LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

VHEMBE EAST DISTRICT

NATIONAL

SENIOR CERTIFICATE

GRADE 12

ECONOMICS
PRACTICE EXAMINATION
PAPER 1
MARKING GUIDELINES
JUNE 2024

MARKS: 150
TIME: 2 Hours

SECTION A (COMPULSORY)

QUESTION 1

1.1 **MULTIPLE-CHOICE QUESTIONS**

1.1.1 B ✓✓ I + G + X > S + T + M

1.1.2 A ✓✓ Double counting

1.1.3 B ✓✓ Free floating

1.1.4 D ✓✓ Improving the efficiency of markets

1.1.5 C ✓✓ Auditor-general

1.1.6 A ✓✓ collective

1.1.7 C ✓✓ undervalued

1.1.8 D ✓✓ downswing – trough – upswing – peak (8 x 2) (16)

1.2 **MATCHING ITEMS**

1.2.1 D ✓ levied according to the amount earned

1.2.2 I ✓ A summary of a country's the economic activity of production, income and expenditure

1.2.3 G ✓ difference in the value of total output between a peak and a trough

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

1.2.5 C ✓ Shows the government's projected income and expenditure for three years

1.2.6 H ✓ An international reserve asset created by the IMF to supplement the official reserves of its member countries

1.2.7 E ✓ International guidelines for developing and reporting

statistics comparable across countries

1.2.8 F ✓ Studies the behaviour and performance of an economy as a whole (8 x 1) (8)

1.3 **GIVE ONE TERM**

1.3.1 Multiplier ✓

1.3.2 Trendline ✓

1.3.3 Cash reserve requirement ✓

1.3.4 Devaluation ✓

1.3.5 Laffer curve ✓

1.3.6 Fiscal policy ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 2.1.1 **Name TWO turning points of a business cycle.**

- Peak ✓
- Trough ✓ (2 x 1) (2)

2.1.2 **How can a larger marginal propensity to save (mps) affect the size of the multiplier?**

It reduces the size of the multiplier as less is available to spend. ✓✓
(Accept any other correct relevant responses.) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **What method of calculation is used in the table above to determine the gross domestic product?**

Income method ✓/GDP (1)

2.2.2 **Name the missing item labelled (A).**

Gross value added at basic prices/GVA at basic prices. ✓ (1)

2.2.3 **Briefly describe the term *subsidies on production*.**

Subsidies on production refer to subsidies that are not linked to specific goods or services, e.g. subsidy made on employment. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **How would you convert GDP to GNP?**

By adding primary income from the rest of the world ✓ and subtracting primary income to the rest of the world ✓ / GDP + primary income from the rest of the world – primary income to the rest of the world. ✓✓ (2)

2.2.5 **Calculate the value of GDP at market prices for 2021 (B). Show all calculations.**

5 572 608 + 633 854 ✓ – 13 965 ✓ = 6 192 497 ✓✓ (4)

2.3 **DATA RESPONSE**

2.3.1 **Name the parastatal referred to in the above information.**

Eskom ✓ (1)

2.3.2 **Who is indirectly responsible for bailing out state-owned enterprises in South Africa?**

The taxpayer ✓ (1)

2.3.3 **Briefly describe the concept *privatisation.***

When the government transfer the functions, activities and ownership from the government to the private sector. ✓✓
(Accept any other correct relevant answer.) (2)

2.3.4 **Explain inefficiencies as a feature of public sector failure.**

- Inefficiencies lead to wasting of state funds and resources. ✓✓
(Accept any other correct relevant answer.) (Any 2 x 1) (2)

2.3.5 **How could state-owned enterprises contribute towards expanding the economy?**

- Creating more job opportunities and appointing competent management. ✓✓
- Offering skills development programmes to improve productivity of existing workers. ✓✓
- Maintaining or servicing their machinery and equipment regularly to ensure quality service delivery. ✓✓
- Dealing with corruption to reduce wastage of public funds. ✓✓
(Accept any other correct relevant response.) (Any 2 x 2) (4)

