correct relevant response) (2)

3.2.4 **Explain the aim of the NDP.**

- The aim of the National Development Plan is to ensure a decent standard of living in for all by 2030. ✓✓
- The aim of the National Development Plan (NDP) in South Africa is to eliminate poverty and reduce inequality by 2030 through sustainable economic growth, job creation, and social development. ✓✓

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

3.2.5 **How can the National Development Plan (NDP) reduce poverty in South Africa?**

- Promoting business investment and expansion can create more job opportunities, allowing people to earn an income. ✓✓
- Ensuring quality education and job training equips individuals with skills for better employment prospects and higher wages. ✓✓
- Government assistance through grants and financial aid helps alleviate poverty by reducing hunger and hardship. ✓✓
- Developing infrastructure such as roads, housing, hospitals, and clean water improves living conditions and generates employment opportunities. ✓✓
- The NDP promotes economic growth and supports industries that create employment, helping people earn a sustainable income. ✓✓
- Investing in quality education and vocational training equips individuals with skills for better job opportunities and higher wages. ✓✓
- Expanding infrastructure such as roads, housing, and public transport improves access to jobs, markets, and essential services, boosting economic participation. ✓✓
- Strengthening social security systems, such as child support and old-age grants, helps reduce poverty and improve living standards. ✓✓
- Providing funding, training, and resources to small businesses fosters economic growth and self-employment. ✓✓
- Promoting land redistribution and supporting small-scale farmers can enhance food security and create rural employment. ✓✓

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

3.3 **DATA RESPONSE**

3.3.1 **Identify the province where the Coega is located, from the extract above.**

Eastern Cape province ✓ (1)

3.3.2 **Name one other SEZ other than Coega.**

Richards Bay SEZ ✓
East London SEZ ✓
Saldanha Bay SEZ ✓
DUBE TRADEPORT SEZ. ✓
Maluti-A-Phofung SEZ. ✓
OR Tambo SEZ. ✓
Musina/Makhado SEZ ✓
Atlantis SEZ ✓
Nkomazi SEZ
The Tshwane Automotive SEZ ✓
(Accept any other relevant correct response) (1)

3.3.3 **Briefly describe the term *special economic zone.***

A Special Economic Zone (SEZ) is a geographically demarcated area where specific economic activities have been identified to be developed. ✓✓
(Accept any other correct relevant response) (2)

3.3.4 **Explain ONE advantage of the Coega SEZ for a business such as Trucks SA.**

- Coega provides modern and well-maintained infrastructure, including reliable utilities, advanced telecommunications, and efficient road and rail networks. This robust infrastructure supports seamless business operations. ✓✓
- Its proximity to the deep-water Port of Ngqura and the port of Port Elizabeth offers excellent access to international shipping routes. This facilitates efficient import and export activities ✓✓
- Companies operating within the Coega SEZ can benefit from various government incentives, including tax breaks and customs duty relief, which significantly reduce operational costs. ✓✓
- Having Customs Controlled Area's within the Coega SEZ allows for duty and VAT suspension, which is very advantageous for import and export-oriented companies. ✓✓
- Coega offers a range of support services, streamlining administrative processes and assisting companies with various aspects of their operations, from regulatory compliance to labour management. ✓✓

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

3.3.5 **How does foreign direct investment (FDI) from FAW Trucks SA contribute to South Africa's economic growth?**

- FDI leads to the establishment of businesses and industries, creating employment opportunities for South Africans. ✓✓
- Foreign investors bring in financial resources that help expand infrastructure, industries, and businesses, boosting economic productivity. ✓✓
- FDI introduces advanced technologies, skills, and innovation, improving local industries' efficiency and competitiveness. ✓✓
- Multinational companies often produce goods for export, increasing South Africa's trade revenues and strengthening the balance of payments. ✓✓
- FDI contributes to infrastructure projects such as roads, ports, and energy supply, which support economic growth. ✓✓
- Foreign companies provide training and development programs, enhancing the skills of the local workforce. ✓✓
- Businesses established through FDI pay corporate taxes, which the government can use to fund public services and development projects. ✓✓
- Strong FDI inflows signal economic stability and attract further investments, fostering long-term growth. ✓✓

