GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2025

MARKING GUIDELINES

ECONOMICS (PAPER 2) (10732)

23 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 A – Agricultural markets ✓✓

1.1.2 D – differentiated ✓✓

1.1.3 B – Blocked ✓✓

1.1.4 C – training programmes ✓✓

1.1.5 A – All-inclusive inflation ✓✓

1.1.6 C – Developing ✓✓

1.1.7 B – Preservation ✓✓

1.1.8 D – Car tyres ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1	F ✓	no individual can be made better off without making another worse off	
1.2.2	A ✓	the exclusive right to manufacture a product	
1.2.3	D ✓	responsible for promoting competition	
1.2.4	H ✓	a few sellers dominate the industry	
1.2.5	B ✓	a decrease in the general price level	
1.2.6	C ✓	hotels, restaurants, parks and recreation services	
1.2.7	G✓	what a currency can buy	
1.2.8	I ✓	can be decomposed and assimilated into the environment	(8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 Fixed costs ✓

1.3.2 Differentiated/heterogeneous ✓

1.3.3 Minimum wage ✓

1.3.4 Biodiversity ✓

1.3.5 Hyperinflation ✓

1.3.6 Marketing✓/ Advertising✓ (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: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name any TWO examples of public services that have positive externalities.**

- Public health services ✓
- National defence ✓
- Public education ✓
- Vaccination programs ✓
- Public roads ✓
- Emergency services ✓
- Fire departments ✓
- Police ✓
- Public libraries ✓
- Street lighting ✓
- Public parks ✓
- Lighthouses ✓

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

2.1.2 **Why would a firm in a perfectly competitive market not increase the price of its product?**

- The firm is a price taker and an increase in price will reduce demand. ✓✓
- Since identical products are available at the market price from competitors, raising prices would reduce its demand to zero. ✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **Identify the maximum price shown in the graph.**

R 70 ✓ (1)

2.2.2 **What is the market shortage depicted in the graph?**

100 ✓ (1)

2.2.3 **Briefly describe the term *minimum price*.**

A minimum price is the lowest legal price at which a good or service may be sold, set above the market price to protect the producer. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **Explain the benefit of setting a price floor on goods.**

Setting a minimum price on goods ensures that producers receive a fair income, preventing prices from falling too low. It also helps protect industries, maintain employment, and discourage the consumption of harmful goods like alcohol and tobacco. ✓✓
(Accept any other correct relevant response.) (2)

2.2.5 **How can consumers be negatively impacted by maximum price controls?**

- In the long term, maximum price restrictions may lead to reduced supply.✓✓
- Producers may find it unprofitable to produce goods at capped prices, leading to shortages ✓✓
- Consumers may face lower quality goods and reduced variety as producers cut costs to compensate for the price ceiling. ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Identify the outcome on the merger decision made by the Competition Tribunal from the extract above.**

To prohibit the proposed merger. ✓ (1)

2.3.2 **Name the institution to which the Competition Commission submits its recommendations.**

Competition Tribunal ✓ (1)

2.3.3 **Briefly describe the term *merger.***

A merger is the combining of two or more previously independent companies into a single new entity. ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 **Why does the government regulate mergers?**

To ensure that mergers do not reduce competition, harm consumers, or create monopolies ✓✓
To promote economic efficiency and market fairness. ✓✓
(Accept any other correct relevant response.) (2)

2.3.5 **Briefly discuss the benefit of the competition Act for the South African economy?**

- The Competition Act ensures fair competition by preventing anti-competitive practices like price-fixing and monopolies ✓✓
- The act promotes lower prices, improved quality, and greater choice in the market.✓✓
- The act prevents anti-competitive practices like price-fixing and abuse of dominance, ensuring a level playing field for businesses. ✓✓
- By fostering competition, it incentivises businesses to innovate and offer better products and services at competitive prices. ✓✓
- The act ensures consumers have access to a wider variety of goods and services at competitive prices, preventing exploitation by dominant firms. ✓✓
- By encouraging competition and innovation, it contributes to increased productivity, economic efficiency, and overall economic growth.✓✓
- The act aims to create an environment where SMEs can compete effectively, contributing to job creation and economic development. ✓✓

