KWAZULU-NATAL PROVINCE

EDUCATION

REPUBLIC OF SOUTH AFRICA

GRADE 12

NATIONAL
SENIOR CERTIFICATE

ECONOMICS P1

MARKING GUIDELINES

PREPARATORY EXAMINATION

SEPTEMBER 2021

MARKS: 150

This marking guideline consists of 20 pages.

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SECTION A: COMPULSORY

QUESTION 1 30 MARKS – 20 MINUTES

1.1 MULTIPLE CHOICE

1.1.1 B / Open economy ✓✓

1.1.2 D / Kitchin ✓✓

1.1.3 C / Nationalisation ✓✓

1.1.4 C / Transfer payment ✓✓

1.1.5 D / Sanctions ✓✓

1.1.6 A / monetary ✓✓

1.1.7 B / Secondary ✓✓

1.1.8 A / Infant mortality ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 G✓ / This indicates that as disposable income increases, an increase in consumer spending occurs.

1.2.2 A✓ / The Keynesian school of thought which holds the view that the economy is inherently unstable.

1.2.3 B✓/ The simultaneous operation of state-owned and privately-owned enterprise.

1.2.4 H✓ / The Keynesian school of thought which holds the view that the economy is inherently unstable.

1.2.5 D✓/ An official state ban on trade or other activities with a particular country.

1.2.6 E✓ / A movement of people from rural areas to urban areas.

1.2.7 F✓ / Industrial policy whereby investment and production are moved from the focal point.

1.2.8 C✓/ Statistical data on well-being of a society usually over time. (8 x 1) (8)

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1.3 CONCEPT

1.3.1 Multiplier effect ✓

1.3.2 Business cycle ✓

1.3.3 Merit goods ✓

1.3.4 Exchange rate ✓

1.3.5 Tariffs ✓

1.3.6 Extended Public Works Program ✓ (6 x 1) (6)

TOTAL SECTION A: 30

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SECTION B

Answer 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 examples of products exchanged on the factor market. (1 x 2) (2)

- Labour ✓
- Capital ✓
- Land ✓

2.1.2 How does volatile (weak) currency negatively affect productivity of the country? (2)

- A weak currency will imply a low purchasing power therefore making it difficult to import raw materials to producers hence a decline in productivity. ✓✓
- Volatile currency will subsequently cause a decrease in productivity as prices for goods and services produced using imported material increases and aggregate demand decline. ✓✓

(Accept any other relevant and correct response)

2.2 DATA-RESPONSE

2.2.1 Identify the method of deriving the gross domestic product shown on the above table. (1)

Expenditure method/ GDP(E) ✓

2.2.2 Name the missing item (A) from the table above. (1)

General government ✓

2.2.3 Briefly describe the term *gross fixed capital formation.* (2)

Gross fixed capital formation refers to the expenditure on assets used repeatedly in the process of production. ✓✓

(Accept any other relevant and correct response)

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2.2.4 How can gross domestic products be converted to gross national income? (2)

- GDP can be converted to GNP by adding primary income from the rest of the world to the gross domestic product and deduct primary income to the rest of the world. ✓✓
- It can be converted by deducting the primary income from the rest of the world from the gross national products and adding primary income to the rest of the world. ✓✓

(Accept any other relevant and correct response)

2.2.5 Why is it important for a country to calculate the national income? (4)

It is important for a country to calculate its national income because:

- National income figures estimate the performance of aggregate economic activity which indicates the yield of the economy. ✓✓
- National statistics become a useful tool for policy makers when planning and forecasting for future policies. ✓✓
- It serves an indicator for development and can be used as a \ steppingstone to bring about economic development in the country. ✓✓
- They are used as a benchmark when determining the stage of development for the country. ✓✓
- National figures are used as a tool to get a glimpse of how each economic sector contributes towards the national wealth of the country. ✓✓

(Accept any other relevant and correct response)

2.3 DATA-RESPONSE

2.3.1 Identify the budget which shows income and expenditure for a period of three years. (1)

Medium term expenditure framework ✓

2.3.2 Name ONE type of indirect tax. (1)

- Value Added Tax ✓
- Excise duties ✓
- Custom duties ✓
- Sales tax ✓
- Service tax ✓

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

Bureaucracy refers to a system of government where most of the critical decisions are taken by state officials and not the masses. ✓✓

(Accept any other relevant and correct response)

2.3.4 What would be the reason for the government to fail in achieving economic equity as a macro-economic objective?

- Lack of funds by the government may be a hindrance for the state to bring about equal ownership of resources. ✓✓
- Poor planning and denial by policy makers may retard the redistribution process of income and wealth to the poor therefore leaving the poverty gap unattended. ✓✓ **(2)**