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

3.4 **Briefly discuss the following supply side policies, *business efficiency* and *reducing the cost of doing business*.**

Business efficiency:

- Rigid labour laws and regulations applying to businesses should be relaxed so that more people can be employed, and entrepreneurs will be encouraged to start businesses. ✓✓
- **Taxes**: both corporate and personal income taxes have been reduced over the past years. The effect of bracket creeping on personal income tax has been attended to. ✓✓
- **Capital:** depreciation of capital goods used by the businesses has been revised to encourage investment. Government through DTIC and the IDC also provides capital and loans to SMMES and bigger businesses. ✓✓
- **Human resources**. Education receives proportionally, the biggest slice of budget expenditure. SETAs were established to facilitate post-school, work-related training. ✓✓
- **Free-advisory services**. These services include the development of export markets, the management and running of SMMES, agricultural production and weather forecasts. ✓✓ **Max. 4**

Cost of doing business:

- The availability, reliability and cost of infrastructure services play an important role in the financial viability and profitability of businesses. ✓✓
- **Transport costs**: transport costs within South Africa, and between South Africa and its export destinations are expensive due to the long distances involved. Government has committed itself to improving the efficiency and reliability of its rail transport services and to making it more affordable. ✓✓
- **Communication cost**: cable communication in South Africa is among the most expensive in the world but reasonably efficient. ✓✓
- **Energy costs**: Government announced substantial investments in new electricity capacity recently. ✓✓ **Max. 4**

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

3.5 **How can developing economies use import substitution to stimulate economic growth?**

- Developing countries can use tariffs, quotas, and subsidies to protect emerging domestic industries from competition with established foreign producers. This allows these "infant industries" to grow and mature. ✓✓
- Import substitution encourages the development of domestic manufacturing capabilities, reducing reliance on imported goods. This can lead to increased employment and industrial growth. ✓✓
- By reducing imports, developing countries can conserve valuable foreign exchange reserves, which can then be used to invest in other areas of the economy. ✓✓
- Import substitution can create a larger domestic market for locally produced goods, stimulating demand and further driving economic growth. ✓✓
- The growth of domestic industries can create backward linkages (demand for inputs from other domestic industries) and forward linkages (supply of inputs to other domestic industries), fostering broader economic development. ✓✓
- Import substitution can increase a nation's self-sufficiency, making it less vulnerable to international market fluctuations. ✓✓
- The government can provide subsidies to key industries, to reduce the cost of production, and therefore make the domestic products more competitive. ✓✓
- Tariffs on imported goods, and increased taxation on other items, can generate funds that are then able to be used to subsidise the growth of domestic industry. ✓✓
- Developing economies can prioritise the production of essential goods, such as food, clothing, and basic manufactured products, to meet the needs of their populations. ✓✓

(Accept any other correct relevant answers)

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

(4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS

4.1 Answer the following questions.

4.1.1 **Name TWO features of public sector failure.**

- Ineffectiveness ✓
- Inefficiency ✓

(2 x 1) (2)

4.1.2 **How do export subsidies impact government expenditure?**

Export subsidies increase government spending. It involves the government directly spending its revenue on providing finance to businesses which increases government spending. ✓✓

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

4.2 DATA RESPONSE

4.2.1 Identify the trade law that gives South African producers favourable access to markets in the United States (US) from the table above.

