education

MPUMALANGA PROVINCE

REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

SEPTEMBER 2024

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 21 pages.

SECTION A: COMPULSORY

QUESTION 1 — 30 MARKS

1.1. MULTIPLE CHOICE

1.1.1	B	total revenue ✓✓
1.1.2	A	non-excludable ✓✓
1.1.3	C	shut-down point✓✓
1.1.4	D	price leadership ✓✓
1.1.5	D	Inflation targeting ✓✓
1.1.6	A	deforestation. ✓✓
1.1.7	C	Basel Convention. ✓✓
1.1.8	B	World Heritage Site ✓✓

(8x 2) (16)

1.2 MATCHING ITEM

1.2.1	G	it is a technique used by government to compare social benefits against social costs ✓
1.2.2	I	an institute that investigates restrictive business practices and abuse of dominant positions ✓
1.2.3	F	value of inputs owned by entrepreneur and used in the production process ✓
1.2.4	E	private cost plus external costs ✓
1.2.5	B	prices of goods and services that continuously decrease over a long period of time ✓
1.2.6	H	an engagement between government and businesses to reduce pollution ✓
1.2.7	A	unadjusted CPI that is calculated for urban areas only ✓
1.2.8	C	the direct regulation of an industry or activity through laws that state what is allowed and what is illegal ✓

(8 x 1) (8)

1.3 ONE WORD

1.3.1	The Competition Appeal Court ✓
1.3.2	Marginal cost ✓
1.3.3	Externalities ✓
1.3.4	Tourism ✓
1.3.5	Cost push inflation ✓
1.3.6	Preservation ✓

(6 x 1) (6)

TOTAL SECTION A: (30)

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SECTION B

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

QUESTION 2: MICROECONOMICS 40 MARKS

2.1 Short questions

2.1.1 **Name any TWO examples of oligopoly businesses.**

- Commercial banks ✓
- Telecommunication companies ✓
- Car manufacturers ✓

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

2.1.2 **Why will the monopolist not be able to charge excessively high prices for his/her product?**

- Consumers have limited budgets and they will buy substitutes ✓✓
- Monopolists have little control over price and do not have control over demand ✓✓

(Accept any other correct relevant response) (1X2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify a reason why a perfectly competitive market is regarded as a price**

there is no supplier that has influence over price ✓ (1)

2.2.2 **What is the nature of the product for the above market structure?**

homogenous/ identical ✓ (1)

2.2.3 **Briefly describe the term *economic profit*.**

Economic profit is when average revenue is greater than average costs ✓✓
(Accept any other correct relevant response) (2)

2.2.4 **Why do firms in the perfect competition have easy entry and exit to the market**

There are no legal, financial, technological or any other barriers to entry ✓✓

(2)

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(Accept any other correct relevant response)

2.2.5 **What are the short run benefits of running a firm in a perfect competition?**

- More firms enter the market which increases competition and reduces prices and cost to the minimum of the short-run average costs✓✓
- Competition lead to the expansion of markets as firms seek to grow their customer base resulting in increased opportunities for entrepreneurs ✓✓
- Economic profit encourages firms to invest in product quality and innovation resulting in improved product features, durability and overall quality over time✓✓ (4)

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

2.3. **DATA RESPONSE**

2.3.1 **Identify the original market price on the graph above.**

R10 ✓ (1)

2.3.2 **Name the upper segment of the kink demand curve represented by distance DE in the graph.**

Elastic ✓ (1)

2.3.3 **Briefly describe the term duopoly.**

A duopoly is a type of market structure in which only two firms dominate and control the entire market for a particular product or service..✓✓
(Accept any other correct relevant response) (2)

2.3.4 **Explain why oligopolists are reluctant to compete on prices.**

When the firm reduce its price the other firms will follow it and reduce their prices as well which will lead to price wars.✓✓ (2)
(Accept any other correct relevant response)

