Province of the
EASTERN CAPE
EDUCATION

Iphondo leMpuma Kapa: Isebe leMfundo
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Porafensie Ya Kapa Botjahabela: Lefapha la Thuto

NATIONAL SENIOR CERTIFICATE

GRADE 12

SEPTEMBER 2026

ECONOMICS P2
MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 19 pages.

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SECTION A

QUESTION 1

1.1 1.1.1 D ✓✓ (marginal revenue)

1.1.2 B ✓✓ (mutual dependance)

1.1.3 C ✓✓ (allocative efficiency)

1.1.4 D ✓✓ (price taker)

1.1.5 C ✓✓ (hyperinflation)

1.1.6 A ✓✓ (eco)

1.1.7 B ✓✓ (quality standards)

1.1.8 A ✓✓ (deforestation) (8 x 2) (16)

1.2 1.2.1 E ✓ Mechanism that brings together buyers and sellers of goods and services

1.2.2 H ✓ Market structure with many firms selling a homogeneous product

1.2.3 I ✓ cannot be recovered even if the business closes down

1.2.4 F ✓ these are undersupplied by the market but beneficial to society

1.2.5 G ✓ excludes items from the CPI basket that show high price volatility

1.2.6 A ✓ increase in salaries that results in workers paying a higher income tax rate

1.2.7 C ✓ traditions, rituals or music that are unique to a given culture or society

1.2.8 B ✓ imposed on the output of goods that generates external environmental cost (8 x 1) (8)

1.3 1.3.1 Short run ✓

1.3.2 Black market ✓

1.3.3 External cost ✓

1.3.4 Inbound tourists ✓

1.3.5 Demand-pull inflation ✓

1.3.6 Environmental sustainability ✓ (6 x 1) (6)

TOTAL SECTION A: 30

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SECTION B

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

QUESTION 2: MICROECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 **Name TWO conditions of perfect markets.**

- Many buyers and sellers ✓
- Homogeneous product
- No barriers to entry
- Full information

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

2.1.2 **How is the existence of cartels affecting the economy?**

- The lesser output produced, offered at higher prices, makes it impossible for other businesses to enter the market – it hurts the lower income groups who cannot afford the high prices. ✓✓ (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify normal profit in the graph above.**

- Point A ✓
- Point B ✓ (1 x 1) (1)

2.2.2 **Name any ONE total cost component.**

- Fixed cost ✓✓
- Variable cost ✓✓

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

2.2.3 **Briefly describe the concept *explicit cost.***

- Explicit costs refers to the actual expenditure of the business such as rent, wages and interest. ✓✓

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

2.2.4 **Why would firms incur costs even when the output is zero?**

- Firms incur costs even if output is zero because total costs components are fixed costs and variable costs, and, firms incur fixed costs even if output is zero such as rent expense. ✓✓

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

2.2.5 **Use the graph above to explain how profit maximisation is achieved by the firm.**

- Profit is maximised in the area where the TR curve lies above/is greater than the TC curve. ✓✓
- This is the area where there is a positive difference between TR and TC. ✓✓
- Profits are maximised where the gap between TR and TC is the greatest at 35 units. ✓✓

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

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2.3 DATA RESPONSE

2.3.1 **Identify the non-price strategy mentioned in the extract above.**

- Delivery apps/uber eats ✓ (1)

2.3.2 **Give ONE example of a business operating under monopolistic competition.**

- Fast food businesses ✓
- Grocery stores ✓
- Clothing stores ✓

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

2.3.3 **Briefly describe the concept *non-price-competition.***

- Non-price competition refers competition amongst firms to increase their market share that is not based on prices. ✓✓

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

2.3.4 **Explain why monopolistic competition is referred to as a hybrid market structure.**

- It if referred to as a hybrid market structure because it has the characteristics of both perfect markets and monopoly. ✓✓
- Monopolistic competition has many buyers and sellers and a downward sloped demand curve. ✓✓ (1 x 2) (2)

2.3.5 **How does monopolistic competition achieve brand loyalty**?