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

2.4 **Distinguish between *productive efficiency* and *allocative efficiency*.**

- Productive efficiency occurs when a firm or an economy produces goods and services at the lowest possible cost.✓✓
- Allocative efficiency occurs when the combination of goods and services produced matches consumer preferences and maximises societal welfare. ✓✓
- Productive efficiency does not consider what is produced, only how it's produced. ✓✓
- Allocative Efficiency considers whether the right goods are produced for society. ✓✓
- Productive Efficiency is represented by any point on the Production Possibility Frontier (PPF). ✓✓
- Allocative Efficiency is achieved at the socially optimal point on the PPF. ✓✓
- While productive efficiency focuses on minimising costs and maximising output, allocative efficiency ensures that the right goods and services are produced in the right quantities to satisfy societal needs. ✓✓

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

2.5 **Examine characteristics of why perfectly competitive markets do not exist in the real world.**

In the real world

- High start-up costs, legal restrictions, and other obstacles prevent new firms from entering the market, limiting competition and disrupting the ideal of perfect competition. ✓✓
- Consumers and producers often do not have equal access to information, which leads to inefficiencies and prevents the uniform knowledge necessary for perfect competition. ✓✓
- Products are often differentiated by brand, quality, or features, which gives firms some market power and prevents the homogeneity required for perfect competition. ✓✓
- In many industries, a few large firms control the market, reducing competition and enabling them to set prices, contrary to the competitive conditions envisioned in perfect competition. ✓✓
- Positive or negative externalities (such as pollution or public goods) can affect the market outcomes, making it difficult to achieve the efficiency expected in a perfectly competitive market. ✓✓
- Regulations, taxes, subsidies, and other government actions can distort market behaviour and create inefficiencies that prevent the market from being perfectly competitive. ✓✓

(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: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 **Name any TWO policies used to combat inflation.**

- Fiscal policy ✓
- Monetary policy ✓
- Supply-Side Policies✓
- Wage and Price Controls✓
- Exchange Rate Policy✓
- Targeting Inflation Expectations✓

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

3.1.2 **What effects does air pollution have on the environment?**

- Air pollution negatively affects the environment by contributing to climate change. ✓✓
- Air pollution can lead to the acidification of soils and water bodies, and disrupt plant growth. ✓✓
- Air pollution can reduce air quality and cause respiratory issues for both wildlife and humans. ✓✓
- Air pollutants increase the greenhouse effect, leading to global warming. ✓✓

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

3.2 **DATA RESPONSE**

3.2.1 **List ONE method to reduce pollution from hazardous waste.**

- Treatment of waste✓
- Use safe disposal practices ✓
- Enforcing environmental laws ✓
- Public awareness ✓
- Educating industries and individuals ✓

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

3.2.2 **Name the international agreement focused on controlling hazardous waste.**

Basel Convention ✓ (1)

3.2.3 **Briefly describe the term *pollution.***

Pollution is the presence in the environment of a substance that has harmful or poisonous effects.✓✓
The introduction of toxic substances into the natural environment that damage the environment.
(Accept any other correct relevant response.) (2)

3.2.4 **Explain the effect of soil erosion on food production in South Africa.**

- Soil erosion depletes essential nutrients in the soil, lowering agricultural productivity and increases the risk of food shortages. ✓✓
- Land can no longer be cultivated thereby leading to a shortage of food supply ✓✓
- Soil erosion reduces the availability of fertile land for agriculture and increasing the risk of food shortages. ✓✓

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

3.2.5 **How does hazardous waste effect the environment?**

- Hazardous waste kills living organisms, which causes an imbalance in the ecosystem. ✓✓
- Waste can cause infertility in people, animals and plants. ✓✓
- Toxic waste can degrade soil quality by introducing harmful chemicals, reducing soil fertility and making it less suitable for crop production.✓✓
- Toxic substances can seep into water sources, contaminating irrigation water and harming crops, reducing yields, and making food unsafe for consumption.✓✓
- Exposure to toxic pollutants can stunt plant growth, reduce germination rates, and lead to lower agricultural output.✓✓
- Contaminated food and water sources can affect livestock health, leading to lower meat and dairy production, while also harming beneficial soil organisms essential for plant growth.✓✓

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

3.3 **DATA RESPONSE**

3.3.1 **Identify any type of tourism from the information above.**

- Leisure/recreation (Visiting friends & family) ✓
- Religious tourism ✓
- Business & personal shopping ✓
- Medical tourism ✓ (1)

3.3.2 **Name any ONE benefit of tourism for households.**

- Enjoy infrastructure ✓
- Skills development ✓
- Income increases ✓
- More job opportunities ✓ (1)

(Accept any other correct relevant response.)

