KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL
SENIOR CERTIFICATE

GRADE 12

ECONOMICS

MARKING GUIDELINES

MARCH 2024

MARKS: 100

This marking guideline consists of 15 pages.

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QUESTION 1

1.1. MULTIPLE-CHOICE

1.1.1 C – production ✓✓

1.1.2 A – business ✓✓

1.1.3 D – community goods ✓✓

1.1.4 B – globalisation. ✓✓

1.1.5 C - special drawing rights ✓✓

1.2 MATCHING ITEMS

1.2.1 E- The initial value in production of final goods before taxes and subsidies are considered. ✓

1.2.2 A - Caused by changes in net investments by businesses and the government. ✓

1.2.3 G - The percentage paid in tax increases as income increases. ✓

1.2.4 B - One country can produce goods at a lower opportunity cost than others. ✓

1.2.5 C - Portion of the income that is not spent. ✓

1.2.6 D - An initial change in spending to the total change in income. ✓

1.3 CONCEPTS

1.3.1 Autonomous spending ✓

1.3.2 Exogenous approach ✓

1.3.3 Free riders ✓

1.3.4 Exchange rate ✓

TOTAL SECTION A: 20 MARKS

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

2.1 Answer the following questions.

2.1.1 Name any TWO macro-economic objectives of the state. **(2)**

- Economic growth ✓
- Full employment ✓
- Economic equity ✓
- Price stability ✓
- Exchange rate stability ✓

2.1.2 How would an increase in the value of the US Dollars affect the value of the South African Rand? **(2)**

- South Africans/ holders of the rands will require more rands to buy goods that are in US Dollars. ✓✓
- An increase in the price of US dollars will have a negative impact on the value of the rand, as this will lower the value of the South African Rands. ✓✓

(Accept any other relevant and correct response)

2.2. DATA-RESPONSE

2.2.1 Identify any ONE state owned enterprise from the picture above. **(1)**

ESKOM ✓ / PRASA ✓ / SABC ✓/ Denel ✓/ SAA ✓

2.2.2 Give any level of the South African government. **(1)**

- Central/ National government ✓
- Provincial government ✓
- Local government ✓
- Parastatals ✓

2.2.3 Briefly describe the term *pareto efficiency*. **(2)**

Pareto efficiency means making one better-off without making others worse off. ✓✓

(Accept any other relevant and correct response)

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2.2.4 What is the negative effect of service delivery protests on the standard of living? (2)

- Service delivery protests are the enemy to service delivery as they blockade provisioning by the state. ✓✓
- During protesting, some communities' resort to destroying critical facilities
  like schools, this is a set-back to the process of development. ✓✓
- When service delivery protests erupt, people and the government cannot focus on personal well-being thereby lowering the standard of living. ✓✓

(Accept any other relevant and correct response)

2.2.5 How can privatisation of state owned enterprise benefit the South African economy? (4)

- Privatisation can increase the tax base for the government hence allowing the state to offer more services for the community. ✓✓
- Privatisation eliminates the burden of bailing-out parastatals from government, thereby allowing the state to focus its attention to provisioning of services. ✓✓
- The private sector is well resourced because of its profit motive; this improves the allocation of resources in the economy. ✓✓

(Accept any other relevant and correct response)

2.3 DATA-RESPONSE

2.3.1 Identify the South African currency shown above. (1)

Rands ✓ / ZAR ✓

2.3.2 Name any ONE exchange rate system. (1)

- Free-floating exchange rates ✓
- Managed-floating exchange rates. ✓
- Fixed-exchange rates ✓

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

Devaluation refer to the deliberate action by the central bank to reduce the value of currency in relation to other currencies ✓✓

(Accept any other relevant and correct response)

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2.3.4 Explain the negative effect depreciation of a currency has on consumers. **(2)**

- Import Cost Increase: imported goods become more expensive, leading to higher costs for businesses and consumers. This can fuel inflation as well.. ✓✓
- Purchasing Power Reduction: The decreased value of the currency means that consumers can buy fewer goods and services both domestically and abroad with the same amount of money. ✓✓
- International Debt Burden: If a country has debts denominated in foreign currencies, depreciation can increase the cost of servicing that debt, potentially leading to financial instability. ✓✓
- Capital Flight Risk: Depreciation can undermine investors seek more stable assets elsewhere. This can lead to a loss of investment and economic instability. ✓✓
- Cost Push Inflation: Depreciation can lead to higher costs for imported raw materials and intermediate goods, which can push up production costs for businesses and results in cost push inflation. ✓✓
- Reduced Foreign Investment: Foreign investors may be deterred from investing in the country due to currency depreciation, as it reduces the returns they can expect when converting profits back to their own currency. ✓✓
- Wealth Redistribution: Currency depreciation can disproportionately affect certain groups, such as those on fixed income or holding savings in the depreciating currency, leading to wealth redistribution and social tensions. ✓✓

