education

Department of Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ECONOMICS P1

SEPTEMBER 2025

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 20 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE

1.1.1 B (injection.) ✓✓

1.1.2 D (extrapolation) ✓✓

1.1.3 A (reducing production cost.) ✓✓

1.1.4 C (International Monetary Fund) ✓✓

1.1.5 A (Accelerated and Shared Growth Initiative for South Africa (AsgiSA) ✓✓

1.1.6 B (centralisation) ✓✓

1.1.7 D (production price) ✓✓

1.1.8 C (the employment rate.) ✓✓ (8 x 2) (16)

1.2 MATCHING COLUMNS

1.2.1 C (systematic and comprehensive record of economic activity) ✓

1.2.2 E (measured from peak to peak or trough to trough) ✓

1.2.3 G (when one country produces goods and services cheaper than another) ✓

1.2.4 H (the public sector provides parks, etc. where fees are charged to exclude free riders) ✓

1.2.5 A (ad valorem or specific taxes on imported goods) ✓

1.2.6 F (what people consume, which is a function of their income) ✓

1.2.7 D (information about the size and structure of the population) ✓

1.2.8 I (where the effect of inflation has been taken into consideration) ✓

(8 x 1) (8)

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1.3 **CONCEPT/TERM**

1.3.1 Income receipts ✓

1.3.2 Fixed exchange rate system ✓

1.3.3 Terms of trade ✓

1.3.4 Expanded Public Works Programme ✓

1.3.5 Industrial development strategies ✓

1.3.6 Productivity ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

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

2.1 **Answer the following questions.**

2.1.1 **Name any TWO methods of correcting surpluses or deficits of the balance of payments.**

- Lending and borrowing ✓
- Change in exchange rate ✓
- Change in demand ✓ (any 2 x 1) (2)

2.1.2 **What significance does a capital transfer account have in the economy?**

- This account is a net balance that includes firstly transactions and grants relating to the ownership of fixed assets, for example, a grant by a foreign NGO for a housing project in South Africa. ✓✓
- The account also includes debt forgiveness as well as the value of households and personal effects, and financial claims and liabilities of migrants. ✓✓

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

2.2 **Data response**

2.2.1 **Identify the original equilibrium point given in the graph above.**

Y0 ✓ (1)

2.2.2 **What does the acronym AE stand for?**

Aggregate expenditure ✓ (1)

2.2.3 **Briefly describe the term *autonomous spending*.**

It refers to spending that is independent of the level of income. ✓✓

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

2.2.4 **How will the marginal propensity to consume be affected if the level of savings is increased?**

More savings means that there will be less money available for spending or marginal propensity to consume will decrease. ✓✓ (2)

2.2.5 **Suppose the change in AE is 50 billion dollars, calculate the multiplier. Show ALL your calculations**

K = change in Y / change in AE ✓
= 100 / 50 ✓
= 2 ✓✓ (4)

2.3 **Data response**

2.3.1 **Identify the parastatal depicted in the cartoon above.**

Eskom ✓ (1)

2.3.2 **Give ONE natural resource from the above cartoon.**

Coal/Nuclear energy ✓ (1)

2.3.3 **Briefly describe the term *privatisation.***

Refers to the transfer of ownership of assets from the public sector to the private sector. ✓✓
(Accept any other correct relevant response) (2)

2.3.4 **Why would governments decide to nationalise companies as opposed to privatisation?**

- Nationalisation promotes employment opportunities as well as industrialisation in the economy. ✓✓
- Developing countries often opt for nationalisation if they strongly want to control the economy. ✓✓

(Accept any other correct relevant response) (2)

2.3.5 **What are the reasons behind inefficiencies in the public sector?**

- There are sometimes too many rules (red tape) in the public sector whereby officials focus on these rules instead of focusing on the needs of their customers. ✓✓
- Bureaucracy has a tendency to make policies take a long time for their implementation. ✓✓
- Incompetence which is shown by lack of skills, demotivation and inability to perform tasks successfully, is the result of improper qualifications, poor training or inexperience. ✓✓
- Corruption has been affecting the economy negatively due to officials exploiting their positions for personal gains. ✓✓

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

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2.4 **Differentiate between the *money market* and the *capital market***

Money market:

- This is the market for short and very short-term savings and investments. ✓✓
- Bank debentures, treasury bills, and government bonds are traded in this market. ✓✓
- The SARB is a key institution in this market. ✓✓