(Accept any other relevant and correct response)

2.3.5 How could the government use taxation to increase manufacturing production?

- The government can give tax breaks to the manufacturing industry thereby encouraging their productivity. ✓✓
- Tax revenue could be used to incentivise the manufacturing sector where subsidies are given to promote production. ✓✓
- Tax reduction for those who produce specific goods can reduce the cost of production therefore accelerating the production capacity of these companies. ✓✓

(2 x 2) (4)

(Accept any other relevant and correct response)

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2.4 Briefly discuss *efficiency and globalisation* as effects of international trade. (8)

Efficiency:

- Unrestricted international trade allow the free movement of goods and services from one country to another thus encouraging competition. ✓✓
- An increase in efficiency allows goods to be produced at lower prices hence increasing aggregate demand. ✓✓
- Lower prices means that income can buy more goods and services therefore improving the standard of living. ✓✓ (Max. 4)

Globalisation:

- International trade is the driver behind the worldwide interfacing. ✓✓
- The World Trade Organisation plays a prominent role in ensuring fair trade practices by member countries. ✓✓
- As countries become involved in international trade, it spills over into the other elements of globalisation. ✓✓ (Max. 4)

(Accept any other relevant and correct response)
(Maximum of 4 marks for mere listing)

2.5 How can export earnings benefit the economy? (8)

Export earnings can be beneficial to the economy by:

- Adding value to the gross domestic products hence economic growth of the country. ✓✓
- Generating jobs which improves the standard of living for the citizens of the country. ✓✓
- Increasing the inflow of money for international transactions which results to a positive trade balance. ✓✓
- Creating the overall efficiency of resources as they encourage competition. ✓✓
- Accelerating infrastructural development of the country thus leading to a more developed state. ✓✓

(Accept any other relevant and correct response)
(Maximum of 2 marks for mere listing)

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QUESTION 3: ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO indicators that are related to education. (2)

- Spending on education ✓
- Adult literacy ✓
- Enrolment ✓
- learner to teacher ratio ✓
- matriculant pass rate ✓
- level of education ✓

(Accept any other relevant and correct response)

3.1.2 What is the aim of land redistribution policy in South Africa? (2)

- The land distribution policy is aimed at redistributing 30% of agricultural land to the previously disadvantaged groups. ✓✓
- Land redistribution focuses on redistributing land for residential (town) and productive (farm) use. ✓✓

(Accept any other relevant and correct response)

3.2 DATA-RESPONSE

3.2.1 Name the initiative to stimulate economic activity in underdeveloped areas that is shown above. (1)

Spatial Development Initiative / SDI ✓

3.2.2 Identify the infrastructure mentioned above that qualifies Mafikeng as the Industrial Development Zone (IDZ). (1)

Airline ✓ / airport ✓

3.2.3 Briefly describe the term *corridor*. (2)

A corridor is a track of land that forms a passageway allowing access from one area to another and is developed as part of regional development. ✓✓

(Accept any other relevant and correct response)

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3.2.4 What is the aim of South Africa's regional development policy? (2)

- Regional development policy of South Africa is aimed at reducing the development gap in specific regions by bringing development in poorer areas. ✓✓
- The aim of regional development of South Africa is to promote a more even spread of industries so that capital and labour can be directed towards under-developed areas. ✓✓

(Accept any other relevant and correct response)

3.2.5 Why is the Industrial Policy Action Plan (IPAP) regarded as an important tool for industrial development? (2 x 2) (4)

The Industrial Policy Action Plan (IPAP) is regarded as an important tool for industrial development because:

- It has led to the launch of key manufacturing enhancement programmes such as skills development and education for industrialisation. ✓✓
- It has strengthened government support to industrial development by making improvements in innovation and technology. ✓✓
- It has provided development in different regions through improving traditional and modern infrastructure. ✓✓

(Accept any other relevant and correct response)

3.3 DATA-RESPONSE

3.3.1 Which quarter showed the highest rate of unemployment in 2020? (1)

Fourth quarter ✓

3.3.2 Name the government initiative to reduce unemployment that is mention on the above information. (1)

Extended Public Work Program/ EPWP ✓

3.3.3 Briefly describe the term *economically active population.* (2)

Economically active population refer to the people between the age of 15 to 64 years who want to work and who are currently looking for work. ✓✓

(Accept any other relevant and correct response)

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3.3.4 What would be the negative effect of an increase in remuneration per worker on the economy? (2)