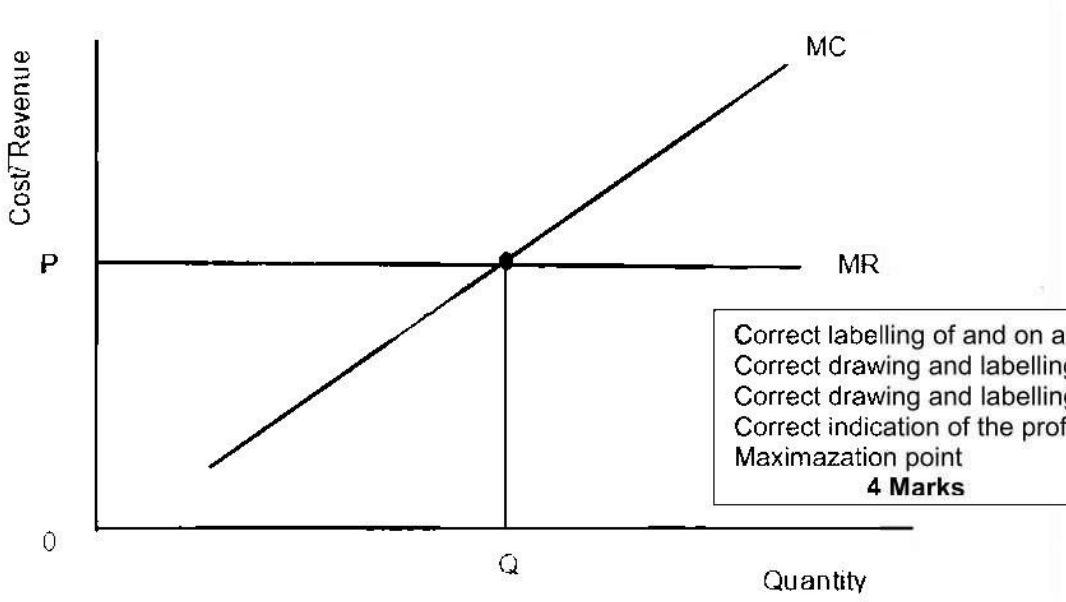
2.3.5 **Use the information in the graph to show the impact of the decrease in price on the revenue of the oligopolist firm. Show ALL calculations.**

Total Revenue = P x Q
= R10 x 9
= R90 ✓ (4)

Total Revenue = P x Q
= R8 X 10
= R80 ✓

Change in Total Revenue = R90 - R80 ✓
= R10 ✓

2.4 **With the aid of a graph explain profit maximization of a perfectly competitive firm using the marginal cost and marginal revenue curves**



Correct labelling of and on axes = (1)
Correct drawing and labelling of MC = (1)
Correct drawing and labelling of MR = (1)
Correct indication of the profit Maximazation point (1)
4 Marks

- The firm makes the highest profit where MC = MR, therefore this point is known as the profit maximisation point. ✓✓
- The firm should produce the quantity Q and sell at the price P in order to make the maximum profit.✓✓
- At any quantity to the left of the profit maximisation point, the firm 's cost for producing any one additional unit is lower than the revenue received from such unit (MC < MR), The firm can still increase its total profit by increasing production.✓✓
- At any quantity to the right of the profit maximisation point, the cost of producing any additional units of a product is higher than the revenue received from such unit (MC > MR). Therefore, any of the additional unit produced will reduce the firm's total profit because such units bring no additional profit.✓✓ Max 4

(Accept any other correct relevant response) (8)

2.5 **How do hybrid market structures positively impact the economy?**

- Hybrid market structure can create an environment that may foster innovation and efficiency. ✓✓
- The fact that businesses freely enter or leave the hybrid market in the long term contributes to the element of competition✓✓
- A firm in a hybrid market structure is relatively small in relation to the market as a whole which prevents consumer exploitation. ✓✓
- Firms offer differentiated products which satisfy the same consumer need resulting in a wider consumer choice✓✓
- In a hybrid market structure, firms may have both competitive and monopolistic elements, which can create incentives for firms to invest in research and development in order to differentiate their products. ✓✓
- This can lead to the development of new products and technologies that can drive economic growth and improve overall living standards. ✓✓
- The competitive elements of the market may provide incentives to firms to keep their costs low and operate more efficiently in order to remain competitive. ✓✓
- Hybrid market structure can contribute to overall economic stability. ✓✓ (8)

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

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS

3.1 Short questions

3.1.1 Name any TWO reasons why market fails to protect the environment

- Environment is a common resource ✓
- Externalities ✓
- Lack of knowledge ✓
- Carelessness ✓ (2 x 1) (2)

3.1.2 How can high rates of taxation negatively affect tourism industry?

- It increases air fares, accommodation fees and general prices of goods and service which may reduce income generated in tourism industry since few people will afford to travel ✓✓
  (Accept any other correct relevant response) (1x2) (2)

