GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2019

MARKING GUIDELINES

ECONOMICS (PAPER 2) (10732)

20 pages

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

ECONOMICS
(Paper 2)

MARKING GUIDELINES

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 B – average variable cost ✓✓

1.1.2 A – cigarettes ✓✓

1.1.3 D – differentiated ✓✓

1.1.4 B – above ✓✓

1.1.5 C – core-inflation ✓✓

1.1.6 C – labour ✓✓

1.1.7 A –climate change ✓✓

1.1.8 D – water ✓✓ (8 (16)

1.2 MATCHING ITEMS

1.2.1 D ✓ (when average revenue exceeds average costs)

1.2.2 F ✓ (the minimum earnings preventing the entrepreneur from leaving the market)

1.2.3 I ✓ (when a firm produces outputs that does not meet consumer preferences)

1.2.4 B ✓ (where it is impossible to increase the welfare of one person without making another worse off)

1.2.5 H ✓ (visits to a country by a non-resident of a country)

1.2.6 A ✓ (an increase in wage levels)

1.2.7 G ✓ (to take care of the environment to the benefit of future generations)

1.2.8 C ✓ (World Heritage Site) (8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 Competition tribunal ✓

1.3.2 Social cost ✓

1.3.3 Demerit goods ✓

1.3.4 Stagflation ✓

1.3.5 Cultural tourism ✓

1.3.6 Indigenous knowledge systems ✓ (6 (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 **Answer the following questions.**

2.1.1 **Name TWO items that can be regarded as explicit costs.**

- Wages ✓
- Leasing of land / buildings ✓
- Interest on borrowed capital✓
- Purchase or the hire of inputs ✓ (2 x 1) (2)

2.1.2 **What would the effect be on an individual maize farmer in a perfect market if he increases the price of his maize?**

An individual maize farmer operates in perfect competition conditions therefore any price increase from this farm will result in unsold stock. ✓✓
because its customers will buy from other competitors at a cheaper price.✓✓
The prices will be forced down by the competitors, as the maize farmer is a price taker✓✓
(Accept any other correct relevant response) (1 x 2) (2)

2.2 **Data Response**

2.2.1 **Identify the letter that represents the elastic part of the graph.**

F ✓ (1)

2.2.2 **Give ONE example of an industry operating under this tyoe of market structure.**

- Car ✓
- Steel ✓
- Film ✓
- Television ✓
- Cell phone ✓
- Gas ✓
- Banks✓

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

2.2.3 **Briefly describe the concept of *overt (explicit) collusion*.**

- Is open and happens when oligopolies formally meet to decide on prices and production ✓✓
- This type of collusion is illegal and is normally investigated by the Competition Commission. ✓✓
- Heavy penalties are imposed on oligopolies found guilty of collusion. ✓✓
- A cartel is an explicit collusion agreement, where oligopolists work together to fix prices and determine market share
  (Accept any other correct relevant response) (2) (2)

2.2.4 **Why are firms in this market structure reluctant to participate in price competition?**

It will cause other oligopolists to cut their prices and profits. / Want to increase their market share so that they can sell more products and increase their profits✓✓ (2)

2.2.5 **Use the graph above to explain why the oligopoly would not decrease its price to increase his market share**.

- Oligopolies are interdependent as each seller is influenced by the actions of other sellers. ✓✓
- If an oligopoly decreases its prices, its competitors will all do the same. ✓✓
- Any profit gains will quickly disappear because of competition. ✓✓
- The above will cause the demand curve to be inelastic, because the reduction in price will result in a smaller percentage change in the quantity demanded. ✓✓
  (Accept any other correct response) (2 x 2) (4)

2.3 **Data Response**

2.3.1 **What is the effect on total revenue when marginal revenue is positive?**

It increases ✓ (1)

2.3.2 **At which output level will the firm achieve profit maximisation?**

2 / 2 units ✓ (1)

2.3.3 **Briefly explain the term *marginal revenue*.**

Marginal revenue refers to an additional revenue received from producing an additional output. ✓✓ (2)