- By differentiating their products, monopolistic competitors establish brand loyalty. ✓✓
- Brand loyalty gives businesses greater control over the price of their products. ✓✓
- Specials and promotions are usually used to strengthen brand loyalty and convince consumers to buy the product. ✓✓

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

2.4 **Briefly explain how a perfect competitor will find it difficult to earn an economic profit in the long run.**

- In the long run, a perfect competitor can only make normal profit due to easy access to the market.
- The economic profit will serve as a signal for others to enter the market.
- When new firms enter the market, supply will shift to the right/ increase and more quantity of goods will be produced.
- The new equilibrium point will be reached and the price will decrease and the individual competitor will be forced to reduce the price as they are the price-takers.
- The perfect competitor will now earn normal profit in the long run

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

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2.5 **Analyse the negative impact of collusion in the economy?**

- When firms collude, they hamper the competitiveness of the market thereby causing high rate of unemployment and slowing down economic growth. ✓✓
- Collusion allows for illegal practices such as price fixing which cause inflation and exacerbates unaffordability in the economy. ✓✓
- The excessive market power possessed by cartels reduces supply of goods/ services thus causing an inefficient allocation of resources. ✓✓
- The collusive behaviour like price leadership result to big firms manipulating consumers therefore pushing up general price levels. ✓✓
- It distorts economic markets and slow-down innovation therefore retarding the real GDP. ✓✓

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

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 30 MINUTES

3.1 3.1.1 **Name any TWO monetary measures that can be used to combat inflation.**

- Decrease the money supply ✓
- Increasing the repo rate ✓
- Increasing the bank's cash reserve requirement ✓

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

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

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

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

3.2 **DATA RESPONSE**

3.2.1 **Identify any ONE component that is within the inflation targeting in the graph above.**

- Apparel ✓
- Other goods and services ✓ (1 x 1) (1)

3.2.2 **What is the revised inflation targeting in South Africa?**

3%–6% ✓ (1 x 1) (1)

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

- This is a monetary policy strategy by the South African Reserve Bank aimed at keeping inflation within 3%–6% as set by the minister of finance in consultation with the South African Reserve Bank. ✓✓

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

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

- Low-income earners will not be able to satisfy their basic needs. ✓✓

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

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3.2.5 **How can price instability affect the economy negatively?**
Price instability will influence the economy negatively by:
- Increasing inflation expectations among consumers, businesses and workers. ✓✓
- Businesses not making investments in long term projects knowing that prices will be unstable. ✓✓
- Decreasing savings amongst consumers and this can encourage hoarding of goods which can create pressure on the economy. ✓✓
- By making it difficult for consumers to make informed decisions which can result in a decrease in aggregate demand and economic growth. ✓✓

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

3.3 **DATA RESPONSE**

3.3.1 **Identify any ONE measure to ensure environmental sustainability in the extract above.**
- Education ✓ (1)

3.3.2 **Name ONE environmental problem.**
- Biodiversity loss ✓
- Chemical waste ✓
- Hazardous waste ✓
- Climate change policy ✓
- Indigenous knowledge ✓

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

3.3.3 **Briefly describe the concept *global warming.***
- Global warming refers to the entrapment of heat in the atmosphere which results in climate change. ✓✓

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

3.3.4 **How does preservation positively affect the environment?**
- It protects the parts of the environment that it threatened by extinction/ it allows part of the environment to be kept intact (unused). ✓✓

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

3.3.5 **How can the government protect the environment in South Africa?**
- Government can impose environmental taxes to force consumers and producers to pay the social cost of pollution ✓✓
- Government can subsidise businesses that use of environmentally friendly technology ✓✓
- Government can educate people about the importance of the environment ✓✓
- Marketable permits can be used to allow businesses to pollute up to a certain limit ✓✓

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

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3.4 **Differentiate between the *consumer price index (CPI)* and the *producer price index (PPI)*.**

- The CPI measures the cost of living ✓ while the PPI measures the cost of production ✓
- The CPI basket consists of consumer goods and services ✓ while the PPI basket consists of goods only ✓
- In the CPI figures capital and intermediate goods are excluded ✓ while in the PPI, capital and intermediate goods are included ✓
- The CPI does not show prices of imported goods explicitly ✓ while in the PPI prices are shown explicitly ✓
- CPI includes interest rates ✓ while PPI excludes interest rates ✓

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

3.5 **How successful was the government in applying the measures agreed at the Johannesburg Summit in 2002 to ensure environmental sustainability?**