3.2. DATA RESPONSE

3.2.1 Identify the age group of people who visited South Africa the most in July 2023. (1)

35-44 ✓

3.2.2 Name ONE organisation that is responsible for marketing South Africa as a tourist destination.

South African Tourism (SATOUR)✓

(1)

3.2.3 Briefly describe the term *cultural tourism.*

Tourists come to visit museums and art galleries, e.g. Robben Island and the Apartheid Museum ✓✓ (2)
(Accept any other correct relevant response)

3.2.4 Why is infrastructure development important in promoting tourism?

- Good and adequate physical (hotel rooms), economic (ATMs) and basic (water and electricity) services infrastructure such as communication infrastructure attract tourist to visit an area e.g. hotels need telephone lines to take bookings at tourist sites ✓✓

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- Due to the upgrading of transport infrastructure to tourist sites in rural areas, there is an improved link between markets with rural areas where production takes place, ✓✓
  (Accept any other correct relevant response) (2)

3.2.5 **How does the depreciation of the rand impact inbound tourism South Africa?**

- A depreciated the rand makes inbound tourist to exchange foreign currency and get more rands than before ✓✓
- Inbound tourism will increase or improve because tourists are able to enjoy more activities since rand will be weaker and the tourist will get more money to spend in the country ✓✓
  (Accept any other correct relevant response) (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **Identify the term used to describe the introduction of waste matter into the environment**

Pollution✓ (1)

3.3.2 **Name any ONE international measure to control climate change.**

- Paris agreement✓
- United Nations Framework Convention on Climate Change (UNFCCC) ✓
  (Accept any other correct relevant response)

(1)

3.3.3 **Briefly describe the term *biodiversity***

Refers to the variety of plant and animal life in the world or in a particular habitat which is highly considered to be important and desirable.✓✓ (2)
(Accept any other correct relevant response)

3.3.4 **Explain the importance of property rights in ensuring environmental sustainability?**

- Property rights help prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna ✓✓
- Property rights can be expanded to common goods such as clean air and help limit air pollution which preserves the environment ✓✓
- Granting of property rights has a conservation effect as people take care of things that belong to them ✓✓

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(Accept any other correct relevant response)

(2)

3.3.5 **How can green tax negatively impact the economy?**

- Green tax increases cost of production for businesses, leading to a decrease production ✓✓
- If the economic growth declines, it may lead to job losses in the economy which increases unemployment
- Green tax may lead to producers passing over increase in cost of production to consumers leading to inflation in the economy

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

3.4 **Briefly discuss *marketable permits* and *subsidies* as measures used to ensure environmental sustainability?**

Marketable permits

- Marketable permits are licenses that are sold by the government to businesses which allow them to pollute to a certain degree ✓✓
- The government decides on a maximum desired level of pollution in a particular area ✓✓
- When businesses managed to reduce pollution below their maximum allocated quota, they can sell the remaining part to other businesses that pollute more than their allocated quotas ✓✓
- In South Africa, marketable permits are granted by the Department of Mineral Resources and Energy ✓✓ (Max. 4)

Subsidies

- Environmental subsidies refer to the payment made by the government to businesses to reduce activities that negatively affect the environment✓✓
- Subsidies are granted to; -
- encourage businesses to develop new technologies or equipment such as LED light bulbs and solar geysers ✓✓
- promote production of environmentally-friendly substitutes such as reusable shopping bags and rechargeable batteries ✓✓
- encourage recycling waste material such as bottles and cans✓✓
- encourage businesses to use environmentally-friendly sources of energy such as solar and wind ✓✓
- Environmental subsidies can be recovered from the levying of taxation✓✓

(Max. 4)

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

(8)

3.5 **How can indigenous knowledge systems (IKS) be used to promote tourism in South Africa?**

Tourism can be increased by:

- Promoting local culture, history and environment to international tourist creates uniqueness of that particular tourist destination ✓✓
- Offering tourists an authentic village experience at cultural villages, such as Shangana in Mpumalanga attracts more tourists - who are interested in experiencing traditional life activities✓✓
- Promoting cultural significance of World Heritage Sites, such as Robben Island where tourist can learn about the political history of the country✓✓
- Encouraging tourism in townships, to allow tourists to experience authentic township activities such as to eat and drink at a shebeen ✓✓
- Taking tourists who are interested in arts to festivals such as the National Arts Festival in Grahamstown which exposes tourist to the t uniquely South African experience ✓✓

