GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2022

MARKING GUIDELINES

ECONOMICS PAPER 2 (10732)

19 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 **MULTIPLE-CHOICE**

1.1.1 C – MC curve is above AVC. ✓✓

1.1.2 A – price floor ✓✓

1.1.3 C – oligopoly✓✓

1.1.4 B – Allocative efficiency✓✓

1.1.5 B – stagflation✓✓

1.1.6 D – South African citizens travelling to other countries✓✓

1.1.7 C – repo-rate✓✓

1.1.8 A – fiscal ✓✓ (8 x 2) 16)

1.2 **MATCHING ITEMS**

1.2.1 E – Expenses that change according to changes in output ✓

1.2.2 G – Complete control over market price ✓

1.2.3 A – The decision of one company will influence the decisions of other companies ✓

1.2.4 I – MR=MC✓

1.2.5 D – Price control of fuel and electricity ✓

1.2.6 F – Involves setting maximum permitted levels of resource use ✓

1.2.7 B – Income growth causes individuals to pay higher average income tax ✓

1.2.8 C – Protecting the earth's resources so that it can support all life for future generations ✓ (8 x 1) (8)

1.3 **GIVE A TERM**

1.3.1 Shutdown point ✓

1.3.2 Price leadership ✓

1.3.3 Imperfect competition/Monopoly/Oligopoly/Monopolistic competition ✓

1.3.4 Production Price Index ✓

1.3.5 Indigenous knowledge ✓

1.3.6 Preservation ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Give TWO barriers that prevent new businesses from entering markets.**

- Barriers to entry are created through advertising ✓
- New entrants lack the capital/capital requirements/lack of finance ✓
- Economies of scale ✓
- Limited size of the market ✓
- Exclusive ownership of raw materials/Existing businesses control the resources ✓
- Patents ✓
- Licensing/Legal requirements ✓
- Sole rights ✓
- Import restrictions ✓
- Technological superiority/Technology✓

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

2.1.2 **Why is a perfect market the most efficient market structure?**

- Because prices in a perfect market give a true reflection of the scarcity value of goods and services. ✓✓

  or
- It is geared towards maximum production, unlike other market structures that limit production. ✓✓

  or
- A Perfect market produces more at a lower cost.✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **What type of externality is depicted in the graph above?**

A positive externality ✓ (1)

2.2.2 **Identify the socially efficient level of production in the graph above.**

15 000 ✓ (1)

2.2.3 **Briefly describe the term *market failure.***

The inability of a market to provide certain goods at the most desirable level./Where the forces of demand and supply fail to allocate resources efficiently and do not produce the correct quantities of goods and services at the right prices. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **What are the economic benefits of a safe COVID-19 vaccine on the South African economy?**

The economic benefits of COVID-19 vaccinations may include:

- Vaccinated people may feel less anxious, and this may improve their well-being and work productivity. ✓✓
- People who are vaccinated are less likely to get a severe infection resulting in less medical care costs. ✓✓
- Vaccinated people will be more likely to plan for their future and save money. ✓✓
- Healthier people will continue to contribute to the economy. ✓✓
- It reduces the burden on govt. spending on health care✓✓
- More goods and services will be produced because of a healthier population✓✓

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

2.2.5 **Why would a free supply of the COVID-19 vaccines NOT necessarily lead to a market failure?**

- Government is the only buyer of the COVID-19 vaccines. ✓✓
- It redistributes the vaccine under strict conditions to its citizens. ✓✓
- The supply is guaranteed because governments provide grants for research, in some instances subsidising the production. ✓✓
- Huge amounts have been invested in the manufacturing of these vaccines. Producers would have been reluctant to produce on a large scale if it were not for government involvement and a guaranteed market for the vaccines.✓✓
- The market shortage is supplied by government because it is a merit good✓✓

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

2.3 **Data Response**

2.3.1 **Name the legislation that regulates competition in South Africa.**

The Competition Act 89 of 1998 ✓ (1)

2.3.2 **Which department is responsible for the promotion of competition in South Africa?**

Department of Trade, Industry and Competition ✓ (1)

2.3.3 **Briefly describe the term *price fixing*.**

Price fixing refers to an agreement between market participants to collectively raise, lower, or stabilise prices to control supply and demand. ✓✓ (2)
(Accept any other correct relevant response.)