AGOA (African Growth and Opportunity Act) ✓ (1)

4.2.2 Name one other country, besides South Africa, that is a member of SACU.

Botswana ✓
Eswatini (Swaziland) ✓
Lesotho ✓
Namibia ✓ (1)

4.2.3 Briefly describe the term *trade protocol.*

A trade protocol is an agreement between countries that sets rules and guidelines for international trade. ✓✓
(Accept any other correct relevant response)
(2)

4.2.4 Explain how trade liberalisation influences the volume of trade between countries.

- Trade liberalisation increases the volume of trade between countries by reducing or eliminating barriers such as tariffs, quotas, and import restrictions, making it easier and more cost-effective for countries to exchange goods and services. ✓✓

(Accept any other correct relevant response) (2)

4.2.5 What are the potential benefits of AfCFTA membership for South African businesses?

- It allows South African businesses to trade more easily with other African countries, increasing exports and economic influence through the removal tariffs. ✓✓
- The agreement lowers tariffs and simplifies trade regulations, making South Africa a key gateway for goods and services. ✓✓
- Improved trade routes and transport networks position South Africa as a major hub for regional and international trade. ✓✓
- With easier access to raw materials and markets, South Africa can strengthen its manufacturing sector and supply chains. ✓✓
- As a financial powerhouse, South Africa can expand its banking, insurance, and trade financing services across the continent. ✓✓

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

4.3 DATA RESPONSE

4.3.1 **Identify the main source of tax revenue for the national government from the chart above.**

Personal income tax ✓ (1)

4.3.2 **Name the tax system that South Africa uses for personal income tax.**

South Africa uses a progressive tax structure for personal income tax.✓ (1)

4.3.3 **Briefly describe the term *budget.***

It refers to a document that details the expected revenue and projected expenditure. ✓✓
(Accept any other correct relevant response) (2)

4.3.4 **Explain the importance of excise duties on products like alcohol and tobacco.**

- To discourage the consumption of these goods and services. ✓✓
- To discourage producers from producing them. ✓✓
- To increase state revenue. ✓✓

(Accept any other correct relevant response) (2)

4.3.5 **How does government taxation impact consumer spending?**

- Higher taxes reduce the amount of income consumers have available to spend. ✓✓
- As disposable income decreases, households may cut back on spending, leading to lower demand for goods and services. ✓✓
- Consumers may prioritise essential goods over luxury items when taxes are high, affecting different sectors of the economy differently. ✓✓
- High taxation can slow economic activity by reducing spending, while tax cuts can stimulate demand and boost growth. ✓✓

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

4.4 **Differentiate between *economic growth* and *economic development*.**

Economic growth

- Refers to an increase in the productive capacity of the economy to produce more goods and services over time. ✓✓
- Economic growth is measured by means of a percentage change in real Gross Domestic Product. ✓✓
- It focuses on production and consumption of goods and services. ✓✓ Max 4

Economic development

- Economic development refers to an improvement in the standard of living of population overtime. ✓✓
- Economic development is measured in terms of the per capita Real GDP. ✓✓
- The Human Development Index is a commonly used tool for measuring economic development.
- Economic development focuses on increasing citizens' freedom of choice by providing them with opportunities which will ultimately improve their welfare. ✓✓ Max 4.

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

4.5 **How does the System of National Accounts help governments make economic policy decisions?**

- It provides data on GDP, national income, and expenditure, helping governments assess economic growth and stability. ✓✓
- The SNA allows us to see how an economy performs year to year and make internationally comparisons.
- Policymakers use SNA data to adjust taxation, government spending, and interest rates to manage inflation, unemployment, and economic growth. ✓✓
- The SNA identifies which industries contribute most to the economy, allowing targeted policies for growth and development. ✓✓
- It helps governments analyse income inequality and implement policies to reduce poverty and promote social welfare. ✓✓
- The standardised system allows governments to compare their economy with others, shaping trade, investment, and global policy decisions. ✓✓
- It includes environmental and social factors, helping policymakers design strategies for sustainable economic development. ✓✓

(Accept any other correct relevant response.)
(A maximum of 2 marks may be allocated for the mere listing of facts/ examples) (4 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • A good starting point would be to define the main concept related to the question topic. • Do NOT include any part of the question in your introduction. • Do NOT repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body.	Max. 2
Body **Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate **A maximum of 8 marks may be allocated for headings/examples.** **Additional part:** Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce Compare/Distinguish/Interpret/How?/Suggest **A maximum of 2 marks may be allocated for mere listing of facts.**	Max. 26 Max. 10
Conclusion Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2
TOTAL	**40**