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

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS

4.1 Short questions

4.1.1 Give any TWO reasons why governments levy tax on demerit goods.

- To discourage consumption ✓
- To raise revenue ✓
- To cover for external cost ✓ (2 x 1)

(2)

4.1.2 How does chemical waste affect people?

Chemical waste has a negative effect on people and can cause infertility or death ✓✓
(Accept any other correct relevant response) (1 x 2)

(2)

4.2 DATA RESPONSE

4.2.1 Identify the market price at which the individual firm sell its products.

P_1 ✓

(1)

4.2.2 Name the market structure illustrated above.

Perfect market ✓

(1)

4.2.3 Briefly describe the term *variable cost.*

Are those costs that change depending on how many products are being produced.✓✓
(Accept any other correct relevant response)

(2)

4.2.4 Why is average revenue always equals to marginal revenue in a perfect market?

- In a perfectly competitive market, all products are homogeneous and they are sold at the same market price ✓✓
- The price of the firm remains constant over varying levels of output✓✓

(Accept any other correct relevant response) (2)

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4.2.5 **Explain the effect on the market in the long run if the businesses in a perfect market made an economic profit.**

- This will attract new entrants into the market which will result in the market supply curve shifting to the right ✓✓
- Market equilibrium price will fall which will reduce profits therefore leading to normal profit will be achieved in the long run✓✓

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

4.3 **DATA RESPONSE**

4.3.1 **Identify the type of tourism depicted in the picture above.**

Ecotourism ✓ (1)

4.3.2 **Name any ONE Environmental World Heritage Site found in South Africa.**

- Isimangiliso Wetland Park (ecosystems) ✓
- Cape Fynbos Region ✓
- Ukhahlamba Drakensberg Park✓

(Accept any other correct relevant response) (1)

4.3.3 **Briefly describe the term *domestic tourist.***

Refers to South African citizens travelling within the borders of South Africa ✓✓

(Accept any other correct relevant response) (2)

4.3.4 **Explain the role played by representative bodies in improving tourism.**

help tourists to easily access knowledge about all tourist destinations which will increase tourism activities because of more available information ✓✓

(Accept any other correct relevant response) (2)

4.3.5 **How can households benefit from tourism?**

- Spending by tourists leads to increased income to households through direct involvement in tourism✓✓ e.g. travel agents or tour operators ✓
- Indirect involvement in tourism as employees in trading businesses and the hotel industry contributes to incomes of households ✓✓
- Most infrastructure created for tourists is also available for use by local people✓✓ e.g. roads and electricity ✓

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- Tourism requires a variety of skills for which education and training is needed which improves households skills ✓✓
- Initial involvement of households in the informal sector can lead to future entrepreneurs in the formal sector ✓✓

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

4.4 **Distinguish between natural monopoly and artificial monopoly.**

- Natural monopoly is created when the barriers to entry into the market are economic in nature while artificial monopoly is created when the barriers to entry are not economic in nature ✓✓
- Natural monopoly has high development or economic costs that prevent others from entering the market whereas copy right, patents, business licences and intellectual property prevent new firms from entering in artificial monopoly ✓✓
- Natural monopoly arises from the characteristics of the market itself whereas artificial monopoly is created by external factors✓✓
- Natural monopoly arises when a single firm is able to produce a good or service at a lower cost than any other business however, artificial monopoly arises when a single firm is able to gain control of the market through government actions. ✓✓
- Examples of a natural monopoly are Eskom and PRASA while examples of artificial monopoly are SABC and post office✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere discussion without showing differentiation) (8)

4.5 **Evaluate the effectiveness of the Johannesburg summit (WSSD) to ensure Sustainable development.**

Positive

- The new target on basic sanitation has been successful since the lives of millions of the world's poor, especially those of children suffering or dying from diseases resulting from lack of basic sanitation services has improved.✓✓
- The summit aimed to halve the number of people without basic sanitation and access to safe drinking water and the plan on implementation has encouraged partnerships between the public and public sectors based on regulatory frameworks established by governments. ✓✓
- The commitment made in the fight against HIV / AIDS was reaffirmed and it has promoted universal access to medicines which has controlled the spread of HIV / AIDS. ✓✓

Negative

- The Plan of Implementation is a political document and does not commit governments, in a legally binding way, to achieve its goals hence the plans have not been well implemented✓✓
- The absence of leadership from developed countries in dealing with environmental issues resulted in very weak objectives and actions on the major environmental issues such as climate change. ✓✓
- There is still too much poverty and diseases in the world and that some environmental problems, such as greenhouse gas emissions, biodiversity loss and overfishing, have actually got worse✓✓

