GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2021

MARKING GUIDELINES

ECONOMICS (PAPER 2) (10732)

21 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE

1.1.1 A – Pareto ✓✓

1.1.2 C – homogeneous ✓✓

1.1.3 B – monopolistic competitive ✓✓

1.1.4 D – total cost exceeds total revenue ✓✓

1.1.5 D – general price level ✓✓

1.1.6 C – increase ✓✓

1.1.7 A – services ✓✓

1.1.8 B – human health ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 B – A change in price causes a smaller percentage change in the quantity demanded ✓

1.2.2 I – A period in which all factors of production and costs are variable ✓

1.2.3 D – The loss of potential gain from other alternatives when one alternative is chosen ✓

1.2.4 E – An authority to prohibit or authorise large mergers ✓

1.2.5 F – Prices of goods and services that are set or controlled by government ✓

1.2.6 C – The travelling of residents of a country within their own country ✓

1.2.7 G – Provided to companies for activities that reduce environmental damage ✓

1.2.8 A – Ensuring change is sympathetic to the quality of life for both present and future generations ✓ (8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 duopoly ✓

1.3.2 breakeven ✓

1.3.3 marginal income/revenue ✓

1.3.4 eco-tourism ✓

1.3.5 preservation ✓

1.3.6 green tax ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

QUESTION 2: MICROECONOMICS

2.1 **Answer the following questions.**

2.1.1 **Name any TWO reasons for a cost benefit analysis.**

- Market signals e.g. price, 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.) (2 x 1) (2)

2.1.2 **Why is competition necessary for markets to function correctly?**

Competition ensures that markets are not dominated by certain businesses. ✓✓
Competition pushes prices down. ✓✓
A greater variety of goods on the market will cater for consumers' needs. ✓✓
Businesses are in competition, which could lead to better quality products. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **What market structure is normally associated with banks?**

- Oligopoly market ✓

(1)

2.2.2 **Name ONE non-price method that banks use to compete.**

- Branding ✓
- Advertising ✓
- Extended business hours✓
- Rewards incentives for loyal customers ✓
- Interest rate differentiation for existing clients ✓

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

2.2.3 **Briefly describe the term *collusion.***

Collusion takes place when rival companies cooperate for their mutual benefit. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **Why would ABSA not gain a larger market share if they decrease their banking charges?**

- Banks use non-price competition strategies to compete. Many customers enjoy other benefits that their banks offer, therefore they remain loyal to their bank even if ABSA decreases their bank charges. ✓✓

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

2.2.5 **What negative consequences could digital banking have on banking employees?**

- Digitalisation could result in the retrenchments of employees.✓✓
- Digitalisation contributes to less physical interaction; this may lead to anti-social behaviour and less work satisfaction. ✓✓
- Older employees may not be able to adjust to the digital environment and become unemployable.✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Name ONE example of a variable cost.**

wages✓; the cost of raw materials✓, electricity etc. ✓
(Accept any other correct relevant response.) (1)

2.3.2 **Identify the point on the graph where the firm will make a normal profit.**

Point **c**. ✓ (1)

2.3.3 **Briefly describe the term *marginal cost*.**

Marginal cost is the amount by which total cost increases when one extra unit is produced. ✓✓ (2)

2.3.4 **How is the firm's supply curve derived in the above graph?**

The segment of the firm's marginal cost curve that is above the AVC curve is the firm's supply curve. (Indicated by point **b** to **d** on the curve.) ✓✓ (2)

2.3.5 **Why would the above firm not be willing to supply goods at a price below point b?**

- Below point **b** average revenue would be less than the firm's average variable cost (AR < AVC). ✓✓
- At each level of production below point **b**, the firm will not be able to cover its total variable costs with its respective total revenue earnings. ✓✓
- By shutting down, the firm will thus incur a smaller loss. ✓✓

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

2.4 **Compare a monopoly with a perfect competitor in terms of *market entry* and *number of businesses*.**