- The South African government as the host signed the Johannesburg Declaration and committed itself to address socio-economic issues such as HIV/AIDS, improved sanitation, poverty relief and a greater supply of food and water. ✓✓
- Its outcome included among others decisions on, the recognition of the rights and roles of communities in natural resources management. ✓✓
- It also included the promotion of greater corporate responsibility and accountability. ✓✓
- It also included the reaffirmation of the principle of access, the incorporation of ethics into the implementation of Agenda 21. ✓✓
- The acceptance of the need to delink economic growth from environmental degradation. ✓✓
- The launching of key initiatives and partnerships on sustainable development. ✓✓

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

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QUESTION 4: MICROECONOMICS & CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1 4.1.1 **Name any TWO barriers that prevent new businesses from entering markets.**

- Barriers to entry are created through advertising ✓
- New entrants lack the capital/capital requirements/lack of finance ✓
- Economies of scale ✓
- Limited size of the market ✓
- Exclusive ownership of raw materials/Existing businesses control the resources ✓
- Patents ✓
- Licensing/Legal requirements ✓
- Sole rights ✓
- Import restrictions ✓
- Technological superiority/Technology ✓ (2 x 1) (2)

4.1.2 **Why does inflation have a negative effect on the balance of payments?**

- Foreign countries will import less from South Africa, because of higher prices in the South African markets and this will result in decreased exports. ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Identify the market structure in the cartoon above.**

- Monopoly ✓ (1 x 1) (1)

4.2.2 **Name the type of profit made in this market in the long run.**

- Economic Profit ✓

(Accept any relevant correct and relevant response) (1 x 1) (1)

4.2.3 **Briefly describe the concept *natural monopoly*.**

- Refers to the type of monopoly caused by high developmental costs or start up capital which serve as a barrier to entry. ✓✓

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

4.2.4 **Why would a monopolist sometimes fail to achieve economic profit?**

- A monopolist may misdirect its funds in its operations causing losses. ✓✓
- Employees may conduct corrupt behaviour which increases costs over revenue earned. ✓✓
- If the price charged is too high leading to too low demand, total revenue will be lower than total cost ✓✓

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

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4.2.5 **How can a monopoly disadvantage the economy?**
A monopoly disadvantages the economy by:

- charging higher prices than in competitive markets result in consumers not able to afford it PP
- giving consumers no alternative or close substitutes to satisfy their needs which will lead to a decrease in standard of living PP
- increasing prices as the price-maker allows only a few consumers the ability to afford and buy goods and services PP
- encouraging inefficiency, a monopoly can make profit without much effort PP
- its ability to gain political power and to shape society in an undemocratic and unaccountable way PP
- being the only business in the market it will control the supply of goods and services since there is no competition. PP

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

4.3 DATA RESPONSE

4.3.1 **Identify the sector in the pictures above.**

- Primary sector ✓ (1 x 1) (1)

4.3.2 **Name any ONE renewable resource.**

- Solar energy ✓
- Wind energy ✓
- Tidal and wave energy ✓

(Accept any other correct and relevant response) ✓ (1 x 1) (1)

4.3.3 **Briefly describe the concept *deforestation*.**

- Refers to the permanent removal of trees and forests to use the land for other purpose such as mining or building. ✓✓

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

4.3.4 **Why do markets fail to ensure environmental sustainability?**

- The market see environment as a common resource to be used for its own benefits. ✓✓
- Externalities such as air pollution caused by factories cannot be stopped without policy restrictive policies. ✓✓
- Lack of knowledge, businesses damage the environment without realizing it. e.g companies making aerosol cans can (such as spray deodorants) did not know the damaging effect they had on the ozone layer. ✓✓