QUESTION 5: MACROECONOMICS

- **Discuss in detail the features underpinning forecasting. (26 marks)**
- **How can monetary policies be used to smooth-out fluctuations business cycles? (10 marks)**

INTRODUCTION

- Accurate forecasting helps businesses, investors, and policymakers make informed decisions by anticipating economic trends. ✓✓
- Various methods, such as economic indicators, statistical models, and historical data analysis, are used to predict future business cycles and manage economic risks effectively. ✓✓

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

Extrapolation ✓

- Past data used, where predictions are made about future based on assumptions related to trends. ✓✓
- Extrapolation means estimating something unknown from the facts and information that is known. ✓✓
- Extending a trend into the future may provide information on what is likely to happen. ✓✓
- If a business cycle has passed through a trough and entered a boom phase, forecasters may predict that the economy will grow in the months to follow. ✓✓
- Extrapolation techniques are sometimes used to predict future share prices. ✓✓

Amplitude ✓

- It is the difference between the value of total output between the peak and through measured from the trend line to the peak and through. ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity. ✓✓
- The amplitudes show the underlying power forces, e.g., interest rate. ✓✓
- The larger the amplitude during an upswing signifies strong underlying forces, which results in longer cycles. ✓✓

Trend line ✓

- The trend line indicates the general direction in which the indexes that were used in the business cycles moves. ✓✓
- When the economy is growing, there is an upwards trend but when the economy is decreasing, there is a downwards trend. ✓✓
- The trend line will change when the time series change their behaviour patterns of the past. ✓✓
- Resistance points indicate forces in the economy preventing it from repeating the performance. ✓✓

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

Moving averages ✓
- Moving averages are used to analyse the change in series of data over a certain period. ✓✓
- To eliminate the effect of sharp fluctuations in the business cycle, economists use moving averages to smooth out the business cycle. ✓✓

Leading indicator ✓
- Leading indicators give consumers, business and the state a glimpse of the direction in which the economy is heading. ✓✓
- When these indicators rise, the level of economic activities will also rise a few months later. ✓✓
- Examples of leading indicator are job advertisement vacancies. ✓

Co-incident indicator ✓
- Coincident indicators move at the same time as the economy. ✓✓
- They indicate the actual state in the economy. ✓✓
- Examples of these indicators include the value of sales. ✓

Lagging indicator ✓
- Lagging indicators change direction after the economy has changed. ✓✓
- Example of lagging indicator include hours worked in a construction. ✓

Composite indicator ✓
- A composite indicator is formed when different indicators of the same type are compiled into a single index. ✓✓
- The single figure forms a norm for a country's economic performance. ✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples) (Max. 26)

ADDITIONAL PART
- In response of economic boom, the reserve bank can increase interest rate to restrict the economy through loans. ✓✓
- Open market transactions: By buying government securities, the central bank injects money into the economy, encouraging growth. Selling securities does the opposite, helping to slow inflation. ✓✓
- In response to economic recession the reserve bank can lower interest rate to encourage borrowing. ✓✓
- The reserve bank can influence the supply of money by changing the compulsory percentage of deposits that banks must keep as reserve therefore increasing or limiting the supply of money. ✓✓/Cash reserve requirements: Reducing reserve requirements allows banks to lend more, increasing money supply in tough times. Raising them restricts lending when the economy risks overheating. ✓✓
- The reserve bank can use a free floating or managed exchange rate to allow market forces to intervene in the value of the currency. ✓✓
- A central bank might appeal to commercial banks to limit lending during times of inflation instead of immediately raising interest rates.