2.4 **Briefly discuss leading and co-incident indicators as features underpinning forecasting.**

<u>Leading economic indicators</u>:

- These are indicators that change before the economy changes/coincide with the reference turning point. ✓✓
- They give consumers, businesses and policy makers a glimpse of where the economy is headed. ✓✓
- They reach the peak before the economy reaches the peak. ✓✓

- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators show prosperity, the level of economic activities will also rise in a few months' time ✓✓
- e.g. number of new vehicles sold, real exports of goods, etc. ✓

(Max. 2 x 2)

Coincident economic indicators:

- They move at the same time as the economy. If the turning point of a specific time series variable coincide with the reference turning point. ✓✓
- It indicates the current state of the economy ✓✓ e.g. retail sales. ✓
- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at the same time. ✓

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

(4 + 4) (8)

2.5 **How can South Africa reduce imports in order to correct the Balance of Payment (BOP) deficit?**

South Africa can reduce imports in order to correct the Balance of Payment (BOP) deficit by:

- increasing interest rate to discourage domestic expenditure including imported goods and services ✓✓
- increasing indirect taxes such as personal income tax to reduce household's disposable income and discourage their expenditure on imports ✓✓
- imposing import tariffs and duties to make imported goods and services more expensive and reduce domestic expenditure on them ✓✓
- reducing the availability of foreign exchange to discourage domestic expenditure on imports ✓✓
- implementing strict customs procedures to delay the process of purchasing imports ✓✓
- encouraging domestic production of imports such that consumers will purchase them on local markets. ✓✓
- increasing aggregate supply of goods and services to avoid shortages on local markets ✓✓
- devaluing the rand to make imports relatively more expensive ✓✓

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

[40] QUESTION 3: MACRO ECONOMICS

3.1 3.1.1 **Name any TWO problems of public sector provisioning.**

- Accountability ✓
- Efficiency ✓

- Assessing needs ✓
- Pricing policy ✓
- Parastatals ✓
- Privatisation/Nationalisation ✓ (Any 2 x 1) (2)

3.1.2 **What is the significance of a surplus on the current account of the balance of payment?**

- The value of the rand will increase due to the net flow of foreign exchange ✓✓
- Public debt to cover BOP problems will be reduced / less borrowing ✓✓
- Foreign reserves may increase thereby improving the financial position of the country ✓✓

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

3.2 **DATA RESPONSE**

3.2.1 **Give the economic concept illustrated in the table above.**

Balance of payments/BOP ✓ (1)

3.2.2 **Which current account item is used for recording donations?**

Current transfers ✓ (1)

3.2.3 **Briefly describe the term *trade balance*.**

It is the difference between merchandise exports plus net gold export and the merchandise imports. ✓✓
(Accept any other relevant and correct response.) (2)

3.2.4 **Why are net gold export figures positive in South Africa?**

This is because South Africa is the world's largest exporter of gold, and therefore a net exporter. ✓✓ (2)

3.2.5 **Calculate the balance on the current account for the second quarter of 2019. Show ALL calculations.**

Current account balance = (inflows) – (outflows) + (current transfers) = (1 233 + 50 + 213 + 106) ✓— (1 314 + 229 + 230) ✓ + (-35)
= 1 602 – 1773 – 35
= - 206 ✓✓ (4)

3.3 **DATA RESPONSE**

3.3.1 **Provide a name for the graph given above.**

Phillips Curve ✓ (1)

3.3.2 **What is the original natural rate of unemployment in the graph above?**

14% ✓ (1)

3.3.3 **Briefly describe the term *new economic paradigm.***

The new economic paradigm refers to government policies designed to ensure a high rate of economic growth without having supply constraints and price inflation. ✓✓
(Accept any other correct relevant response.) (2)