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

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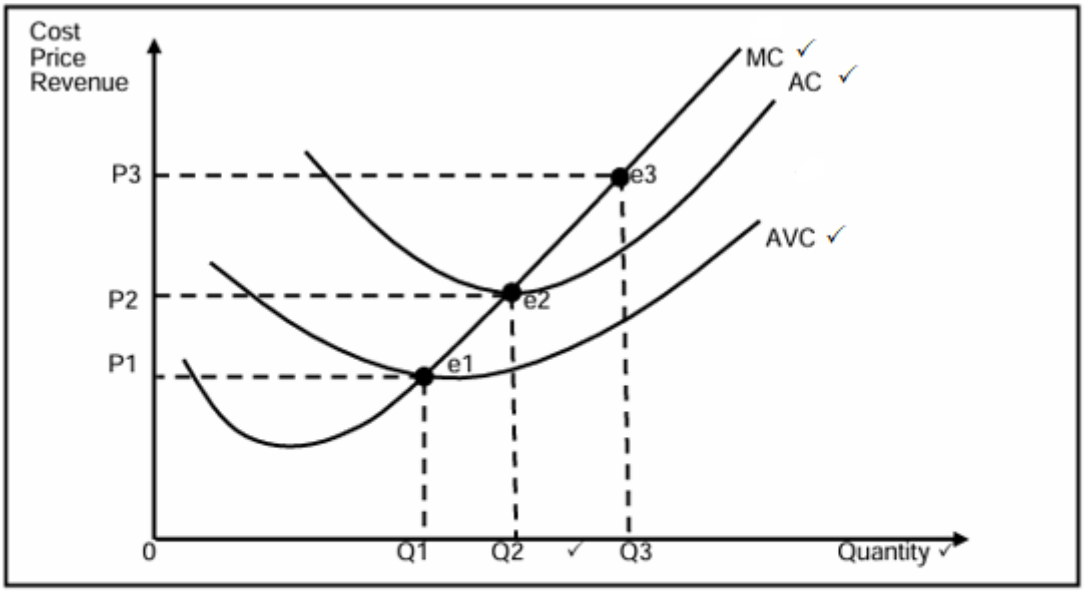
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4.3.5 **How do property rights promote environmental sustainability?**
Property rights promote environmental sustainability by:

- Ensuring that people take care of the resources that belongs to them and use them profitably. ✓✓
- Protecting fauna and flora from becoming extinct through their conservation and preservation. ✓✓
- Encouraging innovation of environmentally friendly technology and methods to limit pollution. ✓✓

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

4.4 **Use a clearly labelled diagram to explain the derivation of the supply curve of a business.**



MARK ALLOCATION	
Correct drawing of and labelling AC and AVC curves	= 1 Mark
Correct drawing and labelling of MC	= 1 Mark
Correct labelling of axis	= 1 Mark
Correct labelling on axis	= 1 Mark
	Max = 4

- An increase in demand causes the market price to shift from P1 to P2 and to P3 ✓✓
- This shift in market price means the horizontal demand curve for the business shifts upwards ✓✓
- Each higher demand curve (MR) will intersect the MC at a higher point (e.g. from e1 to e2) which will be the new equilibrium ✓✓
- The quantity supplied will also increase from Q1 to Q2 ✓✓
- Therefore the ascending part of the MC forms the supply curve from the intersection of the AVC curve at its minimum point ✓✓ Max. 4 (8)

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4.5 **Analyse the negative impact of administered prices on the economy.**

- The government has not been able to keep administered prices within the inflation the target range of between 3%–6% ✓✓
- An increase in the prices of electricity, water and municipal services threatens the manufacturing capacity causing foreign investors to withdraw their investments. ✓✓
- The government has limited control over fuel price increases which is determined by the exchange rate and international oil prices. ✓✓
- The increase in the fuel prices (above inflation target) has increased the cost of production of all goods and services. ✓✓
- The cost of the CPI basket of goods will increase further due to increased transport costs. ✓✓
- The increased transport costs will limit supply of goods, impacting negatively on the consumer through higher market prices. ✓✓
- The price of fuel in South Africa includes various levies like road accident fund which further increases the CPI. ✓✓
- The increased pressure on the CPI can lead to stagflation which is characterised by high unemployment, low growth and high inflation ✓✓

(Accept any other correct and relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/ examples) (4 x 2) (8)

[40]

TOTAL SECTION B: 80

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SECTION C

Answer ONE of the two questions from this section in the ANSWER BOOK.
Your answer will be assessed as follows.