2.3.4 **Determine the marginal cost (MC) in the above table for A.**

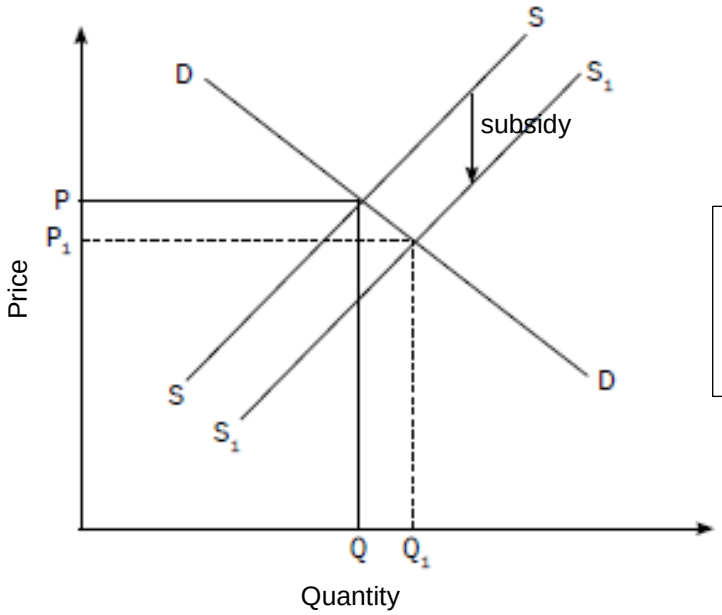
$$\frac{56 - 45}{1}$$

= MC = 11✓✓ (2)

2.3.5 **How does the monopolistic competitor use non-price competition to expand its market share?**

Focus on good health – the producers of soft drinks add sweeteners in the place of sugar ✓✓
Focus on superiority – differentiation could be imaginary, such as two painkillers containing identical ingredients (brands differ) ✓✓
Product differentiation – the greater the differentiation a product has, the less price elastic the demand for such product. ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

2.4 **With the aid of a graph, explain the impact of state subsidies on the production of goods and services**



Mark Allocation
Original equilibrium = 1 Mark
New equilibrium = 1 Mark
Change in price = 1 Mark
Change in quantity = 1 Mark
Max 4 marks

(8)

- The government provides subsidies to producers in order to encourage them to increase the production of goods. ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered. ✓✓
- If the government subsidises the production of a product, the market price will decrease to P1 with corresponding increase in the quantity from Q to Q1. ✓✓

(Maximum 4 marks for discussion) (8)

2.5 **Evaluate the success of the Competition Act in achieving its objectives.**

- Provides consumers with competitive prices and a variety of products ✓✓ E.g. MTN and Vodacom
- DSTV has been found guilty of price fixing and fined R180 million by the Competition Commission✓✓
- Tiger Brands was fined R8 million for collusion in the milling industry.✓✓
- SA banks face market fines for price fixing and collusion✓✓
- Fruit and Vegetable producer fined for price fixing and collusion✓✓
- Encouraged South Africans to participate in world markets and accept foreign competition✓✓
- Enables SMMEs to participate in the economy✓✓
- Enables previously disadvantaged groups to increase their ownership in the business sector ✓✓

  (Any other relevant response indicating the success of the Competition Act)

  (Accept any other correct relevant response) (8)

[40]

QUESTION 3: ECONOMIC PURSUITS

3.1 **Answer the following questions.**

3.1.1 **Name any TWO examples of materials that can be recycled.**

- Paper / carton ✓
- Types of plastics / plastic ✓
- Glass✓
- Tin / metal✓
- Electronic components ✓

(Any other relevant examples of recyclable material) Any (2 x 1) (2)

3.1.2 **How can the economy be negatively affected by tourism?**

- Tourism creates environmental, social and cultural costs. ✓✓
- Tourism causes the degeneration of traditions and cultural values. ✓✓
- Environmental pollution is also created by tourism. ✓✓
- Tourism could impact on agricultural land / development projects. ✓✓

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

3.2 **Data Response**

3.2.1 **Name the economic sector in which tourism largely operates.**

Tertiary sector / informal sector ✓

(1)

3.2.2 **Give ONE reason for increased growth in tourism.**

- The range of tourist attractions in the country has increased. ✓
- Economic growth and development have resulted in improved levels of income. ✓
- Improved infrastructure such as competitive low-fare airlines, improved bus and minibus services and road networks. ✓
- A large group of citizens cannot afford to travel abroad, which then boosts local tourism. ✓
- Marketing factors such as discounted rates for local residents compared to traveling abroad. ✓