Market entry

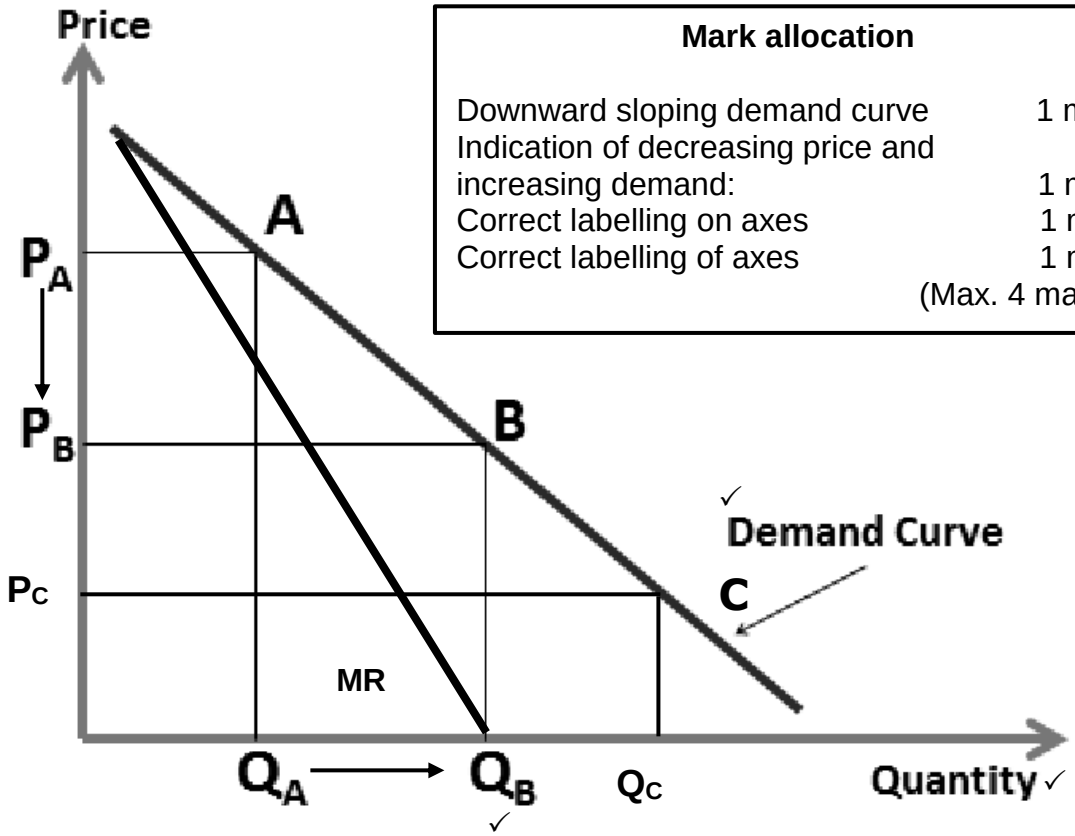
- There are no barriers to entry in a perfect market and market entry is free. ✓✓
- For a monopoly to exist the market entry is blocked or restricted. ✓✓

Number of businesses

- A perfect market consists of a large number of firms. ✓✓
- A monopoly firm consists of only one supplier, dominating the entire market. ✓✓

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

2.5 **Discuss, with the aid of a well-labelled graph, the implications of a downward sloping demand curve for a monopolist.**



Mark allocation	
Downward sloping demand curve	1 mark
Indication of decreasing price and increasing demand:	1 mark
Correct labelling on axes	1 mark
Correct labelling of axes	1 mark
	(Max. 4 marks)

- A monopolist uses its market power when setting its price. ✓✓
- The monopolist takes the law of demand and its downwards sloping demand curve into account when setting its price. ✓✓
- The monopolist is constrained to a price and quantity combination on the demand curve. ✓✓
- At higher prices, the quantity demanded of its product will be lower. ✓✓
- For a monopolist to increase sales, it must decrease its price.
- Move from equilibrium **A** to **B** (price decreases from P_A to P_B while quantity increases from Q_A to Q_B).
- A monopolist maximises total income on the first half of the demand curve. ✓✓
- The monopolist thus limits its output in order to charge higher prices. ✓✓ (Max 4)

(Accept any other correct relevant response.) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 **Answer the following questions.**

3.1.1 **List any TWO major international agreements on sustainable development.**

- Rio de Janeiro Summit (UNCED) ✓
- Johannesburg Summit (WSSD) ✓
- Rio + 20 Summit ✓
- Kyoto Protocol ✓
- Millennium Development Goals ✓
- United Nations Framework Convention on Climate Change ✓
- Conference of the Parties (COP17) ✓ (2 x 1) (2)