2.3.4 **Why does the commission consider BEE shareholding before approving an acquisition?**

To achieve their objectives, that is to allow the previously disadvantaged and marginalised people to increase their ownership of businesses. ✓✓
To ensure economic transformation in South Africa. ✓✓
(Accept any other correct relevant response.) (2)

2.3.5 **How do restrictive practices prevent competition?**

- A dominant business may induce suppliers or customers not to deal with a competitor. ✓✓
- Major firms can refuse to supply scarce goods to a competitor.✓✓
- The charging of prices that are below cost to exclude rivals from the market. ✓✓

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

2.4 **Briefly explain the free rider problem.**

- The free rider problem refers to a situation in which individuals can receive the benefits from a collective activity whether or not they helped pay for it. ✓✓
- The free rider has no incentive to pay since they can enjoy the benefits without paying. ✓✓
- The free rider problem is common with public goods which are non-excludable and non-rivalrous. ✓✓
- Public goods (such as public roads or hospitals), or services of a communal nature are examples of the free rider problem. ✓✓
- Non-excludable means that non-payers cannot be stopped from getting the use of, or benefits from, the good or service. ✓✓
- Non-rival consumption stipulates that the use of a good or service by one consumer does not reduce its availability for another consumer. ✓✓
- The free rider problem is a typical example of a market failure. ✓✓
- Thus, the good may be under-produced, overused or degraded. ✓✓ (4 x 2) (8)

(Accept any other correct relevant response.)

2.5 **When would it be the best option for a loss-making business in a perfect market NOT to close down?**

- A loss-making business may continue to operate in the short term when some inputs may be fixed. ✓✓
- A loss-making business will minimise its loss when it produces at the level of output where the marginal revenue is equal to the marginal cost. ✓✓
- In the short term, if a business receives a market price higher than its average variable cost (AVC) it can cover its avoidable running cost and should continue to operate. ✓✓
- Only when it cannot cover its AVC should it close in the short term. ✓✓

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

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 **Answer the following questions.**

3.1.1 **List any TWO reasons for tourism.**

- Holiday✓
- Special interest✓
- Eco tourists✓
- Cultural/Paleo tourism ✓
- Business✓
- Conference✓
- Sports ✓
- Medical ✓

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

3.1.2 **How does pollution lead to the loss of biodiversity?**

- Pollution kills all species that cannot adapt quickly to environmental change. ✓✓
- Some species have a lower tolerance for changing conditions than others that makes them vulnerable. ✓✓

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

3.2 **Data Response**

3.2.1 **Identify the year in which the inflation rate exceeded target range in South Africa.**

Accept 2016✓ or 2017✓ (1)

3.2.2 **Give ONE reason for an increase in the inflation rate.**

- High consumer demand ✓
- Increased production costs ✓
- A high Brent crude oil price ✓
- Ineffectiveness of the monetary and fiscal policies ✓
- Increased spending ✓

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

3.2.3 **Briefly describe the term *inflation targeting*.**

This is a monetary policy strategy by the Reserve Bank aimed at keeping inflation within the range of 3 – 6% as set by the Minister of Finance. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **How will an increase in the inflation rate disadvantage low-income earners?**

Low income earners will not be able to satisfy their basic needs. ✓✓
(Accept any other correct relevant response.) (2)

3.2.5 **How can price instability affect the economy negatively?**

Price instability will influence the economy negatively by:

- Increasing inflation expectations among consumers, businesses and workers ✓✓
- Businesses not making investments in long term projects knowing that prices will be unstable ✓✓
- Decreasing savings amongst consumers. This can encourage hoarding of goods which can create pressure on the economy ✓✓
- By making it difficult for consumers to make informed decisions which can result in a decrease in aggregate demand and economic growth ✓✓

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

3.3 **Data Response**

3.3.1 **Identify the type of environmental degradation in the picture above.**

Deforestation✓ (1)