- Socio-economic factors that cause migrant workers in urban areas to travel to their homes in various provinces✓
  (Accept any other correct relevant response) (1)

3.2.3 **Briefly describe the concept of *ecotourism.***

Involves those tourist activities during which people visit places where they can experience the diverse nature of a country. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **Why is it important to protect biodiversity in South Africa?**

- Biodiversity is important as many people depend on nature for survival / provision of basic food. ✓✓
- Biodiversity is important for protecting our plant and animal species. ✓✓
  (Accept any other correct relevant response.) (2)

3.2.5 **What are the biggest challenges to tourism in South Africa?**

- Lack of infrastructure in certain parts of the country, such as road infrastructure. ✓✓
- High levels of crime in a large part of the country. ✓✓
- Tourism leads to increased inequality between groups, because rural people do not always benefit from it. ✓✓
- Tourism management is not always applied suitably, such as low standards and a lack of service delivery. ✓✓
  (Accept any other correct relevant response) ✓ (2 x 2) (4)

3.3 **Data Response**

3.3.1 **Give ONE cause of the greenhouse effect**.

Pollution ✓
Contamination of water levels✓
Chemical waste✓
Loss of biodiversity✓
(Accept any other correct relevant response) (1)

3.3.2 **Identify the international agreement above that is specifically aimed at reducing greenhouse gases**.

Kyoto Protocol ✓ (1)

3.3.3 **Briefly describe the term *greenhouse effect*.**

The negative effect of global warming due to climate change from gas pollution. ✓✓ (2)

3.3.4 **What is the main function of *CITES*?**

Convention on the International Trade in Endangered Species (CITES) bans commercial international trade in a list of endangered species. ✓✓ (2)

3.3.5 **Evaluate the effectiveness of international organisations in addressing the loss of biodiversity**.

- CITES has been successful in reducing the trade in rhino and rhino-horn from South Africa. ✓✓
- There are fewer rhino being poached now, due to the protection by CITES. ✓✓
- CITES has not been successful in protecting endangered species, like the rhino, which is still being poached✓✓
- Despite all the campaigns and awareness raised by CITES and other organisation, rhino-horn remains a sought after commodity in some countries. ✓✓
  (Accept any other Positive or Negative response, indicating the maintaining of biodiversity, or the loss of biodiversity correct relevant response) ✓✓ Any (2 x 2) (4)

3.4 **Briefly explain *marketable permits* and *environmental subsidies* as measures to ensure sustainable development.**

Marketable permits

- The government can charge tax on and issue a licence to a business that pollutes the environment. ✓✓
- If the business reduces its pollution, it can sell all or part of its pollution licence to another firm that has a larger or increased pollution level. ✓✓

Environmental Subsidies

- The government can use the income from environmental taxes to subsidise activities that reduce environmental damage. ✓✓
- Improving techniques or equipment such as solar geysers. ✓✓
- Introducing environmentally friendly substitutes such as unleaded petrol. ✓✓
- Supporting and encouraging recycling of waste ✓✓ e.g. bottles, cans, cardboard, etc ✓

(Allocate a maximum of 4 marks for mere listing / example / sub-headings.) (Max. 4) (8)

3.5 **Evaluate the growth of the tourism industry in South Africa**.

Tourism in South Africa is growing, because:

- workers are experiencing an increase in disposable income. ✓✓
- workers experience a reduction in working hours / more public holidays. ✓✓
- there is a greater awareness of recreation time by South Africans. ✓✓
- of improved transport, roads, communication and accommodation facilities. ✓✓
- there is an increase in advertising and promotions available to the public. ✓✓
- South Africa has a lot to offer in the sphere of wildlife / nature and is an economical destination for foreigners. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for mere listing / examples / sub-headings.) (8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 **Answer the following questions.**

4.1.1 **Name TWO methods of redress used by the government to improve income distribution.**

- BEE✓
- affirmative action ✓
- land restitution ✓
- land redistribution ✓
- property subsidies (for RDP houses) ✓ Any (2 x 1) (2)

4.1.2 **What is the effect of deforestation on the environment?**

- The land / area is no longer covered by trees and the natural ecosystem is destroyed. ✓✓
- We have less land available for forestry / plantations. ✓✓