- When salaries and wages increase, this is consolidated by a consequence increase in general price levels thus causing inflation. ✓✓
- An increase in remuneration per worker will result to a subsequent increase in the cost of production hence an increase in general price levels. ✓✓

(Accept any other relevant and correct response)

3.3.5 How can small business development reduce youth unemployment in South Africa? (2 x 2)(4)

- Small business development can allow young people to take an initiative of starting their own businesses rather than waiting to be employed. ✓✓
- Small business development can provide a platform for investment where young people can generate income thus curbing the youth unemployment rate. ✓✓
- Developing small businesses in communities can create new job opportunities for young people thereby improving the employment rate of the country. ✓✓

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

3.4 Briefly discuss *Services to business processes* and *Critical Infrastructure Program (CIP)* as incentives to encourage industrial development.

Services to business processes

- The business process is aimed at attracting investors to invest through offshore activities. ✓✓
- This incentive program has created employment over 6 000 new jobs in South Africa. ✓✓
- A base incentive as a tax-exempt grant is paid over three years for each off-shore job created and maintained . ✓✓

(Max. 4)

Critical Infrastructure Program (CIP)

- CIP is a cost sharing grant for projects tailored to improve infrastructure in South Africa. ✓✓
- The CIP covers qualifying development costs up to 30%. ✓✓
- The grant becomes available upon completion of the project. ✓✓
- The CIP is extended to both the public and private entities. ✓✓

(Accept any other relevant and correct response)
(Maximum of 4 for mere listing)

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3.5 How can an improved health care contribute to the economy of South Africa?

Better health care contributes by:

- Improving labour productivity hence accelerating economic growth rate of the country. ✓✓
- Improving the outlook of the country to tourists thereby earning foreign income. ✓✓
- Reducing the expenses on national health care and increase the potential of the economy to earn income. ✓✓
- Maintaining a healthy pool of labour force which can serve as human capital in the country therefore attracting foreign direct investment. ✓✓
- Increasing the life expectancy and reduce mortality rates of a country thus improving the standard of living and the international ranking of the country. ✓✓
- Increasing per capita income of the country hence economic development. ✓✓

(Accept any other relevant and correct response) (8)
(Maximum of 2 marks for mere listing)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO levels of the state. (2 x 1) (2)

- National/ central government ✓
- Provincial government ✓
- Local government ✓

4.1.2 What effect will a slow economic growth have on the economy? (2)

- A slow economic growth can retard the ability of the government to provide basic services to the citizens. ✓✓
- Economic growth is linked to economic development therefore a slow economic growth rate implies a slow economic development of a country. ✓✓
  (Accept any other relevant and correct response)

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4.2 DATA-RESPONSE

4.2.1 Name the sub-account of the balance of payment that is discussed on the above extract.

Financial account ✓ (1)

4.2.2 According to the extract above, what trend was shown by foreign Direct Investment in the third quarter of 2020?

Decreasing/ decline/ downward ✓ (1)

4.2.3 Briefly describe the term *balance of payment*.

Balance of payment refer to the statement of a country's trade and financial transactions with the rest of the world over a particular period of time. ✓✓ (2)
(Accept any other relevant and correct response)

4.2.4 What could be the reason for a deficit on the trade balance? (2)

- A country may have a deficit on trade balance when the value of imports exceeds exports. ✓✓
- A deficit on the trade balance is as a result of uncontrolled imports that enter the country without any exportation to match them. ✓✓
(Accept any other relevant and correct response)

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4.2.5 How can a country improve its terms of trade? (2 x 2)(4)

The terms of trade can be improved by:

- Investing on infrastructural development thereby attracting new investors to the country's economy. ✓✓
- Offering attractive packages in a form of subsidies and incentives to new investors so that they see the country as a platform to grow their investment. ✓✓
- Investing on skills development so as to increase the pool of labour resources. ✓✓
- Making available funding to each and every person wanting to invest in the new business venture. ✓✓

(Accept any other relevant and correct response)

4.3 DATA-RESPONSE

4.3.1 Identify the developed country from the table above. (1)

Germany ✓

4.3.2 Name the country with the lowest HDI on the table. (1)

Niger ✓

4.3.3 Briefly describe the term *north-south divide.* (2)

The North-South divide refers to the economic gap that exists between developed countries in the Northern hemisphere and developing countries in the Southern hemisphere. ✓✓

(Accept any other relevant and correct response)

4.3.4 Why is the Southern hemisphere commonly affected by shortages of food? (2)

- Countries from the south resort to agricultural practices which results to the degradation of the natural environment thus causing hunger and malnutrition. ✓✓
- The reliance on agricultural production becomes a challenge when the country is confronted by natural disasters such as drought which destroys the crops. ✓✓

