GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

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MARKING GUIDELINES

ECONOMICS

(PAPER 1)

19 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1. D – The flow of goods and services from firms to households ✓✓

1.1.2. C – Kuznets cycle ✓✓

1.1.3. B – the interest rate ✓✓

1.1.4. A – Financial account ✓✓

1.1.5. C – national ✓✓

1.1.6. A – Streetlights ✓✓

1.1.7. B – consumption ✓✓

1.1.8. D – welfare ✓✓ (8 x 2) (16)

1.2 MATCHING COLUMNS

1.2.1 E – A school of thought which believes the economy is best controlled by market forces ✓
1.2.2 D – It measures the severity of the cyclical fluctuations ✓
1.2.3 C – A period of rapid economic expansion
1.2.4 A – A short-term debt obligation of the central government ✓
1.2.5 H – The difference in value between a country's imports and exports of goods ✓
1.2.6 F – Actual values of goods and services ✓
1.2.7 I – It is almost impossible to prohibit any person from using the good ✓
1.2.8 G – Increasing integration of economies around the world ✓ (8 x 1) (8)

1.3 GIVE A TERM

1.3.1 Systems of national account ✓
1.3.2 Real business cycle ✓
1.3.3 Subsidies ✓
1.3.4 Absolute advantage ✓
1.3.5 Parastatals ✓
1.3.6 Money flow/Monetary flow ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name TWO features of the expansionary phase in the business cycle.**

- An increase in spending ✓
- Increase in GDP ✓
- Increase in employment ✓
- Inflation increases ✓
- Deficit on current account of Balance of payments ✓
- High demand for credit ✓
- Property prices rise ✓
- Interest rates increase ✓

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

2.1.2 **Why is parliamentary questioning on the main budget important?**

- Parliamentary scrutiny acts as an important inspection system of the government, the way that the state's assembly holds ministers to account for their decisions and actions. ✓✓
- This helps improve government policies, legislation, and public services. ✓✓
- Scrutiny helps to make sure that the changes are fit for purpose and justified. ✓✓

(Accept any other correct relevant response.) (1 x 2) (4)

2.2 **DATA RESPONSE**

2.2.1 **Identify the participant that uses the factors of production to produce goods and services.**

Firms ✓

(1)

2.2.2 **Through which market will goods and payment for goods and services flow?**

Product market ✓ (1)

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

Any place where buyers and sellers of goods meet for potential transactions. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **How does the government reduce economic activities in the circular flow model?**

- The government levies taxes on the other participants which becomes a leakage in the flow of money, reducing economic activities. ✓✓

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

2.2.5 **Explain the impact on the circular flow if leakages are greater than injections.**

- Leakages reduce the flow of income in an economy. ✓✓
- There will be less funds available for economic activities which leads to national income decreasing. ✓✓ (2 x 2) (4)

(Accept any other correct relevant response.)

2.3 DATA RESPONSE

2.3.1 **Name ONE exchange rate system.**

- Managed exchange rate system ✓
- Free floating exchange rate system ✓
- Fixed managed exchange rate system ✓ (1)

2.3.2 **Give ONE reason for the shift of the demand curve above.**

- Importing goods from the USA ✓
- Paying for services from the USA ✓
- SA tourists spend money in the USA ✓
- Buying shares in the USA ✓
- Interest and dividends paid to USA investors in SA ✓
- Loan repayments from loans from the USA ✓

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

2.3.3 **Briefly describe the term *foreign exchange.***

Foreign exchange is the conversion of one country's currency into another. ✓✓

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

2.3.4 **Explain the value of the rand against the dollar after the shift in the demand curve in the graph above.**

- The rand has decreased in value against the dollar ✓✓
- The rand has depreciated against the dollar. ✓✓ (2)

2.3.5 **How can an appreciation of a currency be negative to a country?**

- Currency appreciation may **increase export expenses**. ✓✓
- When a country's currency appreciates, the number of commodities exported from that country decreases. ✓✓
- This situation can drastically cause a country's GDP to decrease. ✓✓

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

2.4 **Briefly discuss the *trendline* and *extrapolation* as features used in the forecasting of business cycles.**

Trendline

- Trendlines indicate a general direction of a country's economy. ✓✓
- An upward trend indicates a growing economy, and a downward trend indicates a slowdown of an economy. ✓✓
- Most countries have a positive slope over time indicating a growing economy. ✓✓ (Max. 4)

Extrapolation

- Extrapolation means to estimate future events from known data. ✓✓
- Role players use extrapolation to make predictions about the economy that are based on data and not opinion ✓✓
- Extra polation may be based on the trendline of the business cycle by extending its pattern onwards to make assumptions about where the economy is headed. ✓✓ (Max. 4) (8)

(Accept any other correct relevant response.)