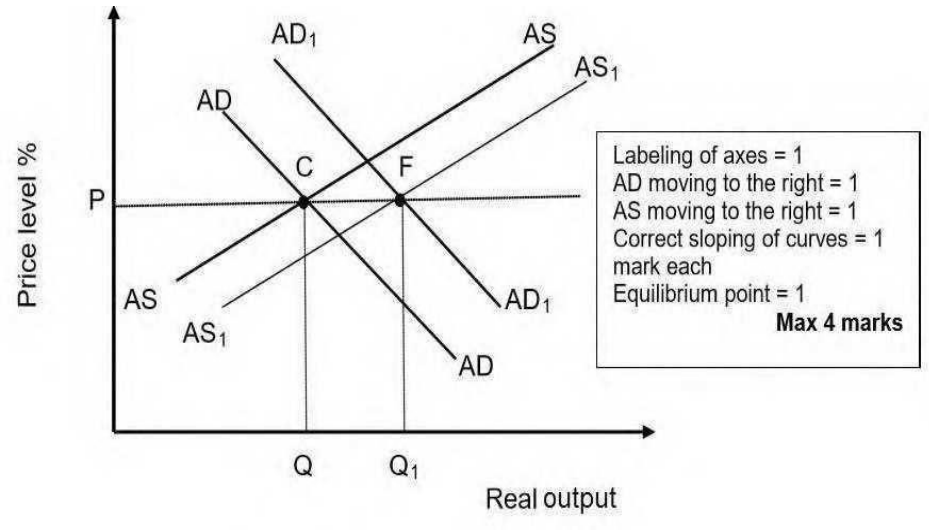
3.3.4 **Explain how the government can use its fiscal policy to speed up the recovery of an economy.**

Government can speed up the recovery of the economy by: • reducing taxes which will give consumers and companies more money to spend on goods and services and for companies to expand their production capacity. ✓✓

- increasing government spending which will increase aggregate expenditure and demand, thus stimulate economic activity and employment✓✓
- increasing government spending and simultaneously decreasing taxes. ✓✓

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

3.3.5 **With the aid of a graph, illustrate the effect of demand-side and supply side policies in smoothing out business cycles.**



(4)

3.4 **Explain the effect of an increase in mass production on international trade.**

Effect of the increase of mass production on international trade:

- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign markets ✓✓
- An increase in exports will lead to an inflow of foreign exchange which will push the supply curve to the right ✓✓
- This will lead to an appreciation in the value of the rand ✓✓
- Create more employment that will lead to an increased demand for foreign goods that might facilitate international trade ✓✓ and lead to an access to a greater variety of goods and services ✓✓
- Most manufactured products require large-scale production in order to be affordable and profitable ✓✓

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

3.5 **How can a recession negatively affect the different economic participants?**

- The tax base for the government may shrink as some businesses may shut down their operation and workers lose jobs ✓✓
- Social expenditure by the government may increase as poverty and unemployment levels increase during the recession✓✓
- State debt may increase as the government tries to raise funds for some of its critical expenditure ✓✓
- Households may lose their jobs and fail to find new employment as production of goods and services decrease ✓✓

- Businesses may experience low demand for goods and services as consumers postpone soe of their expenditures ✓✓
- Business confidence may decrease thereby discouraging them from investing in the economy ✓✓
- Businesses may generate less revenue resulting in less profits ✓✓
- The foreign sector will have less supply of South African exports as domestic production decreases. ✓✓

(Accept any other correct relevant responses.) (8) **QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**

4.1 4.1.1 **Name any TWO instruments of a monetary policy.**

- Interest rates ✓
- Cash reserve requirements ✓
- Open market transactions ✓
- Moral suasion ✓
- Exchange rate policy ✓ (Any 2 x 1) (2)

4.1.2 **How can ineffectiveness result in public sector failure?**

It can result in public sector failure when:

- Targets that are missed with regard to inflation, growth and employment ✓✓
- There is incompetency in using monetary and fiscal policy and harmonising them ✓✓
- There is failure to supplement existing policies with suitable effective ones ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Name the period of business cycle during which the level of economic activities increases.**

Upswing/expansion ✓ (1)

4.2.2 **Mention ONE type of a business cycle.**

- Kitchin cycle ✓
- Kondratief
- Jugler cycle
- Kuznets (Any 1 x 1) (1)

4.2.3 **Briefly describe the concept *business cycle.***

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

4.2.4 **How can natural disasters influence fluctuations in business cycles?**

Bad weather can influence fluctuations by:

- Reducing the productivity of the agricultural sectors hence causing a downturn in the economy. ✓✓
- Causing contractions in business cycles because of a decline in the supply of agricultural product. ✓✓
- Decreasing raw material used to produce other goods thus causing a retarded growth in the level of economic activities. ✓✓

(Accept any relevant correct response.) (2)

4.2.5 **How has the Keynesian (endogenous) school of thought influenced business cycles?**

- The Keynesian (endogenous) view is that markets are inherently unstable, therefore government intervention is necessary to stabilise the economy ✓✓
- They argue that changes in value of total expenditure bring about changes in demand ✓✓
- Government can intervene through fiscal policy which includes taxes and government spending ✓✓
- During a recession, government can increase its spending and reduce taxes. (stimulate) ✓✓
- This will increase the level of economic activity e.g. production, employment, income and demand ✓✓
- During a peak the government can increase taxes and reduce government spending ✓✓
- This will result in reduced income, reduced demand for factors of production, and expenditure ✓✓

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

4.3 **DATA RESPONSE**

4.3.1 **Identify the institution responsible for publishing the data above.**

Statistics South Africa/Stats SA ✓ (1)

4.3.2 **What is the trend in the index of import prices?**

- A decrease/decline ✓ (1)

4.3.3 **Briefly describe the concept *terms of trade.***

The ratio of the index of export prices to the index import prices / The relationship between export prices and import prices / It expresses a country's export prices in terms of its import prices ✓✓
(Accept any correct relevant response.) (2)

4.3.4 **What can bring an improvement in the country's terms of trade?**
An increase in export prices ✓✓/ A decrease in import prices. ✓✓ (2)

4.3.5 **Calculate the terms of trade for March 2022 (A). Show ALL calculations.**

Terms of trade = index of export prices/index of import prices x 100
= 109,7 ✓/107,7 ✓ x 100 ✓
= 101,8 ✓ (4)

4.4 **Briefly discuss absolute and comparative advantage as reasons for international trade.**

Absolute advantage:
- Absolute advantage means the country can produce that good or service better than anyone else / at the lowest costs. ✓✓
- A country with an absolute advantage makes economic gains by specialising in what it does best. ✓✓
- A basis for trade exists since it makes sense for this country to specialise in the production of this good and then trade it for goods that other countries have an absolute advantage in. ✓✓
- Each country specialises in producing what they do best and imports those products that they can buy more cheaply from foreign countries than from local producers. ✓✓
- Even if the country has absolute advantage in the production of everything, it does not necessarily have to produce everything and be self-sufficient because of the principle of comparative advantage. ✓✓

Comparative advantage:
- The principle of comparative advantage states that under certain conditions, two countries can gain from trade if one of them is more efficient than the other in producing everything. ✓✓

- Comparative advantage introduces opportunity cost as a factor for analysis in choosing between different options for production diversification. ✓✓ Comparative advantage state that there will be advantages to all parties in trading if countries specialise in producing goods in which they have a comparative advantage (the lowest opportunity cost). ✓✓
- A country has a comparative advantage in the production of a good or service that it produces at a lower opportunity cost than its trading partners. ✓✓
- Countries increase their economic prosperity by exporting the goods that they are relatively more efficient at producing and importing the goods that other countries are relatively more efficient at producing. ✓✓ (8)