3.3.3 **Briefly describe the term *tourism***

Activities of people travelling to and staying in places outside their usual environment for no more than one year for leisure, business and other purposes without remuneration. ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 **Explain the positive impact of tourism on the environment.**

- Tourism can generate revenue for environmental conservation efforts, such as national parks or wildlife reserves, which helps protect natural habitats and biodiversity. ✓✓
- It raises awareness about environmental issues, encouraging responsible travel behaviours and sustainable practices among tourists. ✓✓
- The economic benefits of tourism can provide incentives for local communities to preserve natural landscapes and wildlife rather than exploiting them for other industries. ✓✓
- Many tourism businesses adopt eco-friendly practices, such as reducing waste, conserving water, and using renewable energy sources, which can have positive environmental impacts. ✓✓

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

3.3.5 **How can tourism help reduce unemployment?**

- Tourism is a labour-intensive industry in a sense that manual labour is required to make this industry viable. ✓✓
- People without jobs can embark on this type of industry as it creates immediate job opportunities. ✓✓
- The tourism industry creates a wide range of direct and indirect jobs, including positions in hospitality, transportation, tour guiding, and customer service. ✓✓
- Tourism stimulates local economies by supporting businesses such as restaurants, shops, and entertainment venues, which in turn creates more job opportunities. ✓✓
- Tourism provides opportunities for workers to develop valuable skills in areas such as hospitality management, languages, and customer relations, enhancing employability. ✓✓
- Tourism offers seasonal job opportunities, especially in tourist destinations, providing temporary employment during peak seasons, which helps reduce unemployment during those times. ✓✓

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

3.4 **Briefly discuss the *Producer Price Index and Consumer Price Index*.**

PPI

- PPI is very useful in the analysis of inflation, since PPI measures the cost of production ✓✓
- The Producer Price Index (PPI) is an economic indicator that measures the average change in selling prices received by domestic producers for their output over time. ✓✓
- It is a tool for analysing inflationary trends at the wholesale level. ✓✓

CPI

- The Consumer Price Index (CPI) measures the changes in the price level of a representative basket of consumer goods and services bought by households. ✓✓
- The CPI is used to measure consumer inflation. ✓✓
- Inflation shows changes in the general purchasing power of the rand and is used is for inflating targeting. ✓✓ Max. 4

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

3.5 **Examine the environmental questions overlooked by consumers when buying goods and services.**

- Consumers often fail to protect the environment despite growing awareness of environmental challenges. ✓✓
- Consumption activities produce negative externalities, such as pollution or carbon emissions, which are not directly reflected in market prices. ✓✓
- Consumers may overuse shared resources, such as air, water, or forests, because the individual cost of depletion is small, but the cumulative effect is significant. ✓✓ For example: Overfishing□
- Eco-friendly products often have higher prices than conventional alternatives, discouraging consumers from making sustainable choices. ✓✓
- Consumers prioritise lower cost over long-term environmental sustainability. ✓✓
- Consumers are resistant to changing their habits, such as switching to reusable bags or adopting public transportation. ✓✓
- Consumers prioritise luxury and convenience over sustainability. Example: Preference for single-use plastics due to convenience. ✓✓
- Environmental protection is a public good, and individuals often rely on others to take action, leading to free-rider problems. ✓✓
- The globalised economy promotes mass consumption of goods that may be produced in environmentally harmful ways. ✓✓
- Consumers' failure to protect the environment arises from a combination of individual behaviour, market inefficiencies, and systemic barriers. ✓✓
- Addressing these issues requires a multi-faceted approach, including stronger government intervention, consumer education, and market-based solutions such as carbon pricing and subsidies for sustainable products. ✓✓
- By overcoming these challenges, it is possible to align consumer behaviour with environmental protection goals. ✓✓

(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: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

4.1.1 **Name any TWO characteristics of public goods.**

Non-rivalry/Non-competitive/Infinite consumption ✓
Non-excludability/Non-reject ability/Non-excludable ✓
Indivisibility ✓
External Benefits ✓
(Accept any other correct relevant response.) (2 x 1) (2)

4.1.2 **Why does a weaker rand make South Africa a more attractive tourist destination?**

- A weaker rand causes foreign currencies to become stronger in comparison. ✓✓
- This makes traveling to South Africa more affordable for tourists, as their money goes further.✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Identify ONE private cost from the information above.**

Road construction equipment ✓ (1)

4.2.2 **Name ONE type of institution that uses cost-benefit analysis for decision-making.**

