education

Department of Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ECONOMICS P1

SEPTEMBER 2022

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 19 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE

1.1.1 C (income method GDP(I).) ✓✓

1.1.2 C (lead to a larger change in the national income) ✓✓

1.1.3 A (money) ✓✓

1.1.4 D (improving the efficiency of markets) ✓✓

1.1.5 B (free floating) ✓✓

1.1.6 A (land restitution) ✓✓

1.1.7 B (obesity) ✓✓

1.1.8 D (investing in social capital) ✓✓

(8 x 2) (16)

1.2 MATCHING COLUMNS

1.2.1 C (difference in the value of total output between a peak and a trough) ✓

1.2.2 E (measures undertaken by the government to stimulate growth in the economy) ✓

1.2.3 B (drives countries to specialize in the production of goods where they enjoy the lowest opportunity cost) ✓

1.2.4 F (purchase of assets, such as shares or bonds, where the investor is interested only in the expected financial return on the investment) ✓

1.2.5 A (levied according to the amount earned) ✓

1.2.6 H (a track of land that forms passageway allowing access from one area to another and is developed as part of regional development) ✓

1.2.7 D (financial incentives in the form of a cash grant of up to 50% of the costs training new staff) ✓

1.2.8 I (measured in terms of the rate of output per unit of input) ✓

(8 x 1) (8)

1.3 **CONCEPT/TERM:**

1.3.1 Coincident indicators ✓

1.3.2 Trend ✓

1.3.3 Opportunity cost ✓

1.3.4 International Monetary Fund ✓

1.3.5 Expanded Public Works Programme ✓

1.3.6 Dependency rate ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS 40 MARKS – 30 MINUTES

2.1 **Answer the following questions.**

2.1.1 **Name any TWO prices used in the conversion of national aggregates.**

- Basic prices ✓
- Market prices ✓
- Factor costs ✓ (2 x 1) (2)

2.1.2 **What determines complete cycles of fluctuations in the economy?**

Complete cycles of fluctuations are determined by distances from peak to peak or trough to trough. ✓✓ (1 x 2) (2)

2.2 **Data response**

2.2.1 **Which economic concept, according to the extract, rely more on export and import prices?**

Terms of trade ✓ (1)

2.2.2 **Give the current account item for recording donations.**

Current transfers ✓ (1)

2.2.3 **Briefly describe the term *balance of payment.***

Systematic record of the country's transactions with the rest of the world over a given period of time. ✓✓
(Accept any other correct relevant response) (2)

2.2.4 **Why did South African merchandise exports experience a decline in 2020 in relation to the COVID-19 pandemic?**

- Operations in the mining and processing of gold had to observe the COVID-19 pandemic protocols, and this slowed down productivity dramatically. ✓✓
- Sensitivity and attitudes of many leading countries towards South Africa and its way of dealing with the pandemic, also impacted negatively on merchandise exports. ✓✓
- Closing down of cross-borders as temporary precautionary measures for the pandemic, also had a negative effect on gold exports by South Africa. ✓✓

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

2.2.5 **Calculate the percentage change of the surplus in the current account of balance of payments in the second and third quarter of 2021. Show ALL your calculations.**

Percentage change of the surplus
=2nd quarter surplus – 3rd quarter surplus/2nd quarter surplus x 100%
=R311billion – R226 billion/R311billion x 100% ✓
=R85 billion / R311 billion x 100% ✓
=0,273 x 100%
=27,3% ✓✓ (4)

2.3 **Data response**

2.3.1 **Identify ONE factor from the extract which might cause economic fluctuations.**

Shocks ✓ (1)

2.3.2 **Name the type of business cycle caused by changes in investment in equipment and machinery.**

Jugler ✓ (1)

2.3.3 **Briefly describe the term *business cycle.***

Successive periods of increasing and decreasing economic activities. ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 **Explain the reason why government intervention is not needed under exogenous explanations.**

Markets are inherently stable under exogenous explanations, and any government can destabilise markets. ✓✓
(Accept any other correct relevant response.) (2)