3.1.2 **How can eco-tourism benefit the environment?**

- Eco-tourism can bring about economic, socio-cultural and environmental benefits for the government, private sector and local communities if well implemented. ✓✓
- Revenue from tourist visits helps create job opportunities for locals, which in turn, leads to a more diversified economy for them. ✓✓
- Eco-tourism can support conservation and environmental management if properly carried out. ✓✓
- Further resource generation by the way of ecotourism can be further invested in conservation efforts. For example, entry fees imposed on visitors can be channelled towards the maintenance and management of these areas. ✓✓
- Eco-tourism can also be a tool to raise awareness about the environment and to educate the public on conservation. ✓✓

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

3.2 DATA RESPONSE

3.2.1 **Except for water restrictions, name any other solution to reduce the demand for water in the country.**

- Education awareness ✓
- Recycle wastewater ✓
- Improve irrigation and agriculture water usage ✓
- Water pricing ✓
- Rainwater harvesting ✓
- New conservation technologies ✓

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

3.2.2 **Name ONE international measure that ensures sustainability with regard to climate change.**

- CITIES for Climate Change Project ✓
- Kyoto Protocol ✓
- National Climate Change Response Strategy ✓
- Paris Agreement

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

3.2.3 **Briefly describe the term *water-stressed country.***

- A country where the supply of water is inadequate to meet the demand. ✓

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

3.2.4 **Explain ONE effect of water restrictions on the economy**.

- Water restrictions delay/reduce production, which affects the exporting sector. ✓✓
- This has a direct impact on rain-fed and irrigated agriculture as well as livestock supply to the country. ✓✓
- Water restrictions lead to retrenchments in workplaces, due to reduced profits by firms that cannot afford more workers. ✓✓

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

3.2.5 **How does climate change affect endangered species?**

- It affects their abundance, genetic composition, behaviour and survival. ✓✓
- A decline in species threatens the services that nature provides to people, which includes functioning as carbon sinks and increasing our resilience to climate changes. ✓✓
- Climate change also causes significant physiological changes − warmer temperatures during egg incubation causes an imbalanced female to male sex ratio among endangered green sea turtles.✓✓

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

3.3 DATA RESPONSE

3.3.1 Identify ONE indigenous cultural site around Johannesburg.

- Lesedi Cultural Village ✓
- The Cradle of Humankind ✓
- Mapoch Ndebele Traditional Village near Bronkhorstspruit ✓
- The Sibaya Zulu Boma Cultural Village situated in Kyalami ✓
- The Credo Mutwa Cultural Village at the Oppenheimer Tower in Central Western Jabavu, Soweto ✓
- The Ke-Ditselana Cultural Village in Katlehong ✓

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

3.3.2 Name ONE benefit of indigenous tourism.

- They help to improve local infrastructure ✓
- Generally contribute to a positive interaction between visitors and local communities, ✓
- Thereby promoting increased cultural awareness and respect. ✓

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

3.3.3 Briefly describe the term *indigenous culture.*

The traditions, architecture, rituals, music and artworks of a local or regional cultural group. ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 Explain ONE form of direct spending by tourists.

- Money spent on transport by tourists/money spent on shopping/buying local products/money spent at local restaurants, pubs and casinos. (Any one) ✓✓
- Tourists are major contributors to job creation, as money goes straight into the local economy.✓✓

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

3.3.5 How does culture influence tourism?

- Culture and tourism have a mutually beneficial relationship, which can strengthen the attractiveness and competitiveness of places, regions and countries. ✓✓
- Culture is an increasingly important element of the tourism product as it creates distinctiveness in a crowded global marketplace. ✓✓
- It has a positive economic and social impact, as it establishes and reinforces identity, it helps build image, and it helps preserve the cultural and historical heritage. With culture as an instrument, it facilitates harmony and understanding among people. ✓✓

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

3.4 **Explain the effects of tourism on poverty.**

Positive effects:

- Tourism brings employment/job opportunities to the poor in rural areas, with opportunities to earn an income and to support themselves. ✓✓
- Tourism allows the rural people to share in the benefits of tourism development, which helps them to improve their living standards. ✓✓
- Tourism provides an alternative to urbanisation and it eliminates many socio-economic issues which are created by urbanisation. ✓✓
- Tourism allows for the linking up with mainstream tourism and supply sectors through various partnerships. ✓✓
- Tourism helps to develop and maintain rural services such as transport, village shops, etc. ✓✓ (Max. 4)

Negative effects:

- Tourism can lead to increased inequalities between groups of people in the country, because rural people do not always benefit fully from it. ✓✓
- Tourism could cause local prices to increase because tourists often pay inflated prices, which the poor, local people cannot always afford. ✓✓
- High levels of tourism could lead to larger levels of pollution, litter, water pollution and increased water consumption. ✓✓
- Because rapid tourism developments only cater for large enterprises, local shops and traditions can be destroyed. ✓✓

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

3.5 **Evaluate the effectiveness of pollution control measures in South Africa.**

Positive effects:

- Firms spend more money on equipment that reduces air pollution, and this benefits the community at large (example is the large amount of money spent on water treatment) ✓✓
- The government has introduced tradable emissions where regulated pollution permits are issued. ✓✓
- The granting of property rights are extended to common goods, such as mines or industries which have to cover the costs of cleaning up the river pollution they have caused. ✓✓
- The government also levies environmental taxes (green taxes) on the consumption of goods that pollute the environment. ✓✓
- The government has certain environmental subsidies, obtained from the environmental taxes, which is used to reward firms that reduce pollution, use solar power, etc. ✓✓

Negative effects:

- The government does not exercise effective control over the continuous dumping of waste, because of a lack of coordination between departments. ✓✓
- The fines imposed on industries that dump waste are too lenient and they continue polluting the environment. ✓✓
- The minimum standards set for hazardous gas and fuel emissions are not enforced or adjusted. ✓✓
- The recycling of waste materials are not widely encouraged and promoted; hence landfill sites are overflowing. ✓✓
- The government has various pollution laws that are not really effectively implemented. ✓✓
- Poor service delivery in certain areas aggravates the problem of ineffective pollution control. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for mere listing of facts/examples.) (8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 **Answer the following questions.**

4.1.1 **Name any TWO negative impacts of monopolies on consumers.**

- Higher prices because of a lack of competition.✓
- Reduced supply because monopolies supply less than the market demand to keep prices high.✓

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

4.1.2 **How does the tourism multiplier effect impact on the economy of the host country?**

- The country will experience an increase in the GDP. ✓✓
- Firms will employ more workers, which creates an income to households. ✓✓
- The households spend more on the economy, which increases the production volumes in the country. ✓✓
- The government is prompted to spend more on basic services and tourism infrastructure development. ✓✓

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

4.2 DATA RESPONSE

4.2.1 Name ONE example, other than the milk industry, of monopolistic competition.

- restaurants ✓
- hair salons ✓
- clothing ✓
- consumer electronics ✓

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

4.2.2 Name the strategy that businesses use to create a perception of their products.

Branding. ✓ (1)

4.2.3 Briefly describe the term *hybrid structure*.

Hybrid structure is a term used in economics to describe monopolistic competition, and a market structure that consists of elements from perfect competition and a monopoly. ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 How does equilibrium price under monopolistic competition differ from perfect competition?

The monopolistic competitor's equilibrium price is higher than in a perfect market. ✓✓
The consumer pays less in the perfect market than in the monopolistic market. ✓✓
(Accept any other correct relevant response.) (2)

4.2.5 Why is it not possible for firms in a monopolistic competitive market to earn long-term economic profits?

- In the long-term firms can only make normal profit, due to the ease of entry into the market. ✓✓
- The economic profit made in the short-term attracts more firms to the market. ✓✓
- New firms entering the market erode the market share of existing firms. ✓✓
- The demand curve will shift to the left until the AR is equal to AC. ✓✓
- Firms now only earn normal profit. ✓✓

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

4.3 DATA RESPONSE

4.3.1 Identify a type of pollution that could be incurred in the picture above.

Land pollution ✓ (1)

4.3.2 Name ONE reason why people stay in informal settlements.

- Lack of affordable housing ✓
- Weak governance ✓
- Low paid work ✓

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

4.3.3 Briefly describe the term *pollution.*

Pollution is the introduction of harmful materials into the environment.✓✓
(Accept any other correct relevant response.) (2)

4.3.4 How do informal settlements threaten environmentally sensitive areas?

- Informal settlements threaten environmentally sensitive areas, such as forests, mangroves and other water mass. ✓✓
- Informal settlements have no sanitation, water, electricity and waste disposal facilities. ✓✓
- Various forms of pollution (water, land and air) affect these areas negatively. ✓✓
- Subsequent overcrowding causes severe pressure on municipal services with accompanying environmental pollution. ✓✓