- Department of Public Works ✓
- Government Agencies ✓
- Private Businesses ✓
- Non-Profit Organisations ✓
- International Organisations ✓
- Environmental Organisations ✓
- Healthcare Institutions ✓
- Educational Institutions ✓
- Transport and Infrastructure Agencies ✓

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

4.2.3 **Briefly describe the term *cost-benefit analysis.***

An analysis done by government which weighs the costs and benefits of a project to determine whether it should be carried out./Project evaluation that needs to be done to find conclusive answers/ procedure used to measure total cost of a project against its total benefits ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 **How can toll collection contribute to the feasibility of a new road project?**

- Tolls will generate revenue that helps cover the costs of construction and maintenance. ✓✓

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

4.2.5 **Why is it important to include the environmental costs when evaluating a new road project?**

- Including environmental costs ensures a holistic assessment of the project by accounting for negative externalities like deforestation, air and water pollution, habitat destruction, and carbon emissions. ✓✓
- It balances economic benefits with ecological preservation, ensuring long-term societal well-being. ✓✓
- Ignoring environmental costs can lead to an overestimation of the net benefits of road construction, resulting in suboptimal policy and investment decisions. ✓✓
- Identifying environmental costs early allows planners to allocate resources for mitigation measures, such as reforestation, wildlife corridors, or pollution control, reducing the project's negative impacts. ✓✓
- Including environmental costs ensures that development projects do not compromise environmental health for economic gains. ✓✓

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

4.3 **DATA RESPONSE**

4.3.1 **Identify the growth rate forecast by the IMF in the text.**

Below 2% ✓ (1)

4.3.2 **Name ONE method that is used to measure inflation.**

- Indexes (CPI and PPI) ✓
- Weighting ✓
- Inflation rate ✓
- Implicit GDP deflator ✓ (1)

(Accept any other correct relevant response.)

4.3.3 **Briefly describe the term *stagflation.***

Situation where there is low growth, high unemployment and high inflation rates occur simultaneously in the economy. ✓✓

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

4.3.4 **Explain why the IMF tracks inflation trends in countries around the world.**

By observing inflation patterns, the IMF can warn countries about upcoming inflationary pressures and advise on preventive measures ✓✓
(Accept any other correct relevant response.) (2)

4.3.5 **Why is it difficult to control inflation during periods of low economic growth?**

- Central banks aim to reduce inflation by raising interest rates, but this can further slow economic growth and increase unemployment. ✓✓
- Traditional monetary policies like lowering interest rates may not work effectively if inflation is driven by supply-side issues, such as higher energy or food prices. ✓✓
- During stagflation (low growth with high inflation), addressing one problem (inflation or growth) can worsen the other. ✓✓

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

4.4 **Compare a perfect market to a monopolistic market in terms *market entry* and *nature of product*.**

Entry and exit to the market

- There is complete freedom of entry and exit of buyers and sellers in both market structures. ✓✓
- Entry is not subjected to any restrictions in the form of legal, financial and technological. ✓✓
- There are no barriers such as licences, permits, patents and other restrictions in both perfect and a monopolistic market. ✓✓

Nature of the product

- In the perfect market all products sold in the market are homogenous while products in monopolistic are differentiated. ✓✓
- In perfect competition, products are homogenous which means the same regarding quality and appearance it makes no difference where and from whom the buyer bought it. ✓✓
- Whereas goods produced by businesses in a monopolistic competitive market are differentiated. ✓✓
- In a sense that they may differ slightly in appearance, shape, size and taste – some differences may be imaginary ✓✓
- For example medicine may have different names but contain the same ingredients. ✓

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

4.5 **How can lesser-known destinations be marketed to attract more tourists?**

- By launching the Welcome campaign to make every tourist feel at home and encourage them **to** return for a repeat visit and tell others about their experience. ✓✓
- Introducing welcome awards to recognise businesses and individuals that improve the quality of tourist offerings. ✓✓
- Launching the Sho'tLeft campaign aimed to make travel more accessible and affordable which will encourage South Africans to travel within their country. Through social media like Facebook, Instagram, X, WhatsApp and Threads. ✓✓
- Building a strong partnership between SAT and other organisations such as Computicket Travel and Flight Centre in offering South Africans special deals from flights to accommodation and train trips. ✓✓
- Showcasing a wide variety of the best tourism products in South Africa and attract visitors from across the world through the annual Tourism Indaba. ✓✓
- Establishing the Tourism Enterprise Partnership to improve the sustainability of small tourism enterprises to protect and promote job creation as well as transforming the tourism industry. ✓✓