Capital market:

- This is the market for long-term savings and investments. ✓✓
- Mortgage bonds and shares are traded in this market. ✓✓
- The Johannesburg Securities Exchange is the key institution in this market. ✓✓

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

2.5 **How can aggregate supply be stimulated by improving the efficiency of inputs?**

Aggregate supply can be stimulated by:

- Levying the appropriate rate of taxation that is critical to the success and growth of the economy, since high taxation rates disincentivise both workers and businesses. ✓✓
- Regularly updating capital goods so businesses can adapt to technological advances and stay abreast of developments within their industry. ✓✓
- Improving the quality of labour through education, training courses and improved healthcare. ✓✓
- Providing services to Small, Medium and Micro Enterprises (SMMEs) who need support to establish and grow their businesses. ✓✓
- Providing services in the form of research, statistical information, etc to businesses that are involved in promoting the export industry. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for mere listing of facts or 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 aspects to consider when assessing the economy.**

- Performance ✓
- Comparisons ✓
- Specifications ✓
- Purposes ✓ (any 2 x 1) (2)

3.1.2 **Why is it important for the government to measure population growth?**

Measuring population growth is important for delivering social services and for identifying the size of the tax base (the total number of people paying taxes). ✓✓ (1 x 2) (2)

3.2 **Data response**

3.2.1 **Which institution is represented by the acronym WTO?**

World Trade Organisation ✓ (1)

3.2.2 **Give a suitable economic concept for the cartoon above.**

Protectionism and free trade ✓ (1)

3.2.3 **Briefly describe the term *free trade*.**

When producers and consumers are free to buy goods and services from anywhere in the world without the interference of government. ✓✓ (2)
(Accept any other correct relevant response.)

3.2.4 **What role does the WTO play globally?**

WTO is known for its ability to monitor and liberalise international trade. ✓✓ (2)
(Accept any other correct relevant response.)

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3.2.5 **Why would countries of the world prefer to promote their exports?**

- The country enjoys the achievement of significant export-led economic growth.✓✓
- Export promotion enlarges the production capacity of the country by the local industries.✓✓
- Export markets are much bigger than local markets.✓✓
- More job opportunities are created for the for the employment of local workers.✓✓
- More surpluses by local firms tend to lower prices of goods and services.✓✓

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

3.3 **Data response**

3.3.1 **Which economic term is represented by the acronym SEZ?**

Special Economic Zones ✓ (1)

3.3.2 **Give ONE mode of transport that benefits from the Maluti-A-Phofung SEZ.**

- Road transport ✓
- Rail transport ✓ (1)

3.3.3 **Briefly describe the term *corridors*.**

A corridor is a track of land that forms a passageway allowing access from one area to another. ✓✓ (2)
(Accept any other correct relevant response.)

3.3.4 **Explain the purpose of spatial development initiatives in the economy.**

The main objective is to stimulate economic growth and employment in those regions. ✓✓ (2)
(Accept any other correct relevant response.)

3.3.5 **What are the benefits of the Small Business Support Program for industrial development?**

- This programme is designed for small businesses with assets of R100 million or less. ✓✓
- This incentive consists of a tax-free cash grant for investment in industries. ✓✓
- Grants are available to new and expanding businesses. ✓✓
- Grants are given for three years after which the company is expected to become self-sustaining. ✓✓

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

3.4 **Briefly discuss health as a social indicator.**

Infant mortality:
The number of children that will die before one year of age is one way of measuring the health of a population. ✓✓

Under-five mortality:
The number of children that will die before the age of 5 years. ✓✓

Health expenditure:
The amount of health expenditure as a percentage of GDP. ✓✓

Access to safe drinking water:
The percentage of a population that has reasonable access to safe drinking water. ✓✓

Access to sanitation facilities:
The percentage of a population with at least adequate sanitation facilities that can prevent human, animal and insect contact. ✓✓

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

3.5 **What purpose does the National Industrial Policy Framework serve in the economy?**

The framework serves the purpose of:

- Making the economy more diverse so that exports can be increased. ✓✓
- Making industrialisation more intensive in the long run. ✓✓
- Promoting the development of labour-intensive industries. ✓✓
- Ensuring greater participation by disadvantaged groups and the development of marginalised areas. ✓✓
- Increasing the potential for large-scale production. ✓✓