2.3.5 **How can fiscal policy be used to 'stimulate' a depressed economy?**

- The finance ministry can lower taxation so that aggregate demand can be increased due to more disposable income. ✓✓
- They can also increase government spending, especially for the historically marginalised groups. ✓✓
- Increased government spending has a way of increasing aggregate demand and total spending by circular flow participants.✓✓

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

2.4 **Differentiate between *factor market* and *goods market*.**

Factor market

- This is the market where factors of production are traded. ✓✓
- Factor market is also known as input or resource market. ✓✓
- E.g. labour trading ✓

Goods market

- This is the market where goods and services are traded. ✓✓
- Goods market is also known as output or product market. ✓✓
- E.g. trading consumer and capital goods. ✓
  (Accept any other correct relevant response.)
  (A maximum of 4 marks may be allocated for mere listing of facts/examples.) (2 x 4) (8)

2.5 **Evaluate South Africa's efforts in reducing costs in order to promote supply side policies.**

Successes

- In terms of infrastructural costs, South Africa has adopted a cheaper option recently in the construction of roads by municipalities using paving instead of expensive tarred roads. ✓✓
- Cash incentives by the DTI have been assisting South African exporters in developing markets abroad, and thus lowering or reducing the cost of production for them. ✓✓
  (Accept any other correct relevant response.)

Failures

- The country, through NERSA, has failed to lower the costs of electricity to the benefit of all South Africans. ✓✓
- These high costs of electricity have also affected the production of goods and services due to higher costs incurred by the businesses.
- Tender systems awarded by municipalities for supply of water to areas with water shortages using water trucks, have benefited a few at unreasonable costs that could have been used to stimulate the economy. ✓✓
- Administrative costs have been unnecessarily high due to incompetence and maladministration by the personnel, and as a result affecting supply of the much needed goods and services. ✓✓
  (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]

QUESTION 3: ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

3.1 **Answer the following questions.**

3.1.1 **Name any TWO examples of services as social indicators.**

- Refuse removal ✓
- Sanitation ✓
- Water ✓

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

3.1.2 **What effect will a decline in secondary school enrolment have on the future of the South African economy?**

- Tertiary enrolment will also experience a decline. ✓✓
- The country will as a result run short of skills needed by the economy. ✓✓

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

3.2 **Data response**

3.2.1 **Which economic concept is illustrated in the cartoon above?**

North-South Divide ✓ (1)

3.2.2 **Give ONE measure of unequal standard of living.**

- Per capita income ✓
- Life expectancy ✓
- Education ✓ (1)

3.2.3 **Briefly describe the term *globalisation.***

It is the world-wide interaction and interfacing of economies with trade as an important element. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **Explain the purpose for the introduction of the GEAR policy**

It was introduced for the purpose of creating more growth in the economy, employment opportunities as well as more even redistribution of income. ✓✓
(Accept any other correct relevant response.) (2)

3.2.5 **Why would the Monetary Authorities in South Africa rely mostly on interest rates as the instrument of the monetary policy?**

- Historically interest rates and repo rates have been used by the SARB for price stabilisation purposes. ✓✓
- Stabilising prices has a direct impact on the inflation level. ✓✓
- Restrictive monetary policy through the use of interest rates is effective in cooling down the overheated economy. ✓✓

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

3.3 **Data response**

3.3.1 **Who will benefit most from this SEZ initiative?**

Maluti-a-Phofung community ✓ (1)

3.3.2 **Give any ONE aim in creating a Special Economic Zone.**

Creation of jobs ✓
(Accept any other correct relevant response.) (1)

3.3.3 **Briefly describe the term *Industrial Development Zones***

They are purpose-built industrial estates, physically enclosed and linked to port or airport. ✓✓ (2)

3.3.4 **Why is regional development important to the economy of the Free State?**

- It reduces the unequal development of economic activities within a country. ✓✓
- Stimulation of development in poor areas of Free State. ✓✓
- New imbalances are prevented from emerging. ✓✓

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

3.3.5 **How can good governance be utilised as the best international practice for regional development?**

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

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

3.4 **Distinguish between *economic growth* and *economic development*.**

Economic growth

- An increase in the production capacity of the economy. ✓✓
- It is measured in terms of increases in real GDP. ✓✓
- Focus is on goods and services. ✓
  (Accept any other correct relevant response.)