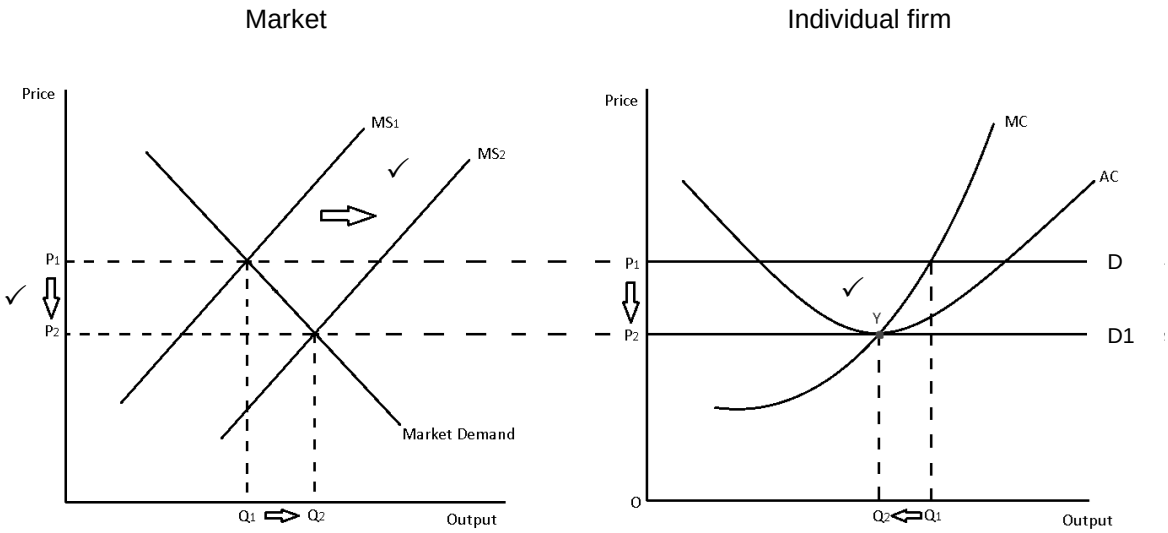
(Accept any other correct relevant response.) (2)

4.3.5 How does deforestation cause pollution?

- Deforestation not only removes vegetation that is important for removing carbon dioxide from the air, but the act of clearing the forests also produces greenhouse gas emissions. ✓✓
- Deforestation reduces the removal component of this cycle, further increasing the carbon dioxide in the air. /This results in an increase in temperature, an effect known as global warming. ✓✓

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

4.4 **Explain, with the aid of well-labelled graphs, the impact of new entrants on the long-term equilibrium of an individual firm in a perfect market.**



Mark allocation

<u>Market</u>	
Correct shift of supply curve	1 mark
Show decrease in price	1 mark
<u>Individual firm</u>	
Show downward shift in demand curve	1 mark
Show new equilibrium position (Y): AC=MC=D1=P_2	1 mark
	(Max. 4 marks)

An increase in the number of new entrants will have the following impact:

- The market supply curve shifts right from MS_1 to MS_2 and the quantity increases from Q1 to Q2 ✓✓
- The selling price decreases from P_1 to P_2, due to the shift in the market supply curve. ✓✓
- The firm's individual demand curve shifts down from D to D_1. ✓✓
- Lower prices and a reduced demand will cause firms that used to earn economic profits to realise normal profits now only at P_2Q_2. ✓✓

(Accept any other correct relevant response.) (Max. 4 marks) (8)

4.5 **Analyse employment as a benefit of tourism.**

- Tourism is labour-intensive. ✓
  - Tourism has no barriers to entry and also has the lowest ratio of investments to employment creation. ✓✓
  - Tourism has the largest multiplier effect in terms of income generation and job creation, even among the smaller operators. ✓✓
- Tourism employs many skills. ✓✓
  - The potential for in-service training is endless, as tourism is unique in various areas, such as accountants, hairdressers, field trackers, etc.✓✓
- Tourism provides immediate employment. ✓
  - If well organized, the tourism sector can create many job opportunities within a very short time as some activities are very informal.✓✓
- Tourism provides entrepreneurial opportunities. ✓
  - The tourism sector also caters for informal sector activities, such as crafts, fruit/vegetable vendors, chair rentals, food kiosks, etc. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for mere listing of facts and examples.) (8)
[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MICROECONOMICS