(Accept any other relevant and correct response)

2.3.5 How does the Russia-Ukraine conflict negatively affect South Africa? **(4)**

- Import prices from these countries have since become more expensive due to supply shocks. ✓✓
- This conflict has slowed down production for South Africa thereby slowing down economic growth. ✓✓
- South African exports to these counties have since decline thereby lowering foreign income earned by South Africa. ✓✓
- High level of unemployment and low standard of living can be experienced as South African's lose their jobs due to a high input costs. ✓✓

(Accept any other relevant and correct response)

2.4. Briefly discuss *availability of natural resources* and availability of *labour resources* as reasons for international trade. **(8)**

<u>The availability of natural resources</u>

- Natural resources are unevenly distributed across all countries in the worlds. ✓✓
- They vary from country to country and can only be exploited in places where these resources exist. ✓✓
- A country may be richly endowed with different natural resources but less endowed with skilled labour and capital. ✓✓
- Whilst others may have relative abundance of skilled labour but they lack natural resources. ✓✓

(Accept any other relevant and correct response)
(Mark to a maximum of 4 marks)

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Availability of labour resources

- Labour differs from country to country in terms of skills, knowledge, Training, quality and cost between them. ✓✓
- Some countries have highly skilled, well-paid workers and high productivity levels. ✓✓
- Skills drain occurs when the labour force migrate to countries where labour resources are highly remunerated. ✓✓

(Accept any other relevant and correct response)
(Mark to a maximum of 4 marks)

2.5 How does an ineffective tax system affect the efficiency of the government? (8)

- Less tax revenue may be accumulated due to tax evasion and untraced taxes. ✓✓
- Ineffective tax system hinders the ability of the state to provide public goods. ✓✓
- It will accumulate state debt as the government will be compelled to borrow in order to make a provision. ✓✓
- Tax evasion may result to overspending caused by high levels of disposable income, this can off-set inflation. ✓✓
- An ineffective tax system can be associated with disinvestments as tax brings investor confidence. ✓✓
- Failure to collect taxes can further exacerbate the level of inequality on the economy as taxes are used as a tool to promote economic equity. ✓✓

(Accept any other relevant and correct response)
(Mere listing of facts, mark to the maximum of 2 marks)

QUESTION 3: MACRO-ECONOMICS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO sub- accounts of the balance of payments. (2)

- Current account ✓
- Capital transfer account ✓
- Financial account ✓

3.1.2 What is the negative effect of corruption on the standard of living? (2)

- Corruption results to the embezzlement of state funds hence decelerating economic development. ✓✓
- Corrupt officials use state funds to advance their personal interest; this further opens the inequality gap. ✓✓

(Accept any other relevant and correct response)

3.2 DATA-RESPONSE:

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3.2.1 Identify the fiscal instrument that is discussed on the above article. (1)

Budget ✓ / Medium-Term Budget Policy Statement (MTBPS) ✓

3.2.2 Give any example of direct tax. (1)

- Income tax ✓
- Capital gains tax ✓
- Transfer tax ✓

(Accept any other relevant and correct response)

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

Bureaucracy is a formal organizational structure characterized by hierarchical levels of authority,standardized procedures and strict adherence to rigid rules and regulations. ✓✓

(Accept any other relevant and correct response)

3.2.4 Why is important for the government to ensure that public funds are not poorly managed? (2)

- Embezzlement of state funds hinders the ability of government to provide public services at the right quantities and in the right time. ✓✓
- When state funds are poorly managed, the state fails to achieve its macro-economic objectives therefore causing public sector failure. ✓✓

(Accept any other relevant and correct response)

3.2.5 How does a decline (decrease) in tax revenue negatively affect the economy? (4)

- A decline in tax revenue lowers the standard of living as the state relies on the tax base to fund community projects. ✓✓
- When tax revenue decreases, the government is not able to render support to businesses by giving grants, subsidies, etc. this means that businesses must bear all the costs and consolidate by increasing prices. ✓✓
- A low tax revenue for the state implies that the government struggles when it comes to infrastructural development of the country, this decelerates (slows) down economic growth. ✓✓
- A decline in tax revenue is synonymous to an increase in consumption spending and high inflation rate. ✓✓

(Accept any other relevant and correct response)