Any (1 x 2) (2)

4.2 **Data Response**

4.2.1 **What is depicted by the shaded triangle E_1CE?**

Net welfare loss / external costs✓ (1)

4.2.2 **Identify the new market equilibrium price after external costs are included.**

R1 500 ✓ (1)

4.2.3 **Briefly describe the term *negative externality*.**

Negative externality – is a cost to a third party which is not included in the market price of goods e.g. pollution. ✓✓ (2)

4.2.4 **How does government use taxation to overcome negative externalities?**

The government taxes the producer that causes pollution, such as coal-fired power stations ✓✓ (2)

4.2.5 **Use the above graph to explain why a negative externality results in a misallocation of resources or over-production of goods.**

- The additional costs are not paid by the producers, but by the consumer / society. ✓✓
- If producers had to carry the total social costs of their economic activities (pollution) the supply curve would decrease (left shift). ✓✓
- The market thus produces too much of the product with negative externalities, and at much lower market prices. ✓✓

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

4.3 **Data Response**

4.3.1 **Name the country with the most favourable ecological footprint from the above information.**

Australia ✓ (1)

4.3.2 **What is the main contributor to South Africa's carbon emissions?**

Using fossil fuels as energy source / coal. ✓ (1)

4.3.3 **Briefly describe the concept of *environmental sustainability.***

- Involves development that meets our current needs, without always compromising the capability of future generations to meet their needs ✓✓
- Involves the environment's ability to survive its use for future economic activity ✓✓ (2)

4.3.4 **How does soil erosion contribute towards an ecological deficit?**

- Soil fertility is lost ✓✓
- Depletion of available agricultural land areas. ✓✓
- Biocapacity which is the capacity of a given biologically productive area to generate an on-going supply of renewable resources is lost ✓✓

(Any other relevant correct response) Any (1 x 2) (2)

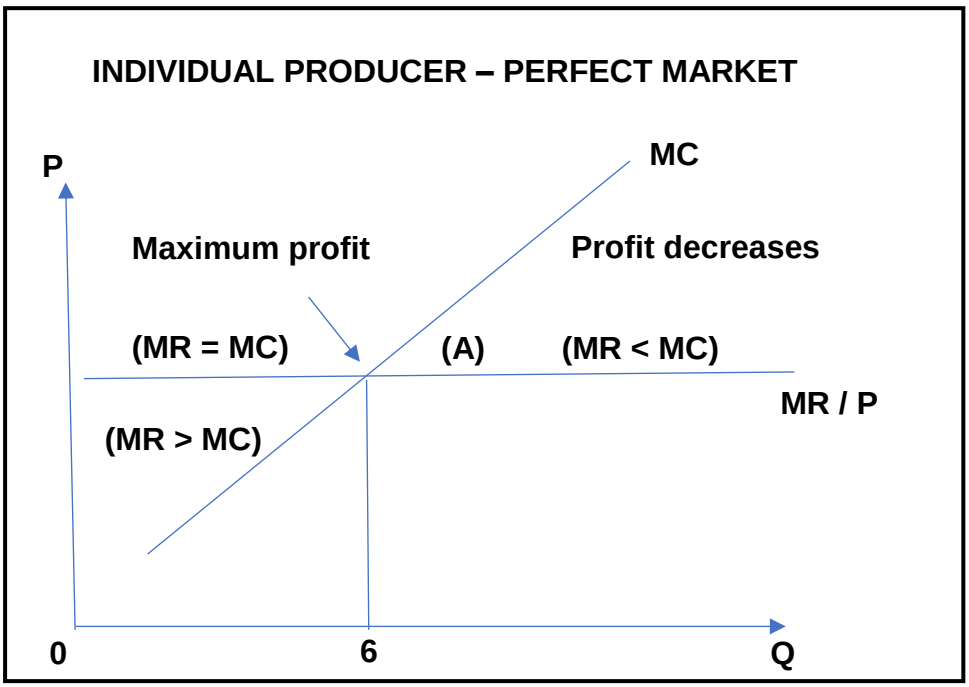
4.3.5 **How does the government implement command and control measures to ensure sustainability?**