4.5 **Why is price stability important to prevent extreme fluctuations in business cycles?**

Price stability is important in preventing extreme fluctuations in business cycles because it:

- contributes to high levels of economic activity and employment ✓✓
- improves the transparency of the price mechanism so that people can recognise changes in relative prices without being confused by changes in the overall price ✓✓
- allows people to make well-informed consumption decisions ✓✓
- encourages foreign investment to promote growth ✓✓
- helps to allocate resources more efficiently ✓✓
- avoids unproductive activities that are sometimes used to protect one against the impact of high inflation ✓✓
- avoids the risk of deflation which makes it more difficult implement policies guarding against it ✓✓
- implements inflation targeting, by reducing distortion of inflation or deflation which exacerbate the distortionary impact on the economic behaviour of tax and social security ✓✓
- prevents an arbitrary redistribution of wealth and income as a result of unexpected fluctuations ✓✓
- keeps interest rates unchanged to ensure continued growth in the economy without big fluctuations ✓✓
- adapts the cash reserve requirements which will compel banks to limit credit/money in circulation ✓✓

(Accept any correct relevant response.) (8)

[40]

TOTAL SECTION B: 80

SECTION C

QUESTION 5: MACROECONOMICS

- **Discuss in detail the markets within the four-sector model. (26 marks)**
- **How can the business sector contribute more positively to the economy? (14 marks)**

INTRODUCTION

- Markets coordinate economic activities and determine prices for goods and services ✓✓
- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓

(Accept any other relevant introduction.) (2)

MAIN PART

<u>Goods/Product/Output markets</u> ✓

- These are markets for consumer goods and services ✓✓
- In economics a distinction is made between goods and services:
- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
- Buying and selling of goods that are produced in markets, include:
  - Capital goods market for trading of buildings and machinery ✓✓
  - Consumer goods market for trading of durable consumer goods, semidurable consumer goods and non-durable consumer goods ✓✓
- Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets ✓✓
- Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditures and taxes on the product market

<u>Factors/Resources/Input markets</u> ✓

- Factors of production are bought and sold in the factor market ✓✓
- The factor market includes the labour, property and financial markets ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

<u>Financial markets</u> ✓

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓

- Banks, insurance companies and pension funds form part of the financial market ✓✓

Money markets ✓
- In the money market, short-term loans and very short-term funds (less than 3 years) are saved and borrowed by consumers and business enterprises ✓✓
- Products sold in this market are bank debentures, treasury bills and government bonds ✓✓
- The SARB is the key institution in the money market ✓✓

Capital markets ✓
- In the capital market long-term funds (3 years or longer) are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

Foreign exchange markets ✓
- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The SA rand is traded freely in these markets when a person buys travellers' cheques to travel abroad ✓✓
- Imports and exports are real flows and they are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓
- (Accept any other correct relevant response) (Max. 26)

(26)

ADDITIONAL PART

How can the business sector contribute more positively to the economy?

The business sector can contribute more positively by:
- investing more in labour intensive projects with the focus on in service-training and skills development of workers ✓✓
- re-investing their profits in gross capital formation programmes ✓✓equipment, tools, transportation assets and electricity ✓
- expanding their business operations and investing in the latest technology to ensure an upliftment of the quality of factors of production needed for production ✓✓
- diversifying their business operations by bringing in a differentiated product offering within or outside the range they produce ✓✓
- supporting South African businesses in terms of procuring raw materials and increase the market share for South African produced goods and services locally and abroad ✓✓
- ensuring the existence of sound business principles towards a long-term involvement in the economy leading to a positive economic growth rate ✓✓

- using loans to invest in capital goods like machinery, to ensure mass production at a lower cost thus improving their competitiveness ✓✓

(Accept any other correct higher order response) (Max. 10)
(10)