(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: MICROECONOMICS

- **Discuss in detail the factors that lead to the misallocation of resources in the market.** (26)
- **How can the negative effects of minimum wages be mitigated for first-time job on new job seekers?** (10)

INTRODUCTION

Markets fail because the forces of demand and supply fail to allocate resources efficiently. Market failure occurs when the resources of the community are not allocated efficiently. ✓✓

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

BODY
MAIN PART

Immobility of factors of production ✓
- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- While this may be partly due to lack of information, it is also true that resources are very often not mobile✓✓
- Labour: It may take time to move into new occupations and geographically to meet changes in consumer demand. ✓✓
- Physical capital: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- Structural changes like a change from producing plastic packets to paper packets or shifting from labour-intensive production to computer-based production require changes in labourers' skills, employment and work patterns. This takes time to change. ✓✓

Imperfect competition ✓
- Competition in market economies is limited by the power of certain producers to prevent new businesses from entering the market. This is imperfect competition. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- They can also to prevent new businesses from entering the industry, thereby preventing full adjustment to changes in consumer demand occurring. ✓✓
- In market economies, competition is often impaired by power. ✓✓

Redistribution of wealth ✓
- There are traditional methods like the levying of various taxes and the provision of free services, services in kind and cash benefits to the poor. ✓✓
- The implementing of redress methods such as e the use of law to enforce redistribution. It includes BEE, affirmative action, empowerment, land restitution, land redistribution and property subsidies (for RDP houses). ✓✓
- The difference in income occurs because there is a difference in market power, unequal educational opportunities, discrimination and inheritance. ✓✓
- These are some of the ways in which the government can use to improve income distribution and overcome market failure:
- Transfers income directly to the poor child e.g. child support grants, unemployment benefits etc. ✓✓
- Provides goods free of charge e.g. community goods, education etc. ✓✓
- Implementation of employment creation programmes e.g. public works programme. ✓✓
- Subsidising merit goods e.g. subsidising arts and cultural events such as National Arts Festival, Afrika Burn & Oppokoppi Festival. ✓✓

Externalities ✓
Externalities occur when the production or consumption of a good or services impacts s third parties who are not directly involved in the transaction. ✓✓
They can be positive (beneficial) or negative (harmful). ✓✓
Negative externalities (e.g., pollution from factories) result in overproduction of harmful goods because producers do not bear the full social cost. ✓✓
Positive externalities (e.g., education) are underprovided because producers do not receive the full social benefit, leading to underinvestment. ✓✓
Missing Market ✓
A missing market occurs when goods or services that are socially desirable are not provided by the market. ✓✓
This often happens with public goods like national defence or street lighting, which are non-excludable and non-rivalrous. ✓✓
Since firms cannot profit from these goods, they are underprovided, leading to resource misallocation. ✓✓
Lack of Information✓✓
When consumers or producers lack of information, they may make poor economic decisions. ✓✓
Consumers may buy harmful products due to lack of awareness (e.g., smoking before knowing the health risks). ✓✓
Firms may not invest in the more efficient technologies due to uncertainty or misinformation. ✓✓
This results in resources being allocated inefficiently, either overproducing or underproducing certain goods and services. ✓✓
(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART

- Job training programs
  Providing skills development and vocational training can help first-time job seekers become more employable despite higher wage requirements. ✓✓
- Apprenticeships and Internships
  Encouraging businesses to offer apprenticeships and internships at lower wages can give inexperienced workers a chance to gain valuable experience. ✓✓
- Government wage subsidies
- Offering wage subsidies or tax incentives to businesses hiring first-time job seekers can reduce the financial burden on employers. ✓✓
- Gradual wage increases
- Implementing minimum wage increases gradually rather than abruptly can help businesses adjust and continue hiring new workers ✓✓
- Sector-S\specific sage policies
  Setting different minimum wage levels for different industries or regions can help prevent job losses in sectors where businesses operate on thin profit margins. ✓✓
- Encouraging Entrepreneurship
  Supporting young entrepreneurs with funding and mentorship programs can create more employment opportunities. ✓✓
- Flexible work arrangements
  Allowing part-time, gig, or temporary work options can help first-time job seekers gain entry into the labour market. ✓✓
- Reducing regulatory barriers
  Simplifying business regulations and reducing compliance costs can encourage companies to hire more workers, including those with no prior experience. ✓✓
- Promoting youth employment Initiatives
  Government and private sector partnerships can create targeted programs to help young job seekers transition into full-time employment. ✓✓
- Enhancing career guidance services
  Providing career counselling and job placement assistance can help first-time job seekers find suitable employment opportunities despite minimum wage challenges. ✓✓ (Max. 10)