QUESTION 5: MICROECONOMICS 40 MARKS – 40 MINUTES

- **Discuss in detail state intervention as a consequence of market failures, with the aid of relevant graphs.** (26 marks)
- **Why is an increase in the minimum wage during an economic recession not an effective state intervention?** (10 marks)

INTRODUCTION

Market failure occurs when the market forces of demand and supply fails to allocate resources efficiently. /Market failure occurs when the price mechanism fails to allocate resources efficiently, leading to a loss of social welfare. ✓✓
(Accept any other correct and relevant introduction) (Max. 2)

BODY: MAIN PART

Direct control ✓

- Government can choose to pass laws or use the existing legislative framework in an attempt to control and constrain the behaviour of businesses and industries, and individuals who generate negative externalities. ✓✓
- The emissions of potentially dangerous chemicals, air and scenic pollution, environmental preservation etc. are controlled by various laws and regulations. ✓✓
- Advertising in the tobacco industry is prohibited and alcohol may not be sold on Sundays. ✓✓
- The government can also use regulations to prohibit the production and consumption of demerit goods such as addictive drugs and child pornography. ✓✓
- The government usually also deals with the problems of imperfect information by means of regulations designed to ensure greater access to information. ✓✓
- The government can require firms to disclose information about their operations so that shareholders have better information. ✓✓
- Government also require firms to disclose information about their products – e.g. goods and pharmaceutical companies must provide details about their products on their packaging. ✓✓
- Sometimes government provides the information themselves – e.g. cigarettes carry a government health warning. ✓✓
- In other instances government require firms' products to meet certain standards – e.g. cars must satisfy certain safety standards set by the government. ✓✓
- The SABS regulates standards in South Africa – all firms must produce goods that meet with certain health, safety and quality standards. ✓✓
- Regulations for advertising exist to prevent false claims and deceptive advertising. ✓✓

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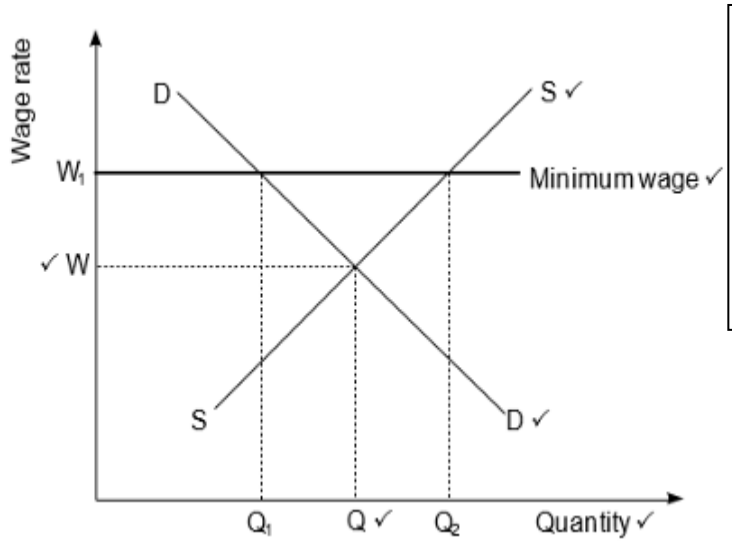
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Imperfect markets ✓

- Businesses operating in non-competitive markets maximise their profits by supplying less than the optimal quantity of the good or service at too high a price. ✓✓
- Governments have various instruments they can use to correct or limit the allocative distortions resulting from non-competitive markets. ✓
- The main instruments the South African government uses are:
  - Competition from abroad – in some instances only foreign competition has the capacity to restrain the harmful practices of local monopolies. ✓✓
  - Removal or reduction of tariffs – in some instances has rendered local markets more competitive, as in the case of agriculture. ✓✓
  - Promoting competition through introduction of Competition Policy – government established Competition Commission, Competition Tribunal and Competition Appeals Court to ensure the level of competition is enhanced. ✓✓
  - Imposing price controls (maximum prices), thus reducing the firms' economic profits and ensuring that more people are able to consume the product. ✓✓

Minimum wages ✓

- When the government enforces a minimum wage, it means workers have to be paid a certain wage amount and not anything less than this. ✓✓