Conclusion

Markets are critically important institutions in our economic system, because they regulate the market, to safeguard price stability and general business confidence ✓✓

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

[40] QUESTION 6: MACRO ECONOMICS

- **Discuss in detail the main objectives of the public sector in the economy. (26 marks)**
- **How effective is the South African government in achieving full employment? (10 marks)**

INTRODUCTION

The government provides goods and services that are under supplied by the market and therefore plays a major role in regulating economic activity and guiding and shaping the economy. ✓✓

(Accept any correct relevant introduction.) (2)

MAIN PART

Economic growth ✓

- Refer to an increase in the production of goods and services ✓✓
- Measured in terms of Real GDP ✓✓
- For economic growth to occur, the economic growth rate must be higher than population growth ✓✓
- Growth and development in a country benefit its citizens because it often leads to a higher standard of living ✓✓
- Formula used:

$$\text{Real GDP} = \frac{\text{Real GDP current year} - \text{Real GDP previous year}}{\text{Real GDP previous year}} \times 100$$ ✓✓

Full employment ✓

- It is when all the people who want to work, who are looking for a job must be able to get a job ✓✓
- High levels of employment is the most important economic objective of the government ✓✓
- The unemployment rate increased over the past few years ✓✓
- Disabled persons have disadvantaged status in South Africa ✓✓
- Informal sector activities must be promoted because it is an area where employment increase ✓✓
- For employment to increase, production needs to increase ✓✓
- Formula:

$$\text{Employment rate} = \frac{\text{number of employed persons} \times 100}{\text{Total EAP}}$$ ✓✓

Exchange rate stability ✓

- The economy must be managed effectively and effective fiscal and monetary policy must be used to keep the exchange rate relatively stable ✓✓
- Depreciation and appreciation of the currency create uncertainties for producers and traders and should be limited ✓✓
- The SARB changed the exchange rate system from a managed floating to a free floating exchange rate system ✓✓

Price stability ✓

- Stable prices cause better results in terms of job creation and economic growth ✓✓
- The SARB inflation target is 3–6% ✓✓
- Interest rates, based on the repo rate are the main instruments used in the stabilisation policy ✓✓
- The stable budget deficit also has a stabilising effect on the inflation rate ✓✓

Economic equity / Economic fairness ✓

- Redistribution of income and wealth is essential ✓✓
- South Africa uses a progressive income tax system
- taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services ✓✓
- Free social services are basic education; primary health and to finance basic economic services ✓✓
- E.g. cash grants to the poor, e.g. child grants and cash grants to vulnerable people, e.g. disability grants ✓✓
- Progressive taxation means that the higher income earners pay higher/more taxation ✓✓

Balance of Payments equilibrium ✓

- The surplus or deficit on the trade balance should be minimised by limiting imports and promoting exports ✓✓
- It can be done by a foreign trade policy which focuses on export promotion, import substitution and protection ✓✓
- Domestic industries, with special focus on the secondary sector, must also be developed ✓✓ (Max. 26 marks) (26)

ADDITIONAL PART

- Unemployment has exceeded 30% and it is likely to escalate. ✓✓
- Employment opportunities are enjoyed by people who are neither skilful nor suitable for the job. ✓✓
- The GEAR strategy has not really been showing the intended results in terms of employment. ✓✓
- EPWP is creating jobs that are not sustainable and are unproductive. ✓✓
- Government initiatives in providing skills to its people is not equal to the demand for labour. ✓✓
- It is argued that a greater percentage of the country's budget goes to compensation, and very little is left for job creation. ✓✓

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

CONCLUSION

While some successes have been achieved by government, the fulfilling of some of the objectives are compromised by factors like a lack of accountability, corruption, budgeting, nepotism and incompetence. ✓✓

(Accept any other relevant higher order conclusion.) (Max. 2) (2)

TOTAL SECTION C: 40

GRAND TOTAL: 150