3.3. DATA-RESPONSE

3.3.1 Identify the index of export prices in the year 2022. (1)

200 ✓

3.3.2 What is the trend of import prices from the table above? (1)

Increasing ✓/ Upward ✓

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3.3.3 Briefly describe the term *foreign direct investment*. (2)

Foreign direct investment (FDI) refers to the ownership stake in a foreign company or project made by investor, company or government from another country. ✓✓

(Accept any other relevant and correct response)

3.3.4 What benefit will an increase in the index of export prices have on the economy?

- The index of export prices as this is deemed as an injection therefore it kicks the multiplier for the South African economy. ✓✓
- An increase in the index of export prices signals an increase in output levels, and improvement in the level of economic activities and economic growth. ✓✓

(Accept any other relevant and correct response)

3.3.5. Calculate the terms of trade for 2022 (A). (Show ALL calculations). (4)

$\frac{200}{163}$ ✓ x $\frac{100}{1}$ ✓ = 122.6 ✓

3.4 Briefly discuss *politicians* and *special interest groups* as reasons for public sector failure. (8)

Politicians

- Politicians are often interested in being re-elected to their positions rather than serving the public. ✓✓
- They often pursue vote-maximising strategies to secure or retain their political offices. ✓✓
- The pressure of looming election often can make many politicians make decisions just to make the voting public happy. ✓✓
- Some projects can be undertaken even if they were not budgeted for or no proper cost benefit analysis was conducted. ✓✓

(Accept any other relevant and correct)
(Mark to a maximum of 4 marks)

Special interest groups (rent seeking groups)

- Rent seeking refers to when people spend money on lobbying in order to increase their wealth without actually creating any more wealth. ✓✓
- Special interest groups such as farmers or organised labor often attempt to influence government to their own advantage. ✓✓
- They make use of the law, lobbying, bribes and other favors to influence the government officials to act in their interest. ✓✓

(Accept any other relevant and correct response)

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(Mark to the maximum of 4 marks)

3.5 How does borrowing to finance a deficit on the balance of payment affect economic stability? (8)

- Interest Rates: Increased government borrowing can put upward pressure on the interest rates, especially if the government competes with the private sector for the funds and they can dampen investment and consumption, potentially slowing economic growth. ✓✓
- Crowding Out When the government borrows heavily, it may reduce the availability of funds for private investments. ✓✓
- Debts Service Burden: A higher level of debt means a larger portion of government revenue must be allocated to debt servicing (paying interest on the debt) ✓✓
- Creditworthiness and Investor Confidence: Excessive borrowing can erode investor confidence in a country's ability to manage its finances, leading to higher borrowing costs and potential capital flight. ✓✓
- Inflation: In some cases, if the government borrows excessively and resorts to monetizing the debts (printing money to finance spending) that can lead to inflation. ✓✓
- Fiscal measures implemented to counter borrowing may have long- term negative effects on economic stability. ✓✓

(Accept any other relevant and correct response)
(Mere listing of facts, mark to the maximum of 2 marks)

TOTAL SECTION B: 40 MARKS

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SECTION C

Answer **ONE** question from this section in the ANSWER BOOK.

QUESTION 4: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

Discuss in detail the markets within the four sector model. **(26)**

Introduction:

A market is defined as any contact or communication between actual or potential buyers and actual and potential sellers of goods and services. ✓✓

(Accept any other relevant correct introduction) (2)

Body

Main part:

1. The Product/ goods market ✓

- Goods and services are traded in the product market. All participants purchase these goods and services in the product market. ✓✓
- Goods are defined as tangible items (such as food, clothing and cars) that satisfy some human wants or need. ✓✓
- Services are non-tangible actions (such as cleaning services, medical care, etc.) that satisfy human wants or need. ✓✓
- Non-durable goods are those items which are used up when they are
- consumed and cannot be re-used, for example, cool drink, petrol and electricity. ✓✓
- Semi-durable goods lasts a short period of time and can be used more than once. ✓✓
- Durable goods can be used over again and do not wear out very easily e.g. vehicles. ✓✓
- Households purchase consumer goods for consumption and businesses
- purchase capital goods for use in the production process. ✓✓

2. The Factor/ Resources market ✓

- The four factors of production are traded for income in form of wages/ salaries, interest, economic rent and profit in this market. ✓✓

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- Businesses purchase the factors of production from the households in the factor market. ✓✓
- The price and quantity traded is also determined by interaction between supply and demand. ✓✓
- The factor market can be further sub-divided into markets in which different factors of production like labour, property and financial market. ✓✓