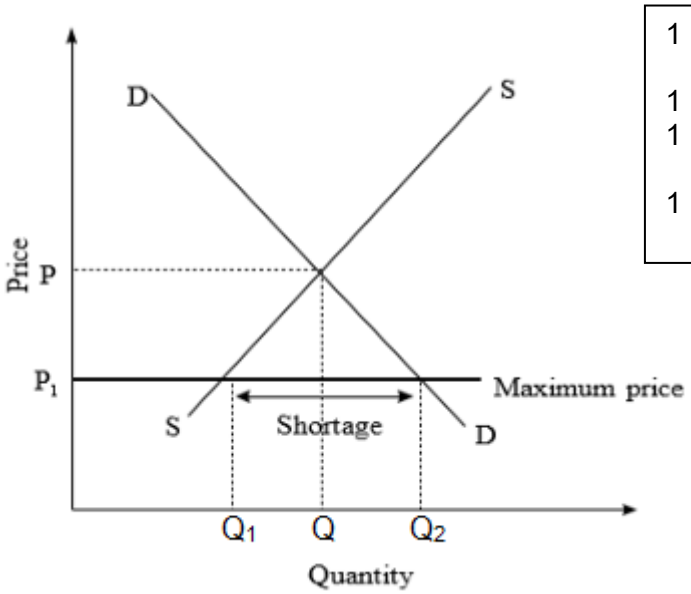
1 Mark = correct labelling of DD and SS curve
1 Mark = indication of equilibrium
1 Mark = correct indication and labelling of minimum wage
1 Mark = correct labeling of axis
Max. (4)

- The graph above shows that if the wage rate is set at W, the corresponding demand and supply of labour will be Q. ✓✓
- If a minimum wage of W1 is set, the demand for labour will decrease from Q to Q1. ✓✓
- Some people may become unemployed due to the introduction of a minimum wage. ✓✓
- However, the quantity of labour supplied will increase from Q to Q2 ✓✓
- More people will offer their labour because of the higher wage. ✓✓ (Max. 13)

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Setting maximum prices/price ceilings. ✓

- The government sets a maximum price ceiling below the market price to make goods more affordable. ✓✓
- Maximum prices allow the poor greater access to certain goods and services. ✓✓
- A maximum price is set on goods such as basic foods, housing and transport. ✓✓
- In South Africa the price of petrol, diesel fuel and paraffin are controlled at their maximum prices. ✓✓



1 Mark = correct labelling of DD and SS curve
1 Mark = indication of equilibrium
1 Mark = correct indication and labelling of mximum price
1 Mark= correct labeling of axis
Max. (4)

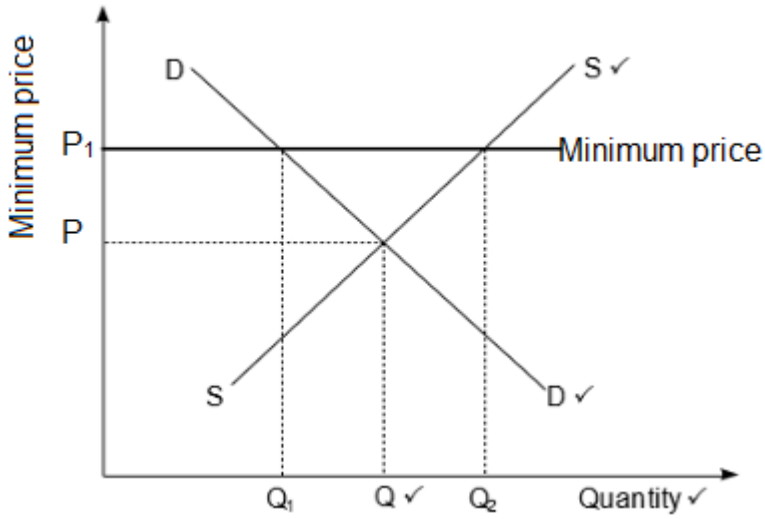
- Initially the market equilibrium price is P and equilibrium quantity is Q. ✓✓
- The government intervenes and passes a law that a product cannot be sold for more than P1. ✓✓
- The effect of this maximum price is that quantity supplied decreases to Q1 and quantity demanded increases to Q2. ✓✓
- There is a shortage equal to the difference between Q1 and Q2. ✓✓
- A shortage creates a problem of how to allocate the product to consumers. ✓✓
- Black markets often develop where people can obtain the product. A black market is an illegal market in which either illegal goods are bought and sold or illegal prices are charged. ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓✓ (Max. 13)

Minimum Prices ✓

- It is known as minimum price or price floor when the government sets a minimum legal limit of a price of a particular good or service. ✓✓
- For this to have an effect on market, the price floor must be placed above the natural market price. ✓✓
- This normally leads to a surplus – the quantity supplied will be greater than the quantity demanded. ✓✓
- Price floors are set by the government for certain commodities and services that it believes are being sold in an unfair market with too low of a price and thus their producers deserve some assistance. ✓✓
- This is done to enable producers to make a comfortable profit and thus encourages them to supply important essential goods. ✓✓

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1 Mark = correct labelling of DD and SS curve
1 Mark = indication of equilibrium
1 Mark = correct indication and labelling of minimum price
1 Mark= correct labeling of axis
Max. (4)

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- Initially the market equilibrium price is P and equilibrium quantity is Q. ✓✓
- The government intervenes and passes a law that a product cannot be sold below P1. ✓✓
- The effect of this minimum price is that quantity supplied increases to Q2 and quantity demanded decreases to Q1. ✓✓
- There is a surplus equal to the difference between Q1 and Q2. ✓✓

1

Taxes and subsidies ✓

Levying of taxes

- The appropriate way for government to intervene in the markets is by levying a tax as a method to recover the external cost. ✓✓
- It does this because society feels that demerit goods are over-produced and overconsumed. ✓✓
- The effect of the tax is to raise the cost of production of the firm, which will cause the supply curve to shift to the left (decrease). ✓✓
- A tax would raise the price and production would decrease. Less demerit goods are now produced and consumed. ✓✓
- Sin taxes or excise duties are levied on demerit goods such as cigarettes and alcohol. ✓✓

Subsidies on goods

- A subsidy is normally in the form of a financial grant to support the production of goods. ✓✓
- It can be direct (such as cash grants and interest-free loans) or indirect (depreciation write-offs, rent rebates and meeting expenses on behalf of producers). ✓✓
- They can be used for a variety of purposes, including production, income, employment and exports. ✓✓
- Provision of merit goods by the private sector is one such purpose – in the case of education the government normally pay a subsidy to promote such education. ✓✓

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Redistribution of income and wealth ✓

- The market system is neutral with regard to redistribution of income and wealth and government is forced to use combinations of taxes, transfer payments and subsidies to create a redistribution effect. ✓✓
- Two methods can be used such as the traditional methods:
- Usually a progressive system of taxation is used – the more people earn, the more tax they pay. ✓✓
- The government uses this tax money to subsidise goods and services to the poor; ✓✓
- Transferring income directly to the poor households (pensions, child support grants, disability grants); ✓✓
- Providing certain goods and services free of charge, Job-creation programmes etc. ✓✓
- The government also uses tax money to finance the provision of merit goods. ✓✓

Government's production involvement ✓

- Governments are involved in producing goods and services themselves. Public goods ✓
    - Government's approach to incomplete markets is to intervene and supply the desired goods directly. ✓✓
    - Direct tax, indirect taxes and wealth taxes are used to pay for these goods and services. ✓✓
    - Community goods are provided free of charge (defence, police and correctional services and street lightning. ✓✓
    - Some collective goods are provided for a user fee, such as refuse removal, waste disposal and sewerage drainage. ✓✓
    - The provision of some other collective goods is subsidised, for example clean water and electricity. ✓✓
    - The government can also provide merit goods directly, for example healthcare and education ✓✓

(Max 8 marks for mere listing of facts)

ADDITIONAL PART

Why is an increase in the minimum wage during an economic recession not an effective state intervention?