2.5 **How can efficiency of inputs be used in the supply-side policies to improve the economy?**

- Inputs refer to all the costs involved in the production of goods and services. ✓✓
- When inputs are used more efficiently, the production cost of the producers will decrease. ✓✓
- Taxes must be fair for businesses to be encouraged to produce high levels of production. ✓✓
- Individuals become motivated to work when taxes are fair which could lead to higher productivity levels. ✓✓
- Lower indirect taxes and corporate taxes on businesses will decrease the cost of production, which could increase the supply. ✓✓
- Depreciation allowances on machinery and equipment is an incentive for businesses to explore the latest methods of production because it reduces tax liabilities for them. ✓✓
- The quality of labour can be improved through education, training courses and improved health care. ✓✓
- The government provides free advisory services to small, medium and micro businesses to establish growth in their activities. ✓✓
- The government also provides services in the form of research, statistical information etc. to businesses that are involved in promoting the export industry. ✓✓

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

[40]

QUESTION 3: MACROECONOMICS

3.1 Answer the following questions

3.1.1 **Name any TWO sub-accounts in the financial account.**

- Net portfolio investment ✓
- Net direct investment ✓
- Net other investments ✓ (2 x 1)

3.1.2 **How is national income determined in the four-sector economy?**

C + I + G + (X – M) ✓✓ (1 x 2) (4)

3.2 **DATA RESPONSE**

3.2.1 **What is the natural rate of unemployment according to the graph above?**

11% ✓ (1)

3.2.2 **Name ONE supply side measure that can be applied to shift the curve to the left.**

- Improved education/skills training/skills development ✓
- Fewer legal restrictions on businesses to reduce unemployment ✓

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

3.2.3 **Briefly describe the term *natural rate of unemployment*.**

The natural unemployment rate is the minimum unemployment rate resulting from real or voluntary economic forces. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **How would trade unions react if the Phillips curve moves from point A to B?**

Trade unions will demand higher wages because the cost of living (inflation) has increased. ✓✓
(Accept any other correct relevant response.) (2)

3.2.5 **How can provision of infrastructural services by government reduce the cost of doing business?**

- The government provides funding for infrastructure e.g., roads, traffic lights, railways etc. ✓✓
- If this infrastructure is not reliable or maintained, it becomes difficult for businesses to achieve high productivity rates. ✓✓ (2 x 2) (4)

(Accept any other correct relevant response.)

3.3 **DATA RESPONSE**

3.3.1 **What is the international benchmark public debt percentage-GDP ratio?**

60% ✓ (1)

3.3.2 **List ONE example of a community good.**

- Streetlights ✓
- Traffic lights ✓

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

3.3.3 **Briefly describe the term *full employment.***

Full employment is the situation where all people who are available and searching for work can find a job at the prevailing remuneration rates and conditions. ✓✓

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

3.3.4 **How can the progressive tax system affect redistribution of wealth in South Africa?**

- To redistribute income from those of higher incomes to those of lower incomes by disproportionately taxing higher in-comes. ✓✓
- The higher tax share of those who are wealthier will result in an increased income share to the low-income earners ✓✓

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

3.3.5 **Analyse the cartoon and state what impact the situation will have on the main budget.**

- The cartoon indicates that the current taxpayers (5.8%) is totally inadequate for government expenditure. ✓✓
- The revenue that will be collected from the small base of taxpayers cannot sustain all their responsibilities in providing for the nation. ✓✓

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

3.4 **Discuss *export promotion* and *import controls* as measures used to correct the balance of payments.**