3. <u>The financial market</u> ✓

- The financial market serves those who wish to save and those who wish to borrow. ✓✓
- The money, capital and foreign exchange markets are part of the financial market. ✓✓
- This sector represents financial institutions which are not directly involved in the production of goods and services but are a link between participants in the economy with surplus money and participants who require funds. ✓✓
- Households make their financial capital available to the financial sector in the form of savings. ✓✓
- The financial sector in turn makes financial capital available to firms through investments. ✓✓

(a) <u>Money market</u> ✓

This is used by participants as a means for borrowing and lending in short term, from a few days to just less than 3 years. ✓✓
The South African Reserve Bank is a key institution in the money market. ✓✓

(b) <u>Capital market</u> ✓✓

- This is a financial market where individuals and institutions trade financial securities in the long-term, which is 3 years and above. ✓✓
- The JSE is the key institution in the capital market. ✓✓

4. <u>The foreign exchange market</u> ✓

- In an open economy, foreign currency is needed to facilitate transaction between countries. ✓✓
- It is on this market that one currency can be exchanged for another. ✓✓
- The amount that is received in this exchange is known as exchange rate. ✓✓
- The exchange rates are normally determined by the interaction between supply and demand. ✓✓
- They are sometimes influenced by the Reserve bank. ✓✓
- Foreign currency can be acquired through commercial banks. ✓✓

(Accept any other relevant and correct response)
(Allocate maximum of 8 marks for subheading and examples)
(Mark to a maximum of 26 marks)

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How can an increase in consumer spending contribute to the economy of the country? **(10)**

When consumers spend more:

- Businesses are able to increase sales, generate more profit and hire more workers thereby increasing the employment rate in the country. ✓✓
- The real GDP of the country increases as output levels increases. ✓✓
- Aggregate demand (AD) mushrooms thereby improving the country's outlook and accelerating economic growth rate. ✓✓
- The country gains a positive outlook from foreign investors therefore an increase in foreign direct investment (FDI). ✓✓
- It gives relief to the government from the burden of providing for the society as less transfer payments are made. ✓✓
- Efficient allocation of resources is promoted and choice is widened. ✓✓
- The country becomes globally competitive as the demand for international goods may arise. ✓✓

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

Conclusion:

The markets play a pivotal role in the economy, they also serve as link between various participants in the circular flow. ✓✓

(Accept any other relevant and correct conclusion)

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QUESTION 5: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

Discuss in details features underpinning forecasting of business cycles. **(26)**

Introduction

A business cycle is the change in the level of business activity as measured by the gross value added or GDP. ✓✓ (2)

(Accept any other relevant correct answer)

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 heading. ✓✓
   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 ✓

   - Coincident indicators follow leading indicators as they tend to confirm the turning points of the leading 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 eg. 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 behavior of coincident indicators. ✓✓
     e.g. new machinery sold. ✓
   - If the business cycle reaches the peak and begins to decline, we are able

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to predict the value of new machinery sold. ✓✓

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 ✓

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

6. Amplitude ✓

- Amplitude is a vertical measurement of business cycles from peak-trough or trough-peak. ✓✓
- 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 line ✓

- 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. ✓✓
- The trend will change when the time series data change their behavior patterns of the past. However, some forces have to overcome for that to happen. ✓✓
- A horizontal trend-line indicates a more stable economy, while a downward sloped trend-line shows negative growth on the economy. ✓✓
- Trends are useful because they indicate the general direction in which the economy is heading and 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. ✓.

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9. Moving averages✓

- 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. ✓✓
- Moving average evens out the cyclical fluctuations and provides a clear indication of long-term trends✓✓.

(Max.26)

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

How can South African Reserve Bank (SARB) use monetary measures to correct fluctuations on the economy? (10)

The Reserve bank may:

- Increase or decrease the repo rate therefore forcing commercial banks to increase or decrease interest rates thereby controlling borrowing and expenditure. ✓✓
- Use moral suasion by Increasing or relaxing regulations pertaining to credit trading. ✓✓
- Increase or decrease money supply by printing more notes and coins to control money in circulation. ✓✓
- Implement open-market transactions by selling or buying government bonds to rationalise the supply of money that is available to consumers. ✓✓
- Use exchange rate controls by either using a free-floating exchange rate policy or a managed floating exchange rate policy. ✓✓
- Use cash reserve requirements to occasionally change balances the banks are required to maintain in order to manipulate the money creation activities of the banks. ✓✓

(Accept any other relevant and correct response)

Conclusion

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 correct answer) (2)

TOTAL SECTION C: 40 MARKS

GRAND TOTAL: 100 MARKS

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