- Firms face higher labor expenses, which is difficult during periods of low sales. ✓✓
- Businesses may lay off workers or reduce hiring to cut costs. ✓✓
- All the workers who the lost employment due to the increased minimum wage will endure hardship of no income. ✓✓
- The negative effects the unemployment caused by the minimum wage will be much more than the benefit to of higher wages for some of the employed workers. ✓✓
- Wage increases may not boost overall demand if unemployment rises. ✓✓
- Firms may raise prices to cover higher wages, further reducing consumption. ✓✓
- Government can use fiscal stimulus, business support, or direct cash transfers instead. ✓✓

(Accept any other correct and relevant response) (Max.10)
(Max 2 marks for mere listing of facts)

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CONCLUSION

State intervention plays an important role in correcting market failures by regulating markets, redistributing income and ensuring the provision of essential goods and services, however, government policies must be carefully designed to avoid inefficiencies and unintended consequences. ✓✓
(Accept any other correct and relevant high-order conclusion) (Max. 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 40 MINUTES

- **Examine in detail the benefits of tourism.** (26 marks)
- **How does tourism benefit the South African economy?** (10 marks)

INTRODUCTION

Tourism refers to activities of people travelling to and staying in places outside their usual environment for not more than one consecutive year and for different reasons.
(Max. 2)

BODY: MAIN PART

Households ✓

- Households may benefit from an increase in income and opportunities for employment and entrepreneurship. ✓✓
- Individuals receive training through programmes established to promote tourism. ✓✓
- Households are indirectly involved in tourism as employees in hotel industry, financial institutions etc. ✓✓
- They benefit from improved infrastructure created for tourists though local people can use. ✓✓
- They acquire skills that are required by the tourism industry. ✓✓
- Income earned is spent in their communities and they can contribute to the local economy. ✓✓
- Entrepreneurs from households operate as tour guides. ✓✓

(Accept any other correct relevant response)

Businesses ✓

- Formal sector activities are promoted through tourism. ✓✓
- e.g. companies are tasked with building infrastructure such as hotels or roads. ✓✓
- Tourism benefits local businesses and companies through an increase in expenditure on the goods and services offered by local businesses. ✓✓
- The informal sector benefits because of trading in traditional products such as crafts and arts. ✓✓
- Banks employ more tellers, and this leads to higher employment. ✓✓
- The business environment is stimulated in rural and urban areas promoting entrepreneurial opportunities and assisting with BEE. ✓✓
- Tourist destinations are developed through the public and private partnerships (PPPs). ✓✓

(Accept any other correct relevant response)

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Government ✓
- Government benefits because of income it receives from tourists. ✓✓
- Tourism enables the government to advertise a country tourism potential. ✓✓
- Direct and indirect contributions to the government revenue is made through levies on tourists. ✓✓
- These are made for two purposes:
  - To recover external costs – this assists the host community for providing infrastructure. ✓✓
  - To raise revenue – with the growth of tourism many countries levy tourist tax which are used as a source of revenue. ✓✓
- Income earned can be used to promote tourism in the country. ✓✓
- Through this the government is enabled to achieve its socio-economic objectives, informal sector growth, BEE and SMME development. ✓✓

(Accept any other correct relevant response)

Infrastructure development ✓
- For any country to be regarded as a tourist destination, physical infrastructure has to be adequate and well maintained. ✓✓
- The needs of a large number of tourists in any country for accommodation and infrastructure leads to the construction of hotels and improvement in the existing infrastructure. ✓✓
- Together with the private sector the government has to develop and upgrade infrastructure to meet the demands and expectations of tourists. ✓✓
- Locals and tourists benefit from the infrastructure. ✓✓
- Tourists require social infrastructure e.g. clinics and ambulances. ✓✓

(Accept any other correct relevant response)

ADDITIONAL PART
How does tourism benefit the south African economy?
- Tourism creates direct and indirect employment in sectors such as accommodation, transport, restaurants and tour operations. ✓✓
- International tourists bring foreign currency into the country, improving the balance of payments. ✓✓
- Tourism stimulates demand for goods and services, contributing to GDP growth. ✓✓
- Government improves roads, airports and public facilities to accommodate tourists, which also benefits local communities. ✓✓
- Tourism promotes development in rural and underdeveloped areas through attractions such as nature reserves and cultural heritage sites. ✓✓
- encourages the growth of small, medium and micro enterprises (SMMEs) such as craft markets, tour guiding services and local restaurants, which promotes entrepreneurship. ✓✓
- Tourism promotes the preservation of cultural heritage, traditions and historical sites while encouraging interaction between local communities and international visitors.

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

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CONCLUSION

Marketing of tourism products to both domestic and international markets is important for achieving the full growth potential of the sector in South Africa. ✓✓ (Max. 2) (2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

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