- This involves the government setting levels of environmental quality ✓✓
- Such as maximum permitted levels of emissions or resource usage ✓✓ (e.g. fishing or carbon dioxide) ✓
- Minimum permitted levels of water levels or tree plantations✓✓
- Inspectors monitor the activities, and impose fines if there is non-adherence to the set levels✓✓

(Any other relevant correct response) (2 x 2) (4)

(10)

4.4 **With the aid of a graph explain why Marginal Cost must be equal to Marginal Revenue for profits to be maximised.**



Indicate maximum profit: 2 marks
Indicate MC: 1 mark
Indicate MR: 1 mark

(Max. 4)

- In the above diagram, the market price is fixed at R 80. ✓✓
- If MR < MC, profits will decrease, and if MR > MC, profits will increase. ✓✓
- The individual producer cannot adjust the price, as he must adjust in line with the industry / competition. ✓✓
- Profit maximisation occurs where MR = MC/If MR = MC, then marginal profit = zero (0) ✓✓ (Max. 4) (4)

(8)

4.5 **Evaluate the impact of indigenous knowledge systems in promoting tourism in South Africa.**

- More cultural villages can be improved to facilitate and promote tourism ✓✓ e.g. Shangana in Mpumalanga, Basotho in the Free State and Simunye Zulu Lodge in Kwazulu-Natal where guides explain and demonstrate storytelling and indigenous knowledge practices. ✓✓
- Advertising campaigns domestically and internationally by travel agencies, hotels and B & B, lodges ✓✓
- SA Tourism can focus on promoting these heritage sites in brochures and fliers, social media. These actions will make tourists more aware of these attractions. ✓✓
- Encourage tourists to experience different cultures and townships - experience life at home with a household and eat at a shebeen or township restaurant. ✓✓
- World Heritage Sites of South Africa can be promoted for their cultural significance ✓✓ e.g. the Fossil Hominid Sites of Sterkfontein, Mapungubwe Cultural Landscape, Richtersveld Cultural and Botanical Landscape, Vredefort Dome and Robben Island. ✓✓
- Environmental World Heritage Sites of South Africa selected for their natural importance namely the Cape Floral Region Protected Areas, Isimangaliso Wetlands Park as well as uKhahlamba / Drakensberg Park which has been selected for its mixed significance ✓✓ (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE question from this section in the ANSWER BOOK.

QUESTION 5: MACROECONOMICS

- Examine the monopoly as a market structure without the use of the graph. (26)
- Why has Eskom, as a monopoly, not achieved economic profit in the long run, as expected of a typical monopoly. (10)

INTRODUCTION

Monopoly exists when there is only one seller of a product, when the product has no close substitutes, and when barriers completely block entry into the market. ✓✓
(Accept any other relevant correct introduction.) **(Max. 2)**

BODY

MAIN PART

- **<u>Number of producers</u>** ✓
  - The monopolist has full control over the supply of a product, because it is the only seller. ✓✓
  - The monopoly also represents the total industry, e.g. De Beers, Eskom. ✓✓

- **<u>Nature of the product</u>** ✓
  - The product is unique and has no close substitutes. ✓✓
  - E.g. electricity and rail transport ✓

- **<u>Economic profit</u>** ✓
  - The monopoly makes a short-term loss or profit. ✓✓

- **<u>Technical superiority</u>** ✓
  - A monopoly has a technical advantage over potential competitors and their access to resources and technical superiority makes it difficult for others to compete. ✓✓

- **<u>Access to scarce resources</u>** ✓
  - A single firm owns and controls a specific scarce resource and excludes other companies from entering the market. ✓✓

- **<u>Demand curve</u>** ✓
  - Monopolists are also confronted with a demand curve for their product but because they are the only supplier of the product they can decide at what point on the demand curve they wish to be ✓✓
  - The monopolist is the only supplier of the product in the market – the demand curve that confronts the monopolist is that of the market as a whole. ✓✓
  - The market demand curve slopes downwards from left to right / graph. ✓✓

- **Production level** ✓
  - Once the monopolist has decided on a price, the quantity sold is determined by market demand – by reducing the price, monopolists can sell more units of the product and vice versa. ✓✓
  - Monopolists influence the product-price combination of the product they sell without any reaction from other market participants. ✓✓
  - Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is blocked. ✓✓