Export promotion

- Export promotion can be used to ensure that more goods and services are locally produced. ✓✓
- Imports will be discouraged as more locally goods are produced. ✓✓
- Government incentives, such as subsidies, are implemented to encourage the production of goods that can be exported. ✓✓
- The income received from exports eliminates the disequilibrium on the balance of payments. ✓✓ (Max. 4)

Import controls

- Import controls are measures to discourage the import of certain goods and services, therefore restricting the amount of money flowing out of the economy which affects the BOP negatively. ✓✓
- They include import tariffs, other duties and quotas.✓✓

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

3.5 **Why is it important to calculate real GDP?**

- GDP is important because it gives information about the size of the economy and how an economy is performing. ✓✓
- The growth rate of real GDP is often used as an indicator of the general health of the economy. ✓✓
- In broad terms, an increase in real GDP is interpreted as a sign that the economy is doing well. ✓✓
- Real GDP makes comparing GDP from year to year and from different years more meaningful because it shows comparisons for both the quantity and value of goods and services. ✓✓
- Real GDP measures an economy's total goods and services in a given year, taking into account changes in price levels. ✓✓

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

[40]

QUESTION 4: MACROECONOMICS

4.1 Answer the following questions

4.1.1 **Name TWO transactions in the capital transfer account.**

- Debt forgiveness ✓
- Grants relating to the ownership of fixed assets ✓
- Financial claims and liabilities from migrants ✓ (2 x 1)

4.1.2 **Why does the government conserve and preserve resources?**

- The government protects resources to ensure sustainability of resources. ✓✓
- There are, for example, laws against the poaching of rhinoceros and abalone as these species may become extinct if they are not protected. ✓
- Government conserves resources to ensure less expenditure is spent on recovering the resources. ✓✓

(Accept any other correct relevant response.) (1 x 2) (4)

4.2 **DATA RESPONSE**

4.2.1 **Identify the number of participants represented in the multiplier model above.**

3 ✓ (1)

4.2.2 **What is the purpose of the 45˚ line in the graph?**

Equality line/Line where income and expenditure are equal. ✓ (1)

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

The portion of additional income that households choose to save. ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 **How can a negative multiplier occur in the circular flow model?**

Leakages can cause negative multiplier effects as the amount in circulation is reduced. ✓✓
(Accept any other correct relevant response.) (2)

4.2.5 **Calculate the multiplier from the information provided in the graph above. Show all calculations**

$$K = \frac{Change\ \ in\ \ income\ \ (Y)}{Change\ \ in\ \ total\ \ expenditur\ \ e\ (AD)}$$ ✓

$$\frac{1\ 000\ -\ 400}{600\ -\ 300}$$ ✓

OR

$$\frac{600}{300}$$ ✓

= 2 ✓✓ (Max. 4) (4)

4.3 **DATA RESPONSE**

4.3.1 **Name ONE example of leading economic indicators.**

- The number of new vehicles sold ✓
- The number of building plans approved ✓
- The job advertising space used by job advertisements ✓

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

4.3.2 **Which economic indicator confirms the behaviour of co-incident indicators?**

Lagging indicator ✓ (1)

4.3.3 **Briefly describe the term *composite indicator.***

It is a summary of the various indicators of the same type into a single value. ✓✓
(Accept any other correct relevant response.) (2)

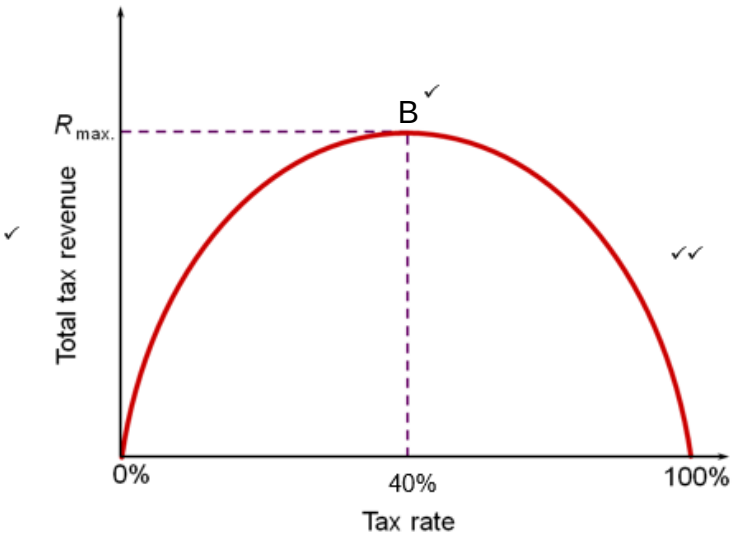
4.3.4 **Explain the effect of government spending during a recession in the business cycle.**