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

CONCLUSION

The government should be very careful in managing market failure, to ensure that it leads to the desired increase in economic growth, without negatively affecting the marginalised and the poor. ✓✓

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

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Examine in detail the consequences of inflation.** (26)
- **How does the inflow of foreign direct investments affect inflation in South Africa?** 10)

INTRODUCTION
Inflation refers to a sustained and significant increase in the general level of prices over a period of time. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY

MAIN PART

Debtors ✓
- Debtors (borrowers) receive money with high buying power and pay back with money with a lower buying power ✓✓
- Borrowers benefit from price increases ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓

Creditors ✓
- Creditors (lenders) suffer due to price increases because they get money back which has a lower purchasing power, especially if the interest rate has been below the inflation rate/inflation harms creditors as they lose due to a fall in the real value of money ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods ✓✓

Salary and wage earners ✓

- Price increases affect people negatively because their incomes tend to be relatively fixed ✓✓
- Real wages fall sharply during period of high inflation because of a decline in capital stock and a shift in relative prices ✓✓
- Inflation can severely impact large segments of the population by eroding the real wages ✓✓
- Relative wages are the important component of wealth; they constitute the main source of income for many households, especially for the less well-off ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty ✓✓
- This group includes retired people, pensioners, and the poor, who will experience the erosion of spending power and eventually earn too little to survive ✓✓
- Wage increases are lower than the inflation rate increase ✓✓

Investors and savers ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate ✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings ✓✓
- Investors in assets with flexible market value gain when prices increase, because their assets with a flexible market value increase at least proportionately to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or pension funds. ✓✓

Taxpayers ✓

- With inflation, taxpayers' nominal income rise although their real income remains unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payers ✓✓
- Taxes are levied on nominal income and not on real income ✓✓
- If the income tax brackets remain unchanged, inflation increases the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are in fact no better off than before – bracket creep leads to a redistribution of income from taxpayers to the government. ✓✓

Industrial peace ✓

- Wage bargaining is accompanied by strikes and mass action. ✓✓
- These actions can sometimes spill over into violence which affects society as a whole. ✓✓
- Inflation leads to demands for increased wages as trade unions put increasing pressure on employers to raise wages and salaries ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest may result. ✓✓

Balance of payment problems ✓

- If a country's rate of inflation is higher than that of its trading partner, the prices of exported goods increase while the prices of imported goods decrease. ✓✓
- This leads to loss of competitiveness in the export market leading to a decrease in exports ✓✓
- Cheaper imports have a negative effect on a country's balance of payments ✓✓
- The loss of competitiveness can be a result of increased unemployment. ✓✓

Unemployment and poverty✓

- Inflation also tends to redistribute income from low-income groups to higher income groups ✓✓
- The effects of inflation are uneven, because it does not benefit anyone and harms most, but some less than others ✓✓
- This is because people in the low-income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people can increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients. ✓✓

Psychological influence ✓

- Low inflation expectations for individuals or consumers ✓✓
- Limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future ✓✓
- Allow consumers to postpone consumption expenditure thereby reducing pressure on price increases ✓✓
- Give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand ✓✓
- Increase the burden on debtors which discourages them from borrowing money, due to higher real interest rates ✓✓
- Cause households to save less, thereby leading to excess demand for goods and services ✓✓

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

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

ADDITIONAL PART

- Foreign direct investment influences inflation in the economy by:
- Increasing the production of goods and services which will increase aggregate supply thus stabilising prices. ✓✓
- By bringing more efficient production techniques that will reduce production costs, slowing down cost push inflation ✓✓
- Increasing competition in local markets which will keep local prices low ✓✓
- Strengthening the rand through higher export volumes which helps to reduce the cost of importing production inputs such as crude oil ✓✓
- Improving technology in production which increases productivity thereby reducing cost push inflation ✓✓
- Creating more employment opportunities thereby stimulating consumer spending which contributes to demand pull inflation ✓✓
- Increasing expenditure on capital goods such as machinery and equipment resulting in increased aggregate demand ✓✓
- Increases real wages more than domestic investment, it may lead to cost push inflation ✓✓

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

CONCLUSION

Unacceptably high inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures must be put in place to control. ✓✓

(Accept any other correct relevant conclusion) (Max. 2)

TOTAL SECTION C: [40]
TOTAL: 40
150