(Accept any other relevant and correct response)

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4.3.5 How can economic integration reduce the economic gap in the world? (2 x 2) (4)

Economic integration can reduce the economic gap by:

- Affording countries the opportunity to assist each other and achieve shared development. ✓✓
- Allowing countries to enter into bilateral trade agreements which can bring about development. ✓✓
- Facilitating foreign direct investment which can stimulate economic growth. ✓✓
- Allowing the movement of resources from one country to another thus decentralising production of certain goods. ✓✓

(Accept any other relevant and correct response)

4.4 Briefly discuss *sustainability* and *good governance* as benchmark criteria for regional development. 4 x 2) (8)

Sustainability

- Natural resources should bring about sustainable development in regions where they are located. ✓✓
- The capacity of the region has to support its own development in terms of human resources so that full employment is achieved. ✓✓
- Local communities should be afforded the opportunity to benefit from regional development taking place in their areas. ✓✓ (Max. 4)

Good governance

- Regional development strategies should be managed effectively and free of corruption. ✓✓
- Principle of accountability and transparency should be applied to ensure financial control. ✓✓
- Projects should be correctly programmed, monitored and evaluated. ✓✓ (Max. 4)

(Accept any other relevant and correct response)
(Maximum of 4 marks for mere listing)

4.5 How does lack of management skills affect state entities? (8)

Poor management skills affect state entities by:

- Making them ineffective due to poor management of state resources. ✓✓
- Lowering the quality of services that are rendered therefore leading to government failure. ✓✓
- Failing them to provide services quickly and in desired quantities thereby causing inefficiency. ✓✓
- Making them vulnerable to embezzlement and loss of profit. ✓✓
- Crippling their overall efficiency hence detracting them from achieving the macroeconomic objectives of the state. ✓✓

(Accept any other relevant and correct response)
(Maximum of 2 marks for mere listing)

[40]

TOTAL SECTION B: 80

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SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.
Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

QUESTION 5: MACRO-ECONOMICS 40 MARKS – 40 MINUTES

- **Discuss in detail the features underpinning forecasting of business cycles. (26)**
- **Evaluate the use of fiscal policy to stimulate economic activity in South Africa during the times of COVID-19. (10)**

Introduction

Economists need to foretell what is likely to happen in the economy by studying and monitoring a variety of economic variables. ✓✓

(Accept any other relevant and correct introduction)

Body: Main part

1. Leading economic indicators ✓

- These are indicators that change before the economy changes/ coincide with the reference turning point. ✓✓
- They give consumers, businesses and policy makers a glimpse of where the economy is headed. ✓✓
- They reach the peak before the economy reaches the peak. ✓✓
- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators show prosperity, the level of economic activities will also rise in a few months' time ✓✓ e.g. number of new vehicles sold, real exports of goods, etc. ✓

2. Coincident economic indicators ✓

- They move at the same time as the economy. If the turning point of a specific time series variable coincide with the reference turning point. ✓✓
- It indicates the current state of the economy ✓✓ e.g. retail sales. ✓
- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at the same time. ✓✓

3. Lagging indicators ✓

- They do not change direction until after the business cycle has changed its direction. ✓✓
- They serve to confirm the behaviour of coincident indicators✓✓ e.g. new machinery sold. ✓
- If the business cycle reaches the peak and begins to decline, we are able to predict the value of new machinery sold. ✓✓

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4. Composite indicators✓

- It is a grouping of various indicators of the same type into a single value. ✓✓
- The single figure forms the norm for a country's economic performance. ✓✓

5. Length✓

- This is the time that it takes for a business cycle to move through one complete cycle. It is measured from peak to peak/ trough to trough. ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If business cycles have longer length, we consider the economy to be strong. ✓✓

6. Amplitude✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line. It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude the more extreme the changes that may occur. ✓✓

7. Trend✓

- A trend is the movement of the economy in a general direction. ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time. ✓✓
- Trends are useful because they indicate the general direction in which the economy is headed. It indicates the rate of increase or decrease in the level of output. ✓✓

8. Extrapolation✓

- This is the technique of using past data to make predictions about the future. ✓✓
- It is also used to make economic predictions in other settings✓✓ e.g. prediction of future share price. ✓

9. Moving average✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time. ✓✓
- Moving averages can be calculated for the past three months in order to smooth out any minor fluctuations. ✓✓ (26)

(Accept any other relevant and correct response)
(Both sub-headings and examples are marked to a maximum of 8 marks)

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Evaluate the use of fiscal policy to stimulate economic activity in South Africa during the times of COVID-19. **(10)**