Government spending should increase to stimulate the economy. ✓✓
(Accept any other correct relevant response.) (2)

4.3.5 **Calculate the first 6 months moving average for the leading economic indicator. Show ALL calculations.**

127,3 + 133,3 + 136,2 + 130,2 + 127,0 + 127,9 ✓= 781,9 ✓
781,9/6 ✓ = 130,31 ✓ (4)

4.4 **Explain the Laffer curve with the aid of a graph.**



Mark allocation	
Correct labelling of axes:	1 mark
Correct drawing of graph:	2 marks
Indicating max tax. rate/tax revenue:	1 mark
Max. 4 marks	

- Government will obtain zero revenue when tax rate is 100%. ✓✓
- Revenue will increase to the taxpayers' willingness and ability to pay maximum tax (R max.) on the graph. ✓✓
- Any increase beyond this point will reduce tax revenue because fewer and fewer workers will be willing to work as the tax rate increases. ✓✓
- Higher tax rates could lead to tax avoidance. ✓✓

(Accept any other correct relevant response.) (Max. 6) (8)

4.5 **Analyse the conditions during a boom and how monetary policy "cools down" the economy in the business cycle.**

Conditions

- During a boom high levels of production, employment and economic activities prevail. ✓✓
- GDP activities increase ✓✓
- Credit and high wages will prevail because employment levels are high. ✓✓
- Inflation will accelerate because aggregate demand will exceed aggregate supply. ✓✓
- The business sector will over invest to keep up with the accelerated demand for goods and services. ✓✓ (Max. 6)

"Cool down economy"

- A policy of contractionary monetary policy must be applied. ✓✓
- Interest rate should be increased to discourage economic activities, such as increased borrowing. ✓✓
- Increase the cash reserve requirements to lower amounts available for loans. ✓✓
- Stricter conditions of obtaining credit. ✓✓
- The SARB can use moral suasion to convince banks to act in a desirable manner. ✓✓ (Max. 6)

(Accept any other correct relevant response.)
(A maximum of 8 marks for discussion. Candidates must answer both subsections of the question.) (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.**	Max. 26
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 facts.**	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: MACROECONOMICS

- **Discuss, in detail, reasons for public sector failure and link them to typical problems experienced through public sector provisioning. (26 marks)**
- **Evaluate the implementation of a basic income grant in South Africa. (10 marks)**

INTRODUCTION

Public sector failure occurs when government intervention fails to meet the desired outcome making the existing economic situation worse. ✓✓
(Accept any other relevant introduction.) (Max 2)

MAIN PART

Management failure ✓

- Since the assessing of needs is difficult, the state might oversupply some goods and undersupply some goods. ✓✓
- In this way management was not able to satisfy the needs of the consumers and there will be wastages leading to the public sector failure. ✓✓
- People working in parastatals might lack management skills and might end up implementing wrong policies that may cause the public sector to fail. ✓✓
- If the management cannot explain the decisions that they took and explain how they spend the money they have been allocated then they are not accountable and this may be a result of corruption.
- Corruption results in inefficiencies that lead to failure in public sector. ✓✓
- This can be linked to inefficiency, due to their lack of training or skills. ✓✓
- A state judge continually arrives late for court sessions due to tardiness; this in turn causes a backlog of court cases, the judge is not taken to task. ✓✓
- This can be linked to accountability. ✓✓

Apathy ✓

- Government servants do not provide an efficient service to the public as a result of corruption. ✓✓
- Corruption and poor service delivery are signs of apathy and may cause poor accountability. ✓✓
- Parastatal employees lack the interest or concern because they know they will get paid even when they are underperforming. ✓✓
- A ward councilor receives the approval for the building of new communal toilets at the local park, but the building of the toilets is delayed because the required paperwork was never submitted to the building contractor. ✓✓
- This can be linked to inefficiency. ✓✓