(Accept any other correct higher order, relevant response)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples)
(Max. 10**)**

CONCLUSION

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

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

QUESTION 6: ECONOMIC PURSUITS

- **Discuss the economic indicators in detail. (26 marks)**

- **What can governments do to reduce the pressure of high population growth on social services? (10 marks)**

INTRODUCTION

Governments use different statistical data to predict economic trends and formulate suitable developmental strategies to influence the direction that the economy should take.✓✓

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

MAIN PART

Inflation rate ✓

Inflation may be defined as a significant and continual rise in the general price level of goods and services over a given time, with the result that the purchasing power of money will decrease.✓✓

Consumer price index (CPI)

This is an indicator that measures the change in the cost of a fixed basket of goods and services that an average household will purchase. ✓✓

- It shows changes in the general purchases of a currency (e.g. rand) ✓✓
- It is also used for inflation targeting ✓✓
- Pertains to cost of living ✓
- Capital and intermediate goods are excluded ✓✓
- Prices include VAT ✓
- Interest rates are considered ✓✓

Producer Price Index (PPI)

This is the indicator of changes in the price of manufactured goods as they leave the factories and imported goods as they enter the country. ✓✓

- It includes capital and intermediate goods, but not services ✓✓
- Prices exclude VAT ✓
- Interest rates are excluded ✓
- It measures the cost of production and not the cost of living ✓✓
- It also serves as an indicator to predict consumer inflation (CPI) ✓✓

The formula to determine inflation:

- (CPI year 2-CPI year 1)/ (CPI year 1) x 100/1 ✓✓
- South Africa experienced double digit inflation for many years until the government, and the South African Reserve Bank introduced the inflation target of 3% – 6%. ✓✓

Employment indicators ✓

- It is not so easy to measure employment as there are a lot of people employed in the informal sector; they are not registered or recorded. ✓✓

The economically active population (EAP)

- The economically active population figures are used (this was done in grade 11) All the people willing and able to work between 15 and 64 in a country✓✓ and includes:
    - Workers in the formal sector ✓
    - Workers in the informal sector ✓
    - Employers ✓
    - Self-employed persons ✓

    Unemployed persons ✓

    award a maximum of 1 mark for all

Employment

- Refers to the number of employed persons expressed as a percentage of the EAP gives the employment rate. ✓✓
- Employment indicators are important because:
    - They calculate trends in employment in different sectors or industries – shows structural changes. ✓✓
    - Show the success of the economy in utilising its full potential✓✓
    - Full employment or high levels of employment is an indicator of a strong economy with high levels of growth and development ✓✓
    - High levels of unemployment are normally a sign of deep-seated problems in an economy✓✓
    - lack of domestic and foreign direct investment, low levels of labour productivity and rigid labour laws or high levels of poverty✓✓

Unemployment

- Unemployed are all the EAP, they were actively looking for work 7 days prior to the investigation and can start work 7 days after the investigation. ✓✓
- The unemployment rate is expressed as the percentage of unemployed persons out of the total number of people willing and able to work, in other words the labour force✓✓
- Stats SA obtains labour data from the Quarterly Labour Force Surveys to calculate unemployment ✓✓

There are various methods of calculating the number of unemployed:

- Census – questionnaires are distributed to respondents and included in the questionnaires are questions relating to the work status of people ✓✓
- Surveys - Every year Statistics South Africa undertakes a workforce survey to calculate the unemployment rate ✓✓
- Registration - The unemployed can register with the Department of Labour - registered unemployed persons may receive payments from the unemployment insurance fund and registration is the most accurate method of calculating the unemployment rate because not all unemployed persons are registered ✓✓

Foreign trade indicators ✓

Terms of trade

- The Terms of Trade looks at the relationship between the price received for exports and the number of imports we can buy with that money. ✓✓
- Terms of Trade = Average Price of Export/by average price of imports X 100/1 ✓✓
- Changes in the terms of trade serve as an indicator of changes that may likely spill over into the balance of payment account, and a deficit may follow this will lead to a depreciation in the currency. ✓✓