3.3.2 **Name the international conference on environmental sustainability that was held in 2011 in South Africa.**

COP17✓ (1)

3.3.3 **Briefly describe the term *hazardous waste.***

This is any poisonous by-product of manufacturing, farming, sewerage systems, construction sites, laboratories and hospitals, which has a detrimental impact on health or the environment.✓✓
(Accept any other correct relevant response.) (2)

3.3.4 **Explain the impact of pollution on the prices of goods and services.**

- If the cost of pollution is added, the prices of goods will increase. ✓✓
- Pollution creates a need for additional products, such as masks, pushing up prices of products to protect us from pollution. ✓✓

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

3.3.5 **Why is it difficult for the free market to ensure environmental sustainability?**

- Free markets have free access to resources. This leads to over-exploitation of resources. ✓✓
- The free market responds to demand for goods and services and prioritises profit maximisation, ✓✓
- this leads to severe pressure on the environment. ✓
- The free market fosters inequality and poverty. These social ills put pressure on the environment. ✓✓

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

3.4 **Discuss the effects of climate change on the environment.**

- Climate change has brought about an increase in temperatures worldwide. ✓✓
- Global warming has brought about a rise in sea levels. ✓✓
- Surface waters in tropical and subtropical ocean regions have become saltier and there is a change in ocean salinity. ✓✓
- Higher temperatures lead to more extreme weather such as devastating storms, tsunamis, severe droughts and floods. ✓✓
- There is a negative impact on agriculture because of the unpredictable climate. ✓✓

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

3.5 **How could inappropriate government fiscal policy impact the inflation rate?**

The government's inappropriate use of fiscal policy can contribute to higher inflation by:

- Increasing government spending without increasing the aggregate supply causing prices to rise. ✓✓
- Spending on capital projects e.g. roads, housing, etc., that are more than the economy's capacity will cause prices to rise. ✓✓
- Increasing spending on consumption such as education, health and safety ✓✓
- Spending large amounts in the social sector because they feel the need to reduce unemployment and poverty, causes an increase in aggregate demand. ✓✓
- Borrowing money to raise the levels of social grants at a higher rate than the inflation rate. ✓✓
- Decreasing personal income tax creates greater consumer demand. ✓✓
- Decreasing company tax/import duties will lead to increased production and imports. ✓✓

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

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 **Answer the following questions.**

4.1.1 **Give TWO examples of World Heritage Sites in South Africa.**

- Mapungubwe National Park ✓
- The Vredefort Dome ✓
- Sterkfontein Caves/Cradle of Humankind ✓
- Robben Island ✓
- Richtersveld Cultural and Botanical Landscape ✓
- iSimangaliso Wetland Park/St Lucia ✓
- The Cape Fynbos Region ✓
- uKhahlamba Drakensberg Park ✓
- Khomani Cultural Landscape ✓
- Makhonjwa Mountains ✓ (2 x 1) (2)

4.1.2 **What causes illegal (black) markets to develop?**

- Illegal markets develop when people cannot obtain goods at the government set maximum price and must pay higher illegal prices to obtain the goods. ✓✓

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

4.2 **Data Response**

4.2.1 **Identify the quantity at which profit will be maximised.**

At quantity 15 the profit is R75. ✓ (1)

4.2.2 **What market structure is depicted in the information above?**

Perfect competition ✓ (1)

4.2.3 **Briefly describe the term *marginal revenue*.**

Marginal revenue refers to the extra income gained by selling one more unit of a product. ✓✓ (2)

4.2.4 **Why would it not be possible for the individual business in the information above to raise its price?**

A higher price than the market price cannot be charged as customers will be lost to other producers who sell at the market price. ✓✓
(Accept any other correct relevant response.) (2)

4.2.5 **Calculate marginal cost of the firm at quantity 15.**
Show ALL calculations.