Economic development

- An improvement in the standard of living of people. ✓✓
- It is measured in terms of real GDP per capita. ✓✓
- Focus is on people. ✓
  (Accept any other correct relevant response.)
  (A maximum of 4 marks may be allocated for mere listing of facts/ examples.) (2 x 4) (8)

3.5 **How important are employment statistics in the South African economy as indicators?**

- In any healthy economy, it is important to fully employ all the available factors of production. ✓✓
- High level of employment will enable more people to spend more income, resulting in more production by firms. ✓✓
- Employment has a direct relation to total output, total income and total expenditure of an economy. ✓✓
- Employment statistics provide the basis for the calculation of labour cost, earnings per worker and labour productivity. ✓✓
- Economic indicators on employment include the data on the number and percentages of employed and unemployed. ✓✓
  (Accept any other correct relevant response.)
  (A maximum of 2 marks may be allocated for mere listing of facts/examples.) (4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS & ECONOMIC PURSUIT

40 MARKS – 30 MINUTES

4.1 **Answer the following questions.**

4.1.1 **Name TWO acts that were introduced and are enforced by the government to promote a more effective economy.**

- Employment Equity Act (EEA) ✓
- Broad-Based Black Economic Empowerment (BBBEE) ✓

(2 x 1) (2)

4.1.2 **What is the government's main purpose for duty-free import incentives?**

The incentive is an attempt to encourage domestic and foreign businesses to settle in IDZ's and produce goods and services for export markets. ✓✓ (1 x 2) (2)

4.2 **Data response**

4.2.1 **Identify the type of flow indicated by the letter A.**

Money flow ✓ (1)

4.2.2 **Give ONE example of consumption spending by the households.**

- Durable consumer goods spending ✓
- Semi-durable consumer goods spending ✓
- Non-durable consumer goods spending ✓
- Spending on services. ✓ (Any 1 x 1) (1)

4.2.3 **Briefly describe the term *marginal propensity to save*.**

It refers to the part of income not available for spending. ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 **Explain the influence on income if injections are less than leakages.**

More outflows resulting in more leakages will lead to less income generated by the economy. ✓✓ (2)

4.2.5 **What role can government play to create jobs in the economy that is negatively affected by the Covid-19 pandemic?**

- Organise job summits to be attended by local and foreign investors to search for possible investment areas, especially in areas of high unemployment. ✓✓
- Grant incentives or subsidies through the DTI to those who will invest in areas of high unemployment. ✓✓
- Government can form partnerships with the private sector whereby they can provide skills needed the most by the economy through skills development agencies. ✓✓
- Allocate COVID-19 related contracts to the co-operatives established within the area with the purpose of benefiting local residents. ✓✓

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

4.3 **Data response**

4.3.1 **Give the appropriate economic concept illustrated above.**

Exchange rates/Foreign exchange/Foreign exchange market ✓ (1)

4.3.2 **During which exact period, according to the table, did the rand enjoy the most favourable fluctuation against the US dollar?**

Q2 of 2021 ✓ (1)

4.3.3 **Briefly describe the term *devaluation.***

Refers to a deliberate decrease in the value of a currency under the fixed exchange rate system. ✓✓ (2)

4.3.4 **Why are most economies in the world using free floating exchange rates?**

- The value of the currency is justifiably determined by the forces of demand and supply only. ✓✓
- No Central Bank Authority has the power to influence the value of the currency. ✓✓

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

4.3.5 **What could be the possible reasons for the rand to hit an extreme low against the US Dollar in term 1 of 2021?**

- South Africa was still fresh from a period of economic inactivity that saw the country elevated to level 5 of lockdown. ✓✓
- Productivity by firms was so low to an extent that very little was exported to other countries, and the current account of the balance of payment was negatively affected. ✓✓
- The terms of trade that rely on export prices and import prices deteriorated as well, and thereby causing unfavourable fluctuations in the exchange rate. ✓✓
- Many businesses had to shut down and national trade was seriously affected. ✓✓

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

4.4 **Discuss *urbanisation* and *housing* as social indicators.**

Urbanisation

- It is the process by which the urban population increases relative to the rural population. ✓✓
- Urbanisation happens because of the natural growth of population, migration to the cities and establishment of towns. ✓✓
- South Africa is experiencing a trend of rapid urbanisation. ✓✓

(Accept any other correct relevant response.)