Bureaucracy ✓

- Complex rules and procedures might lead to inefficiencies in the public sector and the public sector might fail to provide the goods and services in time for the consumers. ✓✓
- For example, if there is a water leakage at one house the municipality will send their workers to fix the leakage and the workers will only fix that leakage because they were told to fix that one only, even if there is a leakage in the neighbouring house they will not fix it but they will need that fault to be reported, then only can they fix. ✓✓
- This simply means that the municipality cannot satisfy the needs of consumers in time because of the rules and procedures that have to be followed, which may take time. ✓✓
- Civil servants may feel overwhelmed by the rules and regulations resulting in complacency and demoralisation. ✓✓
- This problem can be linked to efficiency and assessing needs. ✓✓

Lack of motivation ✓

- Nationalisation of companies may demotivate workers from working hard as their hard work would not be recognised. ✓✓
- When calling a private medical aid facility, clients are often encouraged at the end of the call to complete a survey to evaluate the service, helpfulness, and willingness to assist that they have received from the service provider, however, state departments have no mechanisms with which to evaluate the service that the public has received. ✓✓
- This can be linked to efficiency and assessing of needs. ✓✓

Politicians ✓

- Lack of accountability by politicians may be a result of corruption and this may lead to them not fulfilling the promises they made to individuals when they were running their campaigns. ✓✓
- As the politicians are not accountable for their actions, resources may not be allocated fairly because of corruption. ✓✓
- The Minister of Health approves a contract for a vaccination programme from a company where he is a major stakeholder without disclosing this pertinent information. ✓✓
- This can be linked to accountability and efficiency. ✓✓

Structural weaknesses ✓

- Incompetency of workers may lead to the workers not being able to provide efficient services to the public. ✓✓
- Nationalisation of companies that provide a different good than which the state provides may make it difficult for the state to be able to provide that good. ✓✓
- Eskom is the only service provider of electricity in South Africa and when power outages occur, it impacts the efficiency of the entire country. ✓✓
- This can be linked to accountability and efficiency. ✓✓

Special interest groups ✓

- Special interest groups can be viewed as using their political power to raise demand for public services, as well as using their bargaining power to fight for higher wages. ✓✓
- Special interest groups' political power leads to more government spending which strain the government expenditure for the fiscal year. ✓✓
- Huge strikes caused by special interest groups, such as South African Taxi Association, decreases production of the economy since people will not be have alternative transportation to work. ✓✓
- Trade unions could pressure the government to pass certain legislation to favour their members but at the cost of long-term investment from potential investors
- This can be linked to efficiency. ✓✓

(Accept any other correct relevant link that is explained sufficiently.) (Max. 26)

A maximum of 8 marks should be allocated for headings and examples.

ADDITIONAL PART

Evaluate the implementation of a basic income grant in South Africa.

Positive effect of a basic income grant

- The social relief of distress grant will ease some of the hardship faced by the societies and make everyone feel recognised and included. ✓✓
- It will boost the purchasing power of the poorest, will create income multipliers, stimulating local economic growth and livelihoods. ✓✓
- It would improve the effectiveness of the existing social grants. The child support grant is intended to meet the basic needs of children in low-income households. But instead, this cash is spread among the entire family because unemployed parents and carers also need food and clothes. ✓✓
- A basic income could have a positive impact on reducing medical costs associated with types of poverty and homelessness. ✓✓
- A basic income grant will assist in narrowing the inequality gap, as South Africa is one of the most unequal societies in the world (we have a high Gini Coefficient). ✓✓
- Basic income support also helps boost investment aimed at improving nutrition, healthcare, housing and transport, ✓✓
- The basic income grant could add 0,5% to GDP growth by 2025 by improving household demand and boosting employment. ✓✓

Negative effect of a basic income grant

- A basic income grant would require significant long-term tax increases and would likely lead to employment losses. ✓✓
- Without sustained higher economic growth, much higher social transfers could threaten fiscal sustainability. ✓✓
- It removes the incentive to work, adversely affecting the economy and leading to a labour and skills shortage. ✓✓

- The problem is that it must be administered. The government already struggles endlessly to distribute existing grants. ✓✓
- There are frequent delays, grants are never paid until well after the end of the month, and fraud is rife. ✓✓