Total Cost calculation (1 Mark) ✓
Total Cost = (Total Revenue – Profit)
Calculate total cost of 10 units of production
At 10 units total cost is (R100 – 50) = R50
Calculate total cost of 15 units of production
At 15 units total cost is (R150 – 75) = R75

Marginal cost calculation

$MC = \frac{\triangle TC}{\triangle Q}$ ✓ (1 Mark for the formula)

$$MC = \frac{75 - 50}{15 - 10}$$

$$MC = \frac{25}{5}$$

MC = 5 ✓✓ (Correct answer 2 Marks) (2 x 2) (4)

4.3 **Data Response**

4.3.1 **Name ONE index used in the calculation of inflation.** (1)

- Consumer price index (CPI)✓
- Producer price index (PPI)✓
- Implicit GDP inflator (all-inclusive inflation rate) ✓ (1)

4.3.2 **Name ONE cause of South Africa's downgrade to junk status.**

- Inflation✓
- Corruption✓
- State capture✓
- COVID-19✓ (1)

(Accept any other correct relevant response.)

4.3.3 **Briefly describe the term *hyperinflation.***

This is rapid, excessive and out of control general price increases in an economy./It is rapidly rising inflation measuring more than 50% a month. ✓✓
(Accept any other correct relevant answer.) (2)

4.3.4 **What is meant by "below investment grade"?**

This is when there is a high risk that investments may lose value or not be paid back. ✓✓
The investments tend to be more sensitive to changes in economic conditions. ✓✓
(Accept any other correct relevant response.) (2)

4.3.5 **How will the junk status affect inflation in South Africa?**

- Investors will demand a higher rate of interest for lending, which will raise borrowing costs. ✓✓
- This could add to production costs and cause prices to increase. ✓✓
- Higher interest rates locally, will reduce the disposable income of consumers, the majority of whom rely on credit to some extent. ✓✓
- The rand exchange rate will also be affected negatively, leading to increased prices of imported goods in the short term and increased prices overall in the longer term. ✓✓

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

4.4 **Briefly discuss the reasons for using cost-benefit analysis (CBA).**

- To determine market signals e.g., prices help to allocate resources through demand and supply. ✓✓
- Goods supplied by the government such as roads, bridges, etc., are provided free. ✓✓
- With the absence of market signals, decisions on the desirability of a project may be subjective. ✓✓
- Objective criteria may be required to ensure economic efficiency in resource allocation. ✓✓
- CBA brings greater objectivity to decision making. ✓✓
- This is done by identifying all the relevant benefits and costs of a project so that an informed decision can be made. ✓✓

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

4.5 **Evaluate the success of the Earth Summit in addressing environmental sustainability in Africa.**

The Earth Summit held in Rio de Janeiro has been hugely successful in Africa because:

- Agenda 21, an action plan of the Earth Summit, aimed at sustainable development, made countries aware of the dangers of unsustainable development. ✓✓
- Several SADC countries have developed environmental management programmes aimed at protecting and rehabilitating land resources. ✓✓

The Earth Summit held in Rio de Janeiro summit has been unsuccessful because:

- It is recognised that sustainability cannot be achieved until poverty is reduced and there is a huge problem of poverty and illiteracy in many countries in Africa. ✓✓
- There is inadequate co-ordination between governments, NGOs and the private sector. ✓✓
- Agenda 21's implementation, a goal of the Earth Summit is hindered by African land tenure issues, diminishing grazing lands and land degradation. ✓✓
- Rapid population growth and increased demand for food and energy resources are depleting forests. ✓✓
- Africa is plagued with recurring droughts, increasing water demands and water pollution which is hindering the implementation of Agenda 21. ✓✓
- There are conflicts over shared water even though SADC countries have implemented reforms aimed at sustainable management of water resources. ✓✓
- Tourism and population pressure has also hindered the implementation of Agenda 21. ✓✓
- Lack of technology transfer, access to research findings and capacity building has also hindered progress. Countries have difficulty in gathering and analysing national data on Agenda 21 issues. ✓✓

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

[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE of the two questions from 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

- **Compare and contrast the oligopolistic competitor with the monopolistic competitor in terms of:**
    - **Control over prices (8)**
    - **Economic profit/loss (8)**
    - **Demand curve (10)**