- **Market forces** ✓
  - Although the monopolist is the only supplier of a product, the product is still influenced by market forces in the economy. ✓✓
  - Consumers have limited budgets and a monopoly can therefore not demand excessive prices for the product and the monopolist product has to compete for consumers' favour with all the other products available in the economy. ✓✓
  - E.g. Transnet competes with road, air etc. other means of transport ✓

- **Control over the price** ✓
  - A monopolist has considerable control over the market price – but demand limits it. ✓✓
  - A monopoly does not have control over demand, so demand will influence the final market price. ✓✓
  - A monopoly can only decide at which point on the demand curve it wants to produce. ✓✓

- **Substitutes** ✓
  - There are few products that have no close substitutes whatsoever. ✓✓
  - For many years, even though there was no competition for telephone services in South Africa, consumers could still use alternative forms of communication such as letters and telegrams. ✓✓

- **Favourable circumstances** ✓
  - Sometimes entrepreneurs may enjoy favourable circumstances in a certain geographic area. ✓✓
  - E.g. There may be only one supplier of milk in a particular town, a hardware store or hotel. ✓✓
  - There may even be laws that protect them, e.g. Post Offices in South Africa. ✓✓
  - Pure monopolies are a general rarity in South Africa. ✓✓
  - Not only are substitutes available, but there is often nothing to prevent other entrepreneurs from entering the market hence what may be called a quasi-monopoly. ✓✓

- **Market information** ✓
  - All buyers and the single seller have full knowledge of all the current market conditions. ✓✓

- **Exploitation of consumers** ✓
  - The monopolist may produce fewer products at a higher price compared to businesses under perfect competition. ✓✓
  - E.g. De Beers, because the monopolist is the only producer of the product in the market, there is always the possibility of consumer exploitation. Most governments take steps to guard against such practices and new and existing monopolies are usually well monitored. ✓✓

- **Market entry** ✓
  - The barriers prevent other producers from entering the market to supply the same type of product. ✓✓

  ➢ **Natural monopolies** ✓
  - High development costs are frequently a reason - the provision of electricity is often used as an example
  - To build a nuclear power station and transmission lines to distribute electricity costs billions of rands. ✓✓
  - E.g. Eskom as a single business in the country that supplies electricity operates as a natural monopoly and is frequently owned and regulated by the government. ✓

  ➢ **Artificial monopolies** ✓
  - The barriers to entry are not economic in nature but artificial like patent rights which are legal and exclusive rights of a patent holder to manufacture a product using his or her unique invention. ✓✓
  - Patents are also frequently encountered in the pharmaceutical industry. ✓✓
  - Licensing is another way in which artificial monopoly is applied, e.g. TV and radio licences. ✓✓
  - Licences protect operators against the entry of other competitors. ✓✓

- **Economies of scale** ✓
  - These give advantages to large existing companies. ✓✓
  - Occur when the cost per unit decreases when the output increases ✓✓
  - Large businesses have lower production costs per unit compared to those of small businesses, e.g. Eskom. ✓✓

- **The geographical area** ✓
  - This can cause a natural barrier as well, e.g. only one holiday resort can fit on the seafront as an exclusive beach. ✓✓

- **Size of the market** ✓
  - Sometimes a business enjoys favourable circumstances in a certain small market. ✓✓
  - E.g. There may be only one hardware store in a particular small town. ✓✓

(Accept any other correct relevant facts.) **(Max. 26)**
(A maximum of 8 marks may be allocated for mere listing of facts / examples.)

ADDITIONAL PART

Why has Eskom as a monopoly not achieved economic profit in the long run, although this is expected of a monopoly.

- Eskom is unable to service its debts from its earnings, forcing it to borrow more or get government bail-outs✓✓
- Corruption, e.g. irregular tenders to suppliers by taking bribes in the provision of sub-standard coal. ✓✓
- Lack of proper leadership and corporate governance – expanded electrification programme was not accompanied by infrastructure development, e.g. building of new power stations✓✓
- Lack of maintenance of current infrastructure, e.g. breakdown of machinery is costly when not repaired in time. ✓✓
- Cable theft, Eskom had to replace cables at high cost. ✓✓
- Eskom is in a debt reliant liquidity situation, employee benefit costs increasing and the continuing new build programme ✓✓
- New power stations are not fully functional, and are costing a lot more than originally budgeted for (Medupe and Khusile)
- Load-shedding is implemented because financial strain resulting in the inability to service debt, e.g. cannot pay suppliers of coal. ✓✓
- Load-shedding reduces revenue collection when electricity is off. ✓✓
- Culture of non-payment in certain areas lead to a loss of revenue. ✓✓
- Illegal connections lead to insufficient revenue collection. (5 x 2)