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

CONCLUSION

The South African public sector is known for its widespread corruption and inefficiency; it would be more efficient if they built planning and control systems based on results. ✓✓
(Accept any higher-order conclusion.) (Max. 2)

QUESTION 6: MACROECONOMICS

- **Discuss, in detail, the supply reasons for international trade**
  (26 marks)

- **Examine comparative advantage in international trade, by using an appropriate example.** **(10 marks)** **(40)**

INTRODUCTION
International trade is the exchange of goods and services across many countries. ✓✓
(Accept any other relevant introduction.) (Max. 2)

BODY: MAIN PART

The following are supply reasons for international trade:

Natural resources ✓
- These resources are not evenly distributed across all countries of the world. ✓✓
- They vary from one country to another and can only be exploited in places where the resources exist. ✓✓
- South Africa is well equipped with different natural resources, but less resourced with skilled labour and capital. ✓✓
- Examples are Japan and Ireland, which have an abundance of skilled labour, but they lack natural resources. ✓✓

Labour resources ✓
- Labour differs between different countries in terms of skills, knowledge, training, quality, quantity and cost. ✓✓
- Some countries such as Switzerland have highly skilled, well-paid workers, and high productivity levels. ✓✓

The availability of capital ✓
- Some countries need to modernise their industries and economies with advanced machinery, equipment (plants), but cannot manufacture this equipment, because they lack the capital to do so. ✓✓
- This factor has therefore increased the need for international trade. ✓✓

Lack of entrepreneurship ✓
- Those countries that have good entrepreneurial skills offer more goods and services for trade. ✓✓
- Efficiency determines the supply of goods and services produced at lower prices and also reduces the opportunity cost of acquiring them. ✓✓

Climatic conditions ✓
- These countries make it possible for others to produce certain goods at a lower price than other countries. ✓✓
- An example is Brazil, which is the largest producer of coffee. ✓
- Countries have different climatic conditions and are therefore able to produce different products. ✓✓

Technological resources ✓
- The developmental levels and innovation processes of countries will always differ and as a result some countries may have them in abundance, while others may not. ✓✓
- Countries such as Germany and the USA can use capital which represents high levels of technology, while other countries do not have access to the latest technology, such as basic internet services and healthcare. ✓✓
- Those countries that have high technological labour forces can produce certain goods and services at a low unit cost, such as the developed countries. ✓✓

Specialisation ✓
- The production of certain goods and services allows some countries to produce them at a lower cost than other producers. ✓✓
- Japan produces electronic goods and sells them at a much lower price. ✓
- International trade enables countries to specialise in the production of goods and services in which they have a comparative advantage above others. ✓✓
- Most of the surplus production gets exported to other countries and the revenue earned from these exports can be used to finance their imports. ✓✓

(Accept any other correct relevant response.) (Max. 26)

ADDITIONAL PART

Examine comparative advantage in international trade, by using an appropriate example.

- A country has comparative advantage when the opportunity cost of producing a good is lower than the other country's cost. ✓✓
  Consider the following example:
- South Africa and Botswana have climates in the production of beans and subtropical fruits. ✓✓
- Let us assume the production of both countries are:

	Beans	Subtropical fruits
South Africa	10	40
Botswana	5	30

✓✓

- South Africa clearly produces more beans and subtropical fruits than Botswana, however, the principle of opportunity cost principle must be identified. ✓✓
- In South Africa the cost of producing subtropical fruits to beans is 1:4, meaning they will have to sacrifice 40 tons of subtropical fruits to produce 10 tons of beans. ✓✓
- In Botswana, the opportunity cost is 1:6, they must sacrifice 30 tons of subtropical fruits to produce 5 tons of beans. ✓✓
- It is therefore more cost effective for SA to produce subtropical fruit in comparison to Botswana. ✓✓
- SA has comparative advantage in the production of subtropical fruit and Botswana has comparative advantage in the production of beans. ✓✓
- SA will therefore specialise and export subtropical fruits to Botswana, while Botswana will specialise and export beans to SA. ✓✓

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

CONCLUSION

Consumers may exhaust the available supply of locally produced goods while exploring international markets for surplus production and unique products. ✓✓ (Max. 2)
(Accept any higher-order conclusion.) **(40)**

TOTAL SECTION C: 40

TOTAL: 150