Housing

- Housing and the services that go with it are important elements demonstrating human and economic development. ✓✓
- A significant proportion (39,9%) of South Africans are poor and cannot afford to buy residential property. ✓✓
- In order to secure the social and economic advantages of suitable housing, the government facilitates home ownership by means of a subsidy and loans from the private sector. ✓✓

(Accept any other correct relevant response.)
(A maximum of 4 marks may be allocated for mere listing of facts/ examples.) (2 x 4) (8)

4.5 **How effective is the contribution of Spatial Development Initiatives in the economy?**

SDI Effectiveness:

- SDI projects have been able to bring more focus on the traditional sectors of the South African economy, i.e., agriculture, mining and Manufacturing. ✓✓
- Globalization and the 'New Economy' have pushed that the focus be also extended to other sectors. ✓✓
- This is the reason why more growth in the economy is beginning to be realised in sectors like Tourism, Financial & Business Services and 'hi-tech' manufacturing because of SDI programmes. ✓✓
- SDI programmes have shown more focus in the past and they are still doing that on SMME support, job creation and welfare enhancement.✓✓
- SDI's are able to demonstrate economic potential of underutilised natural resources and spaces.✓✓
- Gradual widening of the SDIs to include more areas of the country has resulted in an alignment of SDIs with those areas which have experienced employment growth.✓✓
  (Accept any other correct relevant response.)

SDI Ineffectiveness:

Several factors that constrain an SDI's effectiveness include among other things:

- Poor location, small market size and low market demand.✓✓
- Lack of good quality physical infrastructure, effective regulatory infrastructure regimes as well as social infrastructure contributes to the underperformance of many SDIs.✓✓
- Several deficits in the SDI-specific and national soft infrastructure impede the performance and sustainability of SDIs. ✓✓
- A variety of governance failures as well as political economy factors impact on the sustainability of spatial development approaches.✓✓
  (Accept any other correct relevant response.)
  (A maximum of 2 marks may be allocated for mere listing of facts/examples.) (4 x 2) (8)

[40]

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5: MACROECONOMICS 40 MARKS – 40 MINUTES

Discuss in detail the reasons for public sector failure.

INTRODUCTION

Public sector failure refers to when the government fails to manage the economy and the resources under its control. ✓✓
(Accept any other correct relevant introduction.) **(Max. 2)**

BODY

Main Part

Reasons

1. **Apathy:** ✓
   - Apathy is a feeling of not caring and insensitivity of those in leadership towards the demands of the people. ✓✓
   - Successful public production relies on long-term accountability. ✓✓
   - Accountability has a way to expose inefficiency, corruption and poor service delivery. ✓✓

2. **Management failure:** ✓
   - Government departments and state-owned enterprises sometimes are poorly managed because of a lack of leadership, inadequate skills and lack of experience. ✓✓
   - They are poorly managed because they are not even expected to maximise profits. ✓✓
   - They are financed by budget allocations based on costs and needs. ✓✓
   - Management failure can result in budget allocations not being spent. ✓✓

3. **Bureaucracy:** ✓
   - Bureaucrats are those who try to maximise their income, status or power. ✓✓
   - Bureaucrats are usually empathic and insensitive to the needs of the public. ✓✓
   - There is always poor service delivery for the communities due to this insensitive attitude of bureaucrats. ✓✓

4. **Lack of motivation:** ✓
   - Lack of motivation among government employees leads to low levels of productivity, poor service and inefficient use of resources. ✓✓
   - Essential service workers rarely receive incentives for successful service delivery. ✓✓
   - Less motivated workers usually produce low in quality, limited and high in costs services. ✓✓