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

QUESTION 4: MACROECONOMICS & ECONOMIC PURSUIT

40 MARKS – 40 MINUTES

4.1 **Answer the following questions.**

4.1.1 **Name any TWO examples of employment indicators.**

- Employment ✓
- Unemployment ✓
- Economically Active Population (EAP) ✓ (any 2 x 1) (2)

4.1.2 **What is the relationship between the exchange rate and the balance of payments?**

The intervention by the SARB in overvaluing and undervaluing the currency results in deficits and surpluses respectively in the balance of payments. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

4.2 **Data response**

4.2.1 **Which economic concept is illustrated in the map above?**

North-South Divide ✓ (1)

4.2.2 **Give ONE country located in the south that forms part of the rich northern countries.**

Australia/New Zealand ✓ (1)

4.2.3 **Briefly describe the term *globalisation.***

It is a worldwide interfacing and interaction between countries with trade as a key element.✓✓ (2)
(Accept any other correct relevant response.)

4.2.4 **Explain the purpose of the Expanded Public Works Programme in the South African economy.**

It is a nationwide government intervention to create employment using labour-intensive methods and to give people skills they can use to find jobs when their work in the EPWP is done. ✓✓ (2)

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4.2.5 **What are the major challenges experienced by the developing countries regarding production and trade?**

- Developing countries focus their production activities around the primary sector which does not contribute significantly towards the GDP as activities from the tertiary sector. ✓✓
- Governments in developing countries cannot afford to subsidise the production of agricultural products. ✓✓
- These non-production subsidies disadvantage developing countries as they find it difficult to compete with developed countries. ✓✓

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

4.3 **Data response**

4.3.1 **What does the acronym MPC stand for?**

Monetary Policy Committee ✓ (1)

4.3.2 **Who are regarded as monetary authorities in South Africa?**

Governor and his deputies/SARB ✓ (1)

4.3.3 **Briefly describe the term *repo rate.***

Refers to the rate at which the Reserve Bank lends money to other banks. ✓✓ (2)

4.3.4 **Why do the Keynesian school of thought argue that government intervention is necessary?**

- They believe that markets are inherently unstable, and that economic activities constantly fluctuate above or below its potential. ✓✓
- According to them, price mechanism fails to effectively regulate the market and therefore government intervention is necessary. ✓✓

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

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4.3.5 **What impact does the use of open market transactions have on the money supply?**

- When the economy is in a downswing, the SARB can buy securities in the open market, thereby increasing the money supply within the economy. ✓✓
- On the other hand, when the economy is on the upswing, the SARB can sell securities in the open market, thereby decreasing the money supply in the economy. ✓✓
- Money supply in the economy can therefore be determined by the buying and selling of securities in an open market. ✓✓

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

4.4 **Discuss tastes and preferences and natural resources as reasons for international trade.**

Tastes and preferences:

- Preferences and tastes can play a part in the determining prices of products. ✓✓
- Customers in Australia prefer a specific product which they do not produce and need to import. ✓✓
- This product will have a higher value than in other countries once obtained and used. ✓✓

(Accept any other correct relevant response.)

Natural resources:

- Natural resources are unevenly distributed throughout the world. ✓✓
- South Africa is richly endowed with minerals, which are exported to other countries, while South Africa must import oil which the country lacks. ✓✓

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

4.5 **Analyse the successes and failures of the Reconstruction and Development Programme in the economy.**

Successes:

- Meeting basic needs, government creates an increased demand for goods and services. ✓✓
- The expanded public works programmes were mostly labour-intensive, and this helped to alleviate unemployment and poverty slightly. ✓✓
- Some social achievements were registered in the building of houses, provision of clean water, electrification of houses, land reform, and healthcare. ✓✓

Failures:

- Real GDP growth has been erratic since 1994, and unemployment in the formal sector increased. ✓✓
- Key objectives of poverty reduction and improved service delivery were hardly successful. ✓✓

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

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

[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MACROECONOMICS 40 MARKS – 40 MINUTES

Discuss in detail the reasons for public sector failure.