Exchange rates

- Exchange rate is the rate at which one currency can be exchanged for another currency. ✓✓
- Exports and imports are strongly influenced by the exchange rate of the domestic currency. ✓✓

Productivity indicators ✓

- Productivity measures the relationship between input and outputs✓✓
- The more outputs one can produce for the same or less inputs the more productive one will be. ✓✓
- Productivity is linked to cost – the more productive you are the lower costs are. ✓✓
- Example, if one labourer can produce more than another labourer the cost of labour will be reduced✓
- Productivity will increase the Real GDP per Capita. This will increase economic growth.✓✓

Production indicators ✓

- An economy's productive capacity is the maximum output that can be produced with existing resources in each period. ✓✓
- GDP can be measured in terms of Nominal GDP, Real GDP and Per Capita GDP.

Nominal GDP ✓

- Refers to the GDP where the effects of inflation have not been considered therefore, Nominal values are not adjusted for inflation. ✓✓
- Nominal values with therefore appear higher than Real GDP values because inflation has not been accounted for. ✓✓

Real GDP

- Refers to the GDP where the effects of inflation have been considered. ✓✓
- The growth and performance of an economy is measured in terms of the real GDP figures. ✓✓
- An increase in Real GDP will cause economic growth resulting in a decrease in unemployment, establishment of more businesses and higher profit margins. ✓✓

Per Capita GDP

- Is measured by dividing the real GDP by the total population of a country. ✓✓
- Per capita GDP is used for the following purposes: to indicate the standard of living, compare the standard of living and to indicate economic development. ✓✓

Labour productivity
- A simple formula to measure labour productivity is to divide real GDP by the number of workers employed. ✓✓

Remuneration per worker
- If labour productivity increases by less than real wages, inflationary pressures will occur, and the business cycle may turn unfavourable.✓✓
- The relationship between productivity and wages is important for the following reasons:
- Employers relate it to profits ✓✓
- Workers relate it to improvements in the standard of living ✓✓

Interest rates
- Interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth ✓✓

Repo rate
- Repo rate is the rate at which the SARB lends money to commercial banks. ✓✓

Prime Rate
- The rate at which commercial banks lend money to households and business.✓✓
- If interest rates move upward, the debt of households and business require bigger repayment instalments. ✓✓
- This may indicate that the business cycle could be heading for a downward cycle, businesses might have to cut down production, unemployment may increase, and economic growth will decline. ✓✓

Money supply✓
- The money supply indicates the money in circulation in the economy and how fast it moves from one person to another as this indicates high or low inflation✓✓.
- Money supply is divided in three categories:
  - M1: This includes coins and notes. ✓✓
  - M2: Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions ✓✓
  - M3: Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions. ✓✓
  - Too much money in circulation could lead to more spending and higher inflation. ✓✓
  - Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth. ✓✓

(Accept any other relevant correct response)
(Allocate a maximum of 8 marks for headings/subheadings/examples) (Max. 26)

ADDITIONAL PART

- Family Planning Programs, promote and provide access to contraception and reproductive health education. ✓✓
- Education and Awareness, educate citizens, especially women, on the benefits of smaller families and family planning. ✓✓
- Economic development, create job opportunities and improve income levels to reduce dependency on social services. ✓✓
- Healthcare expansion, strengthen healthcare infrastructure to cater to growing populations effectively. ✓✓
- Legislation and Policy Implementation, enforce policies that support sustainable population growth, such as child welfare laws. ✓✓
- Immigration and Decentralisation Strategies encourage settlement in less populated areas to ease pressure on major cities. ✓✓
- Creating More Job Opportunities, economic policies that promote job creation reduce poverty and improve living standards for a growing population. ✓✓

(Accept any other correct higher order, relevant response)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples)
(Max. 10)

CONCLUSION

Economic indicators are some of the most important and powerful tools that the government can use to influence the direction that the economy should take.✓✓
(Accept any correct relevant response) (Max. 2) **[40]**

TOTAL SECTION C: 40

TOTAL: 150