  (26 marks)
- **How does collusion affect markets? (10 marks)**

INTRODUCTION

An oligopoly is characterised by an industry dominated by a small number of large businesses. Monopolistic competition is a combination of perfect competition and a monopoly. The most distinguishing feature of monopolistic competition is that the products of various businesses are different, despite being close substitutes for each other. ✓✓
(Accept any other relevant introduction.) (Max. 2)

BODY: MAIN PART

Control over prices

- An oligopoly exists when a small number of large companies can influence the supply in a market. ✓✓
- By controlling the supply of the product or service on the market, oligopolies aim to keep its prices and profits high. ✓✓
- The limited number of businesses make them price-fixers. ✓✓
- In a monopolistic competitive market, each business sells at its own price since a single price cannot be determined for the differentiated products. ✓✓
- A range of prices exist for the various differentiated goods in a monopolistic competitive market. ✓✓ (Max. 8)

Economic profit/loss

- Oligopolies can control the supply, and market entry is restricted. ✓✓
- This makes it possible for them to earn long-term and short-term profits. ✓✓
- For the monopolistically competitive business, it is only possible to make economic profits in the short run. ✓✓
- Due to the ease of entry into the market, short-term profits will attract more businesses to the market. ✓✓
- In the long-run equilibrium will be reached when only normal profits are earned and there is no further incentive for new firms to enter the market. ✓✓ (Max. 8)

Demand curve

- An oligopolist faces a kinked demand curve. This demand curve consists of two sections. ✓✓
- The top section, the section that relates to high prices is a very elastic slope i.e., demand is very sensitive to a price change. ✓✓
- The bottom section, the section that relates to lower prices is very inelastic i.e., demand is not sensitive to a price change. ✓✓
- The demand curve for a monopolistic competitor is downward sloping. ✓✓
- Short-term equilibrium (economic profit and economic loss) corresponds with a monopoly, but the demand curve is more price elastic (flatter) due to good/many substitutes. ✓✓ (Max. 10)

(Candidates could be credited for drawing graphs. Max. 2 marks must be awarded for each graph. 2 Marks for the oligopoly demand curve and 2 marks for the demand curve of the monopolistic competitor.)
(Accept any other correct relevant responses.)
(A maximum of 8 marks will be allocated for mere listing of facts/examples.)
(Max. 26)

ADDITIONAL PART

How does collusion affect markets?

- Suppliers display anti-competitive behaviour when colluding, instead of competing they determine prices and quantities. ✓✓
- Collusion can lead to higher prices for consumers. This leads to a decline in consumer surplus and allocative inefficiency. ✓✓
- When producers agree to keep prices artificially high, consumers may have no choice but to pay these inflated prices. ✓✓
- Businesses compete by being efficient and offering innovative products. If they are no longer competing, they will be less motivated to be efficient and innovative. ✓✓
- Producers who collude and do not to compete will be less motivated to provide good customer service. ✓✓
- If an industry becomes known for being anti-competitive or behaving like a cartel, the public will become suspicious and resentful of the industry. ✓✓
- Colluding businesses must spend a substantial amount of money on advertising and marketing to build brand loyalty and product differentiation. ✓✓
- New firms can be discouraged from entering the market by this type of collusion which can act as a barrier to entry. ✓✓

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

CONCLUSION

Oligopolies and monopolistic competitive businesses both rely on product differentiation to compete. Monopolist competition is a realistic market structure with no long-term profit due to free market entry. An oligopoly can make long term profits through restricted market entry and colluding to restrict supply. ✓✓
(Accept any other correct relevant higher order conclusion.) (Max. 2) **[40]**

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Examine, in detail, the effects of tourism on the following:**
    - **Employment (8)**
    - **Environment (8)**
    - **Externalities (10)** **(26 marks)**

- **Analyse the impact of the COVID-19 lockdown on the tourism industry in South Africa.** **(10 marks)**

INTRODUCTION

Tourism is the activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes. ✓✓
(Accept any other correct relevant introduction.) **(Max. 2)**