INTRODUCTION:
Public sector failure refers to when the government fail to manage the economy and the resources under its control. ✓✓
(Accept any other correct relevant introduction) **(Max. 2)**

BODY: MAIN PART

Reasons

1. Apathy:✓
   - Apathy is a feeling of not caring and insensitivity by those in leadership towards the demands of the people. ✓✓
   - Successful public production relies on long-term accountability. ✓✓
   - Accountability can expose inefficiency, corruption and poor service delivery. ✓✓

2. Management failure: ✓
   - Government departments and state-owned enterprises are sometimes poorly managed because of lack of leadership, inadequate skills and lack of experience. ✓✓
   - They are poorly managed because they are not even expected to maximise profits. ✓✓
   - They are financed by budget allocations based on costs and needs. ✓✓
   - Management failure can result in budget allocations not being spent. ✓✓

3. Bureaucracy: ✓
   - Bureaucrats are those who try to maximise their income, their status or power. ✓✓
   - Bureaucrats are usually apathetic and insensitive to the needs of the public. ✓✓
   - There is always poor service delivery for the communities due to this insensitive attitude of bureaucrats. ✓✓

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4. Lack of motivation: ✓
   - Lack of motivation among government employees leads to low levels of productivity, poor service and inefficient use of resources. ✓✓
   - Essential service workers rarely receive incentives for successful service delivery. ✓✓
   - Less motivated workers usually produce low-quality, limited and high-cost services. ✓✓

5. Politicians: ✓
   - They are those who aim to be re-elected and pursue vote-maximising strategies to retain their offices. ✓✓
   - Politicians usually do not take into account the long-term availability of resources.
   - This act can lead to misallocation of resources. ✓✓

6. Special interest groups: ✓
   - They are those who try to further their own interest by means of rent-seeking. ✓✓
   - They use laws, lobbying, bribes and other favours to influence the government to act in their favour with regard to profitable contracts. ✓✓
   - Public sector failure occurs when individual interests override public interests. ✓✓

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

     (Allocate a maximum of 8 marks for mere listing/headings/and examples.)

ADDITIONAL PART:

How successful has the South African government been in the provision of public goods and services?

The government has been successful in the provisioning of public goods and services:

- Such as merit goods that are provided for by the public sector because it is beneficial for society to have them, and not because of people's demand for it, for example, clean water and education. ✓✓
- Community goods are beneficial products provided by the government to all citizens and which can be consumed by many people without a decrease in quality or quantity, namely lighthouses and national defence. ✓✓
- The state also provides collective goods in the form of parks and beaches, where fees, charges or tolls can be levied to ensure that they are kept clean and tidy. ✓✓
- Consumers are aware of demerit goods and the effect it has on society and their health, through positive advertising campaigns. ✓✓
- Government charges sin tax on cigarettes and alcohol and this serves as an income to the state. ✓✓

The government has been unsuccessful in the provisioning of public goods and services:

- Some communities still lack proper healthcare such as clinics, hospitals and healthcare practitioners. ✓✓
- There are still many rural schools that don't have the proper infrastructure, electricity, books and educators to ensure for quality education. ✓✓
- Often community parks are neglected and degraded through vandalism as the local municipalities do not act as custodians of state property. ✓✓
- Many communities still do not have clean water and sanitation, as municipalities fail to deliver these valuable services that ensure the basic rights of all individuals. ✓✓

(Accept any other correct relevant response.) **(Max.10)**
(Allocate a maximum of 2 marks for mere listing of facts/examples)

[40]

QUESTION 6: ECONOMIC PURSUITS **40 MARKS- 40 MINUTES**

Discuss in detail, the arguments in favour of protectionism.

INTRODUCTION:
Protectionism is the use of trade policy to restrict the importation of goods and services with a view to protecting the domestic economy.
(Accept any other relevant introduction.) ✓✓ **(Max. 2)**

BODY: MAIN PART

Arguments in favour of protectionism

1. **Industrial development** ✓
   - Over time, countries need to develop diversified industries to prevent over-specialisation. ✓✓
   - A country relying too heavily on the export of one or a few products, is very vulnerable during times of economic hardships. ✓✓
   - E.g. Botswana relies heavily on the exportation of diamonds. ✓✓
   - Such a country runs a risk of being seriously affected by world fluctuations in prices and demand and supply-side problems leading to a significant drop in domestic economic activities. ✓✓
   - Import restrictions may be imposed on a range of products to ensure that several domestic industries develop. ✓✓