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

(8)

[40]

TOTAL SECTION B: (80)

SECTION C

QUESTION 5: MICROECONOMICS 40 MARKS

- **Discuss in detail the factors leading to the misallocation of resources in the market. (26 marks)**
- **How would the intervention of government into the markets positively impact the South African economy? (10 marks)**

INTRODUCTION

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services that are produced to meet demand at the right price ✓✓
(Accept any other correct relevant introduction high order response **(Max. 2)**

BODY: MAIN PART

Externalities ✓

- These are known as spill-over effects to third party which is not directly involved in the production process ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure✓✓

Negative externalities

- Negative externalities are costs to third parties that are not included in the market price✓✓ e.g. pollution ✓
- The costs of negative externalities such as ill health are not paid by the producers✓✓

Positive Externalities

- A positive externality occurs when a benefit to a third party from the action or decision of another party ✓✓ e.g., Education✓
- These goods are often under-produced by the market and government steps in to provide for the short fall ✓✓

Missing markets ✓

- Missing markets can only form under certain conditions and when these conditions are absent, markets struggle to exist ✓✓

Public goods✓

- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price ✓✓

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- Markets measuring how much a person consumes, there is no basis for establishing a market price lightning, flood control, storm water drainage and lighthouses ✓✓
- **Collective goods**: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals✓✓
- **Community goods**: these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals✓✓

Merit goods✓

- These are goods that are highly desirable for the general welfare of the people of the country and are often not highly rated by the market ✓✓
- If people have to pay market prices for them, relatively little would be consumed✓✓

Demerit goods✓

- These are goods/services that are regarded as bad or harmful for consumption✓✓
- Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods ✓✓
- In a free market economy, these goods are over-consumed ✓✓
- Government can ban their consumption or reduce it by means of taxation such as excise duties and by providing information about their harmful side effects ✓✓

Imperfect competition✓

- In market economies, competition is often impaired by power ✓✓
- Power often lies to a greater extent with producers than with consumers ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, raise prices and produce where price exceeds marginal cost ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decision ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment ✓✓

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- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information ✓✓

Immobility of factors of production✓

- Most markets do not adjust rapidly to changes in supply and demand – due to resources not being mobile thus a misallocation of resources results ✓✓
- Labour -takes time to move occupationally and geographically – adjust slowly and inadequately ✓✓
- Unskilled workers are not able, willing or have time to gain necessary skills✓✓
- Physical capital infrastructure like telephone lines – can move from one location to another at irregular intervals ✓✓
- Structural changes occurs slowly – demand increases or decreases – technology used like robots – takes time for labour-intensive textile production to be switched to computer assisted production ✓✓

Imperfect distribution of income and wealth✓

- Market system is neutral to income distribution ✓✓
- Market economy provides opportunities to earn an income, but it's not equal –no equal education and skills ✓✓
- Results in the poor, women and disabled people earning less ✓✓

(Accept any other correct relevant response) **(Max. 26)**
Allocate a maximum of 8 marks for headings/subheadings/examples
(A maximum of 4 marks will be allocated for graphical illustrations)

ADDITIONAL PART
Government intervention can positively impact the economy by:

- Ensuring that there is healthy competition in the markets which creates more job opportunities and reduce unemployment encouraging competition through the implementation of the competition policy, therefore increasing establishment of more firms and employment✓✓
- Maintaining healthy competition so that more goods and services will be provided as more companies are allowed to operate resulting in economic growth ✓✓
- Consumers will be able to have more choices since more businesses can be established, which help improve people's welfare ✓✓
- Implementing Interventions such as maximum prices which helps with reducing costs of goods and services ✓✓
- Improving economic equity because when social transfers are provided to the public, it improves the standards of living ✓✓
- Reducing unfair prices such as price fixing, abuse of dominant position which help improve efficiency in the economy✓✓

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

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Allocate a maximum of 2 marks for mere listing of facts/examples

CONCLUSION

Market failure can have devastating effects unless the government intervenes to reduce such effects✓✓ **(40)**
(Accept any other correct relevant high order response)

(Max.2)

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES **40 MARKS**

- **Discuss the consequences of inflation.** (26)
- **Analyse the inflation problem in South Africa.** (10)