- **Discuss in detail, how the following factors lead to the misallocation of resources in the market:**
  - **Missing markets (10 marks)**
  - **Lack of information (8 marks)**
  - **Immobility of factors of production (8 marks) (26 marks)**
- **How effective is the government's intervention strategy on the redistribution of wealth in South Africa? (10 marks)**

INTRODUCTION

Missing markets, lack of information and immobility of factors of production are some of the many reasons for market failure. ✓✓
(Accept any other correct relevant introduction.) **(Max. 2)**

BODY: MAIN PART

<u>Missing markets</u> ✓

- Markets are incomplete because they cannot meet the demand for certain goods. ✓✓
- Public goods (community and collective goods) are in high demand but are not supplied by the market because of the low profit gained from them and the high cost of capital needed to supply them. ✓✓
- Since private producers cannot withhold these goods for non-payment, they are reluctant to provide these goods. ✓✓
- The government thus provides these goods and services. ✓✓

<u>Public goods</u> ✓

- This includes community and collective goods and has two features:
- Non-rivalry: Consumption by one person does not reduce consumption by another individual, e.g. a lighthouse. ✓✓
- Non-excludability: Consumption cannot be confined to those who pay for it (free riders can use them), e.g. radio and television. ✓✓
- In addition: Social benefits outstrip private benefits: e.g. healthcare and education. ✓✓
- Non-reject ability: Individuals are not able to abstain from consumption, e.g. street lighting. ✓✓
- Continuous consumption, e.g. traffic lights. ✓✓

<u>Community goods</u> ✓

- These are goods such as, defence, police services, prison services, street lighting, flood control, storm water drainage and lighthouses. ✓✓

Collective goods ✓✓

- These are goods such as parks, beach facilities and streets. ✓✓
- Markets are incomplete and cannot meet the demand for all goods. ✓✓
- Government provides public goods, which consist of:

Merit and demerit goods ✓

- Merit goods: These are highly desirable for general welfare, but not highly rated by the market, e.g. health care, education and safety. ✓✓
- If people had to pay the market price for them, very little would be consumed.✓✓
- The market fails because the market produces less than the desired quantity.✓✓
- Demerit goods: These are over-consumed goods, e.g. cigarettes, alcohol and drugs/thus, more of the goods are produced than is socially desirable. ✓✓
- The government bans or reduces consumption of these products through taxation and provides information to the population on their harmful effects.✓✓

(Max. 10 marks)

Lack of information ✓

- Consumers, workers and entrepreneurs do not have the necessary information to make rational decisions. ✓✓
- This results in resources not being allocated efficiently. ✓✓
- Consumers: To maximise their benefits, consumers need detailed information about goods and services. ✓✓
- Although technology offers this to the consumer, they obviously do have perfect information. ✓✓
- Workers are often unaware of job opportunities. ✓✓
- Entrepreneurs lack information on costs, availability and productivity of factors of production, which impacts their effectiveness. ✓✓ (Max. 8 marks)

Immobility of factors of production ✓

- Labour takes time to move from one area to another. ✓✓
- The supply of skilled labour cannot be increased because of the time it takes to be trained or educated. ✓✓
- Physical capital, such as factory buildings or infrastructure such as telephone lines, cannot be reallocated easily. ✓✓
- Structural changes such as a change from producing plastic packets to paper packets or shifting from labour-intensive production to computer-based production requires a change in labourers' skills, employment and work patterns.✓✓
- This takes time to change as the training of labour is also costly. ✓✓

(Accept any other correct relevant answer.) (Max. 8 marks)

(A maximum of 8 marks will be allocated for mere listing of facts/examples.)
(Max. 26)

ADDITIONAL PART

- South Africa has one of the most unequal wealth distributions in the world. ✓✓
- Transfers, social spending and BBBEE were successfully used to reduce inequalities created by apartheid. ✓✓
- Government has made limited use of wealth taxation/a wealth tax could reduce wealth inequality while also providing additional government revenue. ✓✓
- Government failed to promote significant inclusive economic growth. ✓✓
- Government successfully used education policy to create opportunities for the disadvantaged to obtain qualifications and earn higher incomes.✓✓
- Despite some positive measures, on the whole, government was ineffective in reducing the wealth gap as it continues to widen. ✓✓

(Accept any other correct relevant answer.) (Max. 10)
(A maximum of 4 marks will be allocated for mere listing of facts/examples.)