2. **Infant industry** ✓
   - Infant industries are usually newly established industries. ✓✓
   - Enterprises in such industries may find it difficult to survive due to their average costs being higher than those of well-established competitors. ✓✓
   - However, if given protection in their early years of production, they may be able to grow and take advantage of economies of scale. ✓✓
   - At this stage, protection should be removed. ✓✓

3. **Stable wage levels and high standard of living** ✓
   - Countries with relatively low wage levels are able to export their goods to other countries at low prices because of their low cost of production. ✓✓
   - This threatens the existence of the industries in the countries to which goods are exported because these businesses cannot compete with the low prices of imports. ✓✓
   - Workers' salaries and jobs are also threatened and consequently, their standard of living. ✓✓
   - It is often argued that trade policies must be used to protect local workers and businesses from such threats. ✓✓

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4. **Increased employment** ✓
   - Trade protection is a measure to control unemployment. ✓✓
   - South Africa has a very high unemployment rate. ✓✓
   - Jobs of the currently working people must be protected while creating new job opportunities. ✓✓
   - Such jobs can be protected and created if businesses continue to produce and sell goods and services as well as facing foreign competition. ✓✓
   - By restricting foreign goods entering the country, local businesses will not only produce more and employ more people, but new businesses will be able to enter the market. ✓✓
   - More jobs than before will be created. ✓✓

5. **Self-sufficiency and strategic industries** ✓
   - Some industries may be seen as essential for a country to be self-sufficient or independent, ✓✓ e.g. agriculture. ✓
   - Other industries can be seen as strategic or key industries that are vital for economic growth and development, ✓✓ e.g. oil and coal industries. ✓
   - Governments often protect these industries because of their strategic importance. ✓✓
   - Self-sufficiency or national independence is easily achieved by this strategic importance. ✓✓

6. **Prevention of dumping** ✓
   - Dumping occurs when foreign producers make large quantities of goods and services and sell these in a local market at lower prices than the original country. ✓✓
   - Protectionism prevents these foreign industries from dumping their surpluses and out-of-season products into the local market. ✓✓
   - Dumping has the potential to threaten the survival of local industries as some of them can easily be driven out of the market, and protectionism is needed for this reason. ✓✓

7. **Stable exchange rates and BOP** ✓
   - Countries using the free-floating exchange rate system, have to monitor international trade conditions to help maintain a balance of payment equilibrium. ✓✓
   - Protectionism helps to prevent the value of imports from increasing at a faster rate than the value of exports, resulting in current account deficits and fluctuations in the exchange rate. ✓✓
   - Protectionism can be used to reduce imports, which will improve the balance of payments and the exchange rates. ✓✓
   - This improvement in the balance of payments is achieved by using quotas and tariffs to increase the prices of imports which will decrease the price of imports. ✓✓

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8. **Protection of natural resources** ✓
   - Conditions of free trade can easily result in the natural resources of the country being depleted. ✓✓
   - By implementing a policy of protectionism, conservation and better utilization of natural resources can be ensured. ✓✓
   - Such protectionism policies will ensure the survival of related extracting industries as well as secondary industries that depend on those natural resources. ✓✓
   - The South African government has taken firm steps to protect Rooibos tea as a natural resource. ✓✓ **(Max. 26)**

   (Allocate a maximum of 8 marks for mere listing/headings/and examples.)

ADDITIONAL PART

Evaluate South Africa's import substitution as a trade policy.

Positive responses
- Increase in industrial growth and development as new industries will be established. ✓✓
- Increase in profits leading to further investments. ✓✓
- Tariffs introduced in South Africa lead to increased demand for locally manufactured goods and services. ✓✓
- Import substitution improves industrialisation which increases employment opportunities. ✓✓
- A decrease in imports has a positive effect on the balance of payments as more exports than imports will take place. ✓✓

Negative responses
- Import substitution is restrictive as the choice of goods and services available to consumers may be limited. ✓✓
- It is not easy to implement the policy of import substitution due to unrecorded informal/illegal transactions. ✓✓
- It does not necessarily lead to an overall reduction in imports, South Africa had to import capital and intermediate goods to manufacture consumer goods. ✓✓
- Inefficient local production may occur because local producers are shielded from International competition. ✓✓

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

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

CONCLUSION

The South African government have done everything to protect its local industries from foreign and harmful competition and to protect the existing jobs as well. ✓✓

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

TOTAL SECTION C: 40
GRAND TOTAL: 150

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