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

Conclusion

There is no place for monopoly firms in a mixed economy such as in South Africa, as this leads to consumer exploitation, unfair competition and excessively high prices. ✓✓

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

[40]

QUESTION 6

- **Discuss the causes of demand-pull inflation in detail. (26)**
- **Evaluate the impact of the inflation targeting policy in South Africa. (10)**

INTRODUCTION

Demand-pull inflation occurs when aggregate demand outpaces aggregate supply even though the GDP increases and unemployment falls.✓✓
(Accept any other relevant definition.) **(Max. 2)**

BODY

MAIN PART

Causes of demand-pull inflation

- **Increase in household consumption:**✓ Due to easily available credit, a reduction in taxes and less savings. ✓✓
- **Investors, expenditure:**✓ May lead to higher profit expectations of businesses. They will invest more and this might lead to an increase in the demand for goods and services. ✓✓
- **Government expenditure:**✓ An increase in government spending leads to an increase in prices. More money comes into circulation due to an increase in spending on infrastructure, consumption spending and social spending.✓✓
- **Export earnings:**✓ The growth in foreign countries might create an increased demand for locally produced goods without an increase in production. ✓✓
- **The Monetarist explanation:**✓ According to the monetarists, sustained high rates of growth in the money supply cause high inflation, while low rates of growth cause low inflation.✓✓ They base their view on the quantity theory of money (MV = PT)✓✓. They make three basic assumptions: The velocity of circulation of money is stable; the quantity of money is exogenously determined by monetary authorities and real output is determined by the quantity and quality of various factors of production.✓✓
- **Groups that are responsible:** ✓ Consumers, businesses and government.✓✓
- **Foreigners' contribution:** ✓ They further increase the demand for our goods and services through an increase in exports. ✓✓
- **Relative increase in aggregate demand's components:** ✓ C (consumption spending), I (investment spending), G (government spending), M (cost of imports). ✓✓
- **Decline in savings**: ✓ If savings habits are changed and consumers start spending their current and accumulated savings, growth in aggregate demand can outstrip growth in aggregate supply.✓✓
- **Tax reduction:** ✓ If personal income tax is reduced, more money is available for private consumption expenditure.✓✓
- **Access to credit:** ✓ Greater availability of consumer credit (credit cards) and cheaper credit – credit multiplier kicks in and more credit is created.✓✓

(Max. 26)

ADDITIONAL PART

Evaluate the impact of inflation targeting policy in South Africa.

- The SARB monetary policy sets the inflation target between 3% to 6%.✓✓
- The SARB have been successful in maintaining the level of inflation between the above range. ✓✓
- If the inflation target range is exceeded the monetary authorities (SARB) acts to reduce the demand for money, such as increasing interest rates. ✓✓
- If inflation levels increase beyond the inflation target it leads to wage-push inflation and possible strike action. ✓✓
- Wage demands are often accompanied by violent strikes.✓✓ Employers will give in to workers' demands but put their prices up to compensate for increased labour cost / increased cost of living. ✓✓
- If the targets are exceeded the countries credit rating can be negatively affected

Negative impact of inflation

- The control of inflation levels prevents South African citizens from living on too much credit from commercial banks.
- Inflation targeting negatively affects people on a fixed incomes, because they are reliant on an income that does not increase at the rate at which inflation increases
- Headline inflation includes all the volatile products such as fuel and electricity, which are not considered as part of the inflation targeting policy; so people are paying more for certain goods and services but it is not taken into account

(Accept any other correct negative or positive arguments.) **[40]**

(Max. 10)

CONCLUSION

The fact that South African consumers live on credit is the main contributor to demand-pull inflation✓✓ / An increase in consumer credit corresponds with an increase in inflation in the same period.✓✓
(Accept any other relevant conclusion.) **(Max. 2)**

TOTAL SECTION C: 40

TOTAL: 150