INTRODUCTION

Inflation refers to a sustained and significant increase in the general level of prices over a period of time✓✓ (Max. 2)
(Accept any other correct relevant introduction)

BODY: MAIN PART

Debtors and / Creditors ✓

- Creditors (lenders) suffer due to price increases because they get money back which has a lower purchasing power, especially if the interest rate has been below the inflation rate / inflation harm creditors as they lose due to a fall in the real value of money ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods ✓✓
- Debtors (borrowers) receive money with a high buying power and pay back with money with a lower buying power ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓

Salary and wage earners✓

- Price increases affect people negatively because their incomes are relatively fixed ✓✓
- Real wages fall sharply during period of high inflation as a result of a decline in capital stock and a shift in relative prices ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages ✓✓

- Relative wages are the important component of wealth; they constitute the main source of income for many households, especially for the less well-off ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty ✓✓
- This group includes retired people, pensioners and the poor, that will experience the erosion of spending power and eventually earn too little to survive ✓✓
- Wage increases are lower than the inflation rate increase ✓✓

Investors and savers ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings ✓✓
- Investors in assets with flexible market value gain when prices increase, because their assets with a flexible market value increase at least proportionately to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds✓✓

Tax payers ✓

- With inflation taxpayers' nominal income rise although their real income remain unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payers ✓✓
- If the income tax brackets remain unchanged, inflation increases the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before – bracket creep leads to a redistribution of income from taxpayers to the government ✓✓

Industrial peace ✓

- Wage bargaining is accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence which affects society at large ✓✓
- Inflation leads to demands for increased wages as trade unions put increasing pressure on employers to raise wages and salaries ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow ✓✓

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Balance of Payment problems ✓

- If a country's rate of inflation is higher than that of its trading partner, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market leading to a decrease in exports ✓✓
- Cheaper imports have a negative effect on a country's balance of payments✓✓
- The loss of competitiveness can be a result of increased unemployment ✓✓

Unemployment and poverty ✓

- The effects of inflation are uneven, because it does not benefit anyone and harms most – some less than others ✓✓
- Inflation also tends to redistribute income from low income groups to higher income groups ✓✓
- This is because people in the low income groups do not have assets than can rise in value faster than the rate of inflation to help them overcome the effects of inflation ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients ✓✓

Low inflation expectations✓

- Limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future ✓✓
- Allow consumers to postpone consumption expenditure thereby reducing pressure on price increases✓✓
- Give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand ✓✓
- Reduce panic buying by consumers when they expect that prices will be stable in the future ✓✓
- Increase the burden on debtors which discourages them from borrowing money, due to the real interest rate ✓✓

High inflation expectations✓

- Excessive wage demands by different labour unions because workers anticipate increases in cost of living in the future will lead to producers increasing prices in order to recover extra costs of production ✓✓
- Prompts consumers to engage in panic buying when they expect prices to rise and thereby increasing pressure on price to rise ✓✓
- Make households to save less, thereby leading to excess demand for goods and services ✓✓
- Decreases real interest rates which will discourage savings ✓✓

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- Reduce the burden on creditors as they will receive their money at higher interest rates ✓✓

(Accept any other correct relevant response)

Allocate a maximum of 8 marks for headings/subheadings/examples

(Max 26)

ADDITIONAL PART

Analyse the inflation problem in South Africa.

- The inflation rate in South Africa is currently higher than the inflation rate of its trading partners which makes South African goods more expensive than other countries, thus South Africa is less competitive✓✓
- The government is under continuous pressure to increase social spending, particularly on cash grants which results in an increase for tax leading to inflation. ✓✓
- Inflation-wage spirals due to rising fuel, energy, transport and food prices add to inflationary pressures. ✓✓
- The level of the exchange rate is highly uncertain and its volatility is a problem that has inflationary effect which is felt in a depreciation of the rand.✓✓
- A significant increase on some key prices that are set by the government (Administered price inflation – API), for example Eskom's electricity price hereof leads to an increase in inflation. ✓✓
- South Africa's citizens borrow and spend excessively their money, they do not have a saving culture as a result inflation also increases due to this culture of spending.✓✓

(Accept any other correct relevant response) (Max. 10)
Allocate a maximum of 2 marks for mere listing of facts/examples (10)

CONCLUSION

Unacceptably high inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures to control it have to be put in place ✓✓
(Accept any other relevant higher order conclusion) (Max. 2) **(2)**
40

TOTAL SECTION C: [40]

GRAND TOTAL: 150

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