5. **Politicians:** ✓
   - They are those who aim to be re-elected and pursue vote-maximising strategies to retain their offices. ✓✓
   - Politicians usually do not take into account the long-term availability of resources.
   - This act can lead to the misallocation of resources. ✓✓

6. **Special interest groups:** ✓
   - They are those who try to further their own interest by means of rent-seeking. ✓✓
   - They make use of laws, lobbying, bribes and other favours to influence government to act in their favour with regard to profitable contracts. ✓✓
   - Public sector failure occurs when individual interests override public interests. ✓✓

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

(Max. 26)

How successful has the South African government been in dealing with public sector provisioning problems?

Additional Part

Failures:

- Those in power have failed to account or show responsibility for their actions, by misusing taxes raised and thus abusing the powers it was granted. ✓✓
- Officials exploit their positions for personal gain by taking bribes, committing fraud, nepotism, behaving dishonestly, committing discrimination and showing inefficiency.✓✓
- Parastatals have been nothing else but liability for the government because they failed to live within their grant from the budget allocation that leads to higher tax rates. ✓✓
- State-owned enterprises are not able to assess the needs of consumers by over-or under-supplying public goods. ✓✓

Successes

- The South African government addressed challenges such as housing and social security systems, which indicates the needs assessment ability of the government. ✓✓
- The South African government safeguarded jobs by not privatising SOE's like Eskom, SAA and Armscor. ✓✓
- The government tries to keep civil servants accountable to the public. The Auditor-General reports on financial management and points out fraudulent and unauthorized spending ✓✓
  (Accept any other correct relevant response.) **(Max. 10)**

CONCLUSION

Taking charge of the economy and state resources, requires daily accountability to those being led. ✓✓ **(Max. 2)**

[40]

QUESTION 6: ECONOMIC PURSUITS 40 MARKS – 40 MINUTES

Discuss in detail export promotion as a trade strategy.

INTRODUCTION

- Export promotion involves providing incentives to encourage local businesses to produce goods for export. ✓✓
- When government pay incentives to encourage the production of goods that can be exported. ✓✓
  (Accept any other correct relevant introduction.) **(Max. 2)**

BODY

Main Part

Reasons for export promotion

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

Methods of export promotion

Incentives: ✓

- The government supplies information on export markets in order to stimulate exports ✓✓
- Other examples are research on new markets, concessions on transport charges, export credit ✓

Subsidies: ✓

- Incentives which encourage exporters to increase the amount of their production ✓✓
- It includes direct and indirect subsidies:
  - Direct subsidies: Cash payments to exporters ✓✓
  - Indirect subsidies: Refunds on import tariffs and general tax rebates ✓✓

Trade neutrality: ✓

- Subsidies, equal in size to import duties, are paid ✓✓
- Neutrality can be achieved through trade liberalisation ✓✓

Disadvantages of export promotion

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

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

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

4. **Protection of labour-intensive industries:** ✓
   - Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
   - Export promotion results in the protection of labour-intensive industries by developed countries ✓✓ **(Max. 26)**

Evaluate import substitution as trade policy in South Africa.

Additional Part

Positive responses:

- A decrease in imports has a positive effect on the balance of payments as more exports than imports will take place. ✓✓
- Import substitution improves industrialisation which increases employment opportunities. ✓✓
- Tariffs introduced in South Africa led to increased demand for locally manufactured goods and services. ✓✓

Negative responses:

- Import substitution is restrictive as the choice of goods and services available to consumers may be limited. ✓✓
- It is not easy to implement the policy of import substitution due to unrecorded informal/illegal transactions. ✓✓
- Inefficient local production may occur because local producers are shielded from international competition. ✓✓
- Import substitution does not necessarily lead to an overall reduction in imports, South Africa had to import capital and intermediate goods to manufacture consumer goods. ✓✓

  (Allocate a maximum of 2 marks for the mere listing of facts/examples.)

(Max. 10)

CONCLUSION

The South African government have done everything to protect its local industries from foreign and harmful competition and to protect the existing jobs as well. ✓✓

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

TOTAL SECTION C: 40
GRAND TOTAL: 150

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