The government has succeeded in implementing fiscal policy by:

- Reducing taxes in the production sector while increasing subsidies so as to allow businesses to continue making profit even during the lockdown. ✓✓
- Increasing transfer payments e.g. pensions, child support grants, R350 COVID 19 relief grant, etc. thus reducing the effects of COVID-19 on the citizens. ✓✓
- Increasing public debt through borrowing from the IMF thereby being able to offer stimulus packages to the manufacturing sector hence improving the level of economic activities. ✓✓
- Setting minimum wages with the purpose of increasing earnings for households thereby raising aggregate spending and eventually economic growth. ✓✓
- Increasing government spending in the provision of clean water, infrastructural development, primary health care, etc. as a measure to stimulate economic growth and development of the country. ✓✓
- Implementing employment tax incentives so as to improve the employment rate and aggregate spending even in the midst of the COVID-19. ✓✓

(Accept argument for unsuccessful)
(Accept any other relevant and correct response)
(Maximum of 2 marks for mere listing)

<u>CONCLUSION</u>

Forecasting of business cycles can be useful in guiding policy makers when making decisions for governing the country. ✓✓

(Accept any other relevant and correct conclusion)

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QUESTION 6: ECONOMIC PURSUITS 40 MARKS – 40 MINUTES

- **Discuss in detail export promotion under the following headings (26)**
  - **Reasons for export promotion. (8)**
  - **Methods (8)**
  - **Disadvantages for export promotion (10)**
- **How does free trade affect South Africa? (10)**

INTRODUCTION:

Export promotion involves providing incentives to encourage local businesses to produce goods for exports. ✓✓

(Accept any relevant correct introduction) (2)

BODY MAIN PART:

Reasons for export promotion:

- The country achieves significant export-led growth. ✓✓
- Export promotion enlarges the production capacity of the country. ✓✓
- Export markets are much bigger than local markets. ✓✓
- Larger production units create more job opportunities. ✓✓
- It leads to lower retail prices. ✓✓ (Max. 8)

Methods of export promotion:

- Incentives: ✓
  - The government supplies information on export markets in order to stimulate exports. ✓✓
  - Other examples are research on new markets, concessions on transport charges, export credit. ✓✓
- Subsidies: ✓
  - Incentives which encourage exporters to increase the amount of their production. ✓✓
  - It includes direct and indirect subsidies. ✓✓
    - Direct subsidies: Cash payments to exporters. ✓✓
    - Indirect subsidies: Refund on import tariffs and general tax rebates. ✓✓

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- Trade neutrality: ✓
  - Subsidies, equal in size to import duties, are paid. ✓✓
  - Neutrality can be achieved through trade liberalisation. ✓✓ (Max. 8)

Disadvantages of export promotion

- The real cost of production is hidden: ✓
  - It reduces the total cost by subsidies and incentives. ✓✓
  - The real cost of production is concealed by the subsidies. ✓✓
  - The production may thus never be able to compete in the open market. ✓✓

- Lack of competition: ✓
  - Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market. ✓✓
  - Total potential trade is therefore reduced with subsidies rather than without subsidies. ✓✓

- Increased tariff quotas: ✓
  - Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production. ✓✓
  - Powerful overseas businesses can afford to offer similar products at much lower prices. ✓✓
  - Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business who received the subsidy. ✓✓

- Protection of labour intensive industries: ✓
  - Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve a comparative advantage. ✓✓
  - Export promotion results in the protection of labour-intensive industries by developed countries. ✓✓ (Max. 10)

(Accept any other relevant correct answer) (26)

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ADDITIONAL PART:

How does free trade affect producers in the South African economy?

Free trade:

- Scales down the productivity of local industries due to competition with powerful multinational industries. ✓✓
- Causes a skill drain as boundaries are open for skilled labour force to migrate to other countries thus leaving the country dry in terms of scarce skills. ✓✓
- Allows the inflow of imported goods to the country thus pushing up prices for local goods thereby causing inflation. ✓✓
- Increases the production of goods which emit externalities and puts strain on resources in the country. ✓✓
- Creates monopolies which dictate prices and trade conditions in the country's trade system thereby causing a barrier to those with the intention to trade. ✓✓
- Exposes the country to trade dependencies thus leaving it vulnerable to successes and failures of other countries. ✓✓

(Accept any relevant correct answer) (10)
(Maximum of 2 marks for mere listing)

Conclusion:

The strategy of export promotion should not be regarded as a direct opposite of import substitution as the implementation of one policy leads to another. ✓✓ (2)
(Accept any other relevant correct conclusion)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150

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