BODY: MAIN PART

Employment

- The tourism industry employs about 7% of the South African workforce, and is potentially regarded as the largest provider of jobs and earner of foreign exchange. ✓✓
- The tourism industry has employed more than 1,2 million people. ✓✓
- Is ideal for providing employment in areas that offer few employment opportunities. ✓✓
- Is labour intensive although it has the lowest ratio of investment to employment creation. ✓✓
- Uses different skills, from accountants to hairdressers. ✓✓
- Has the potential to create jobs and offer opportunities for small entrepreneurs. ✓✓
- Provides immediate employment like live entertainment at holiday resorts. ✓✓
- Provides entrepreneurial opportunities in the informal sector such as fruit vendors. ✓✓ **(Max. 8)**

Environment

- Tourism has the potential to create beneficial effects on the environment by contributing to environmental protection and conservation. ✓✓
- It is a way to raise awareness of environmental values and it can serve as a tool to finance the protection of natural areas and increase their economic importance. ✓✓
- Many destinations promote ecotourism and sustainable tourism and this can help to educate people about the environmental impacts of tourism. ✓✓
- The negative environmental impacts of tourism are substantial. They include the depletion of local natural resources as well as pollution and waste problems. ✓✓
- Tourism often puts pressure on natural resources through overconsumption, often in places where resources are already scarce. ✓✓
- Tourism puts enormous stress on local land use, and can lead to soil erosion, increased pollution, natural habitat loss, and more pressure on endangered species. ✓✓
- These effects can gradually destroy the environmental resources on which tourism itself depends. ✓✓
- Tourism contributes to more than 5 percent of global greenhouse gas emissions, with transportation accounting for 90 percent of this. ✓✓
- Tourism often leads to overuse of water, e.g., an average golf course in a tropical country uses as much as 60 000 litres of water, similar to a rural village. ✓✓
- It also uses 1 500 kg of chemical fertilisers, pesticides and herbicides per year. ✓✓

(Max. 8)

Externalities

- Tourism activities may result in benefits or costs to third parties who are not part of the buyer-seller market. ✓✓
- Negative externalities: Aircraft noise disturbing residents near airports. ✓✓
- Other examples/costs: Traffic and congestion, extra policing due to crime, increased health services and sanitation, destruction of flora and fauna, spoiling views of the landscape, increased maintenance of infrastructure etc. ✓✓
- Tourism can cause inflation, which makes some goods unaffordable to locals. ✓✓
- Positive externalities: e.g. the Gautrain provides links to different areas speedily, especially to the airport. ✓✓
- Other benefits are new recreational amenities and increased direct and indirect tax revenue. ✓✓

(Max. 10)

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

ADDITIONAL PART

Analyse the impact of the COVID-19 lockdown on the tourism industry in South Africa.

The COVID-19 lockdown had the following negative effects on tourism:

- The country faced substantially higher unemployment in the tourism industry at the end of 2020 than any other sector due to lack of movement. ✓✓
- Unemployment has broader spillover effects that affect many other sectors of the economy. ✓✓
- Due to unemployment, the total aggregate demand decreased severely in the economy. People could not afford basic goods and services. ✓✓
- Due to decreased aggregate demand, production in firms decreased thus decreasing their profits. Economic activity was very low. ✓✓
- Demand and supply of tourism services decreased due to travel bans and the introduction of social distancing laws. ✓✓
- Investment in tourism infrastructure decreased as it was not sustainable. ✓✓
- Tourism firms could no longer service debt as they were not earning any income. ✓✓
- As a result, many tourism companies closed down and assets were attached. ✓✓
- This led to further job losses as people were retrenched which led to further poverty. ✓✓
- Inbound tourism decreased as the country's borders were closed. This led to a decrease in foreign currency received by the country. ✓✓ **(Max. 10)**

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

Conclusion

Marketing of tourism products to both domestic and international markets is important for achieving the full growth potential of the sector in South Africa./The potential of the tourism sector has not been reached, and continued marketing is needed to ensure that it reaches its full potential, in both the domestic market and the international market. ✓✓ **(Max. 2)** **[40]**
(Accept any other correct relevant higher order conclusion.)

TOTAL SECTION C: 40

TOTAL: 150