CONCLUSION

The markets can be efficient but not necessarily fair or equitable - government should intervene to help markets function better and promote a more equitable distribution of wealth and income. ✓✓
(Accept any other correct relevant higher order conclusion.)(Max. 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Discuss in detail, the measures used to combat demand-pull inflation.**
  (26 marks)

How significant are changes in the inflation rate for investors? (10 marks)

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INTRODUCTION

Demand-pull inflation occurs when aggregate demand in an economy outpaces aggregate supply, even though gross domestic product rises and unemployment falls. ✓✓
(Accept any other correct relevant response.) (Max. 2)

BODY: MAIN PART

Policy makers can use various policy measures to fight inflation when it gets too high. ✓✓

<u>Fiscal measures</u> ✓

Fiscal measures are measures taken by the Minister of Finance regarding taxation and expenditure. Examples of measures that can be taken include:

- An increase in direct taxation (personal income tax), which will help to decrease demand. ✓✓

- An increase in indirect taxation (VAT) causes spending to decrease, because goods become more expensive. ✓✓
- By imposing a loan levy the disposable income of consumers is reduced. ✓✓
- The state cuts back on expenditure by cancelling government projects such as roads, hospitals and schools. ✓✓
- The country's finance budget deficit is non-inflationary (the government uses loans from the non-banking sector to limit inflation). ✓✓

The state imposes surcharges on imported goods/this increases the price of imported goods, resulting in many people being unable to afford these goods. ✓✓

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Monetary measures ✓

The South African Reserve Bank (SARB) and the government apply certain monetary measures to curb inflation:

- The SARB adjusts the quantity of money to the needs of the economy, (e.g. through open-market policy) thus maintaining a fine balance between the supply of goods and services and money supply. ✓✓
- The SARB curbs inflation caused by excess demand, by reducing the money supply. ✓✓
- The bank rate of the central bank (SARB) affects the interest rates in the economy (repo rate)/the bank rate can be increased to encourage savings. ✓✓
- Excessive credit can be reduced by restricting the granting of credit by banks. ✓✓

The SARB can apply moral pressure (moral suasion) on financial institutions to be more careful when granting credit. ✓✓

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Other measures ✓

Additional measures that can be taken to combat inflation include:

- Increase productivity: This is a long-term measure generated through improved education and training, which allows more people to be employed and ensures that they are more productive. ✓✓
- Price control: By fixing the price of certain essential goods, the government assures that they remain affordable. ✓✓
- A wage policy: The government takes a decision to break the inflationary spiral of increased wages and prices by keeping the increase in wages below or at the level of inflation. ✓✓
- Stricter conditions for consumer credit: The government makes it more difficult for consumers to get credit in order to restrict their spending. ✓✓
- Encourage personal savings: The government implements measures to encourage savings, e.g. by cutting taxes on savings (the imbalance between demand and supply is corrected by increased savings, as people save more and spend less)
- Import controls are relaxed. ✓✓
- Floating exchange rate: Prices are automatically adjusted to international conditions. ✓✓
- Indexation: A policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 8 marks for sub-headings, listing and examples.) (Max. 26)

ADDITIONAL PART

Changes in the inflation rate for investors are significant because:

- Savings, especially in bank fixed deposits will be negatively affected due to inflation (long-term savings and investments lose their real value) ✓✓
- As inflation increases, the value of investments in bonds on which you pay a fixed interest rate, decreases. ✓✓
- Increasing inflation erodes the purchasing power of a bond's future (fixed) coupon income, reducing the present value of its future fixed cash flows. ✓✓
- Accelerating inflation is even more detrimental to longer-term bonds, given the cumulative impact of lower purchasing power for cash flows received far in the future. ✓✓
- Assets with fixed, long-term cash flows tend to perform poorly when inflation is increasing, since the purchasing power of those future cash flows falls over time. ✓✓
- Conversely, commodities and assets with adjustable cash flows (e.g. property rental income) tend to perform better with increasing inflation. ✓✓
- Borrowers (debtors) benefit from price increases, but lenders (creditors) are negatively affected as the loan amount repaid later has a lower value. ✓✓

(Accept any other correct relevant response.) (Max. 10)
(A maximum of 4 marks will be allocated for mere listing of facts/examples.)

CONCLUSION

Inflation can be a threat to the normal functioning of the economy; therefore measures such as monetary and fiscal policies are vital to keep the phenomenon under control. ✓✓

(Any other correct relevant higher order conclusion.) (Max. 2) **[40]**

TOTAL SECTION C: 40

TOTAL: 150