



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2014**

**MARKS: 150**

**TIME: 1½ hours**

**This question paper consists of 12 pages.**

**INSTRUCTIONS AND INFORMATION**

1. Answer FOUR questions as follows in the ANSWER BOOK:  
  
SECTION A: COMPULSORY  
SECTION B: Answer TWO of the three questions.  
SECTION C: Answer ONE of the two questions.
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

**SECTION A (COMPULSORY)****QUESTION 1****30 MARKS – 15 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–C) next to the question number (1.1.1–1.1.8) in the ANSWER BOOK, for example 1.1.9 B.
- 1.1.1 The flow of money from the financial sector into the economy is called a/an ...
- A injection.
  - B expense.
  - C leakage.
- 1.1.2 The transfer of ownership from the public to the private sector is known as ...
- A decentralisation.
  - B nationalisation.
  - C privatisation.
- 1.1.3 Government income and expenditure estimates for a three-year period are reflected in the ...
- A provincial budget.
  - B main budget.
  - C medium-term expenditure framework (MTEF).
- 1.1.4 A definite course of action which is adopted by a group or organisation in an effort to promote best practice is known as ...
- A policy.
  - B strategy.
  - C initiative.
- 1.1.5 When the state uses tariffs to discourage imports it is called ...
- A export promotion.
  - B protectionism.
  - C monetary policy.
- 1.1.6 Geographical areas that have a wider industrial development objective and which can be located anywhere to promote cluster development are called ...
- A corridors.
  - B Special Economic Zones (SEZs).
  - C manufacturing zones.

1.1.7 Aggregate supply can be stimulated through a government policy of ...

- A reducing production costs.
- B limiting the efficiency of inputs.
- C lowering the productivity of factors of production.

1.1.8 The institution that monitors empowerment and transformation through a code of good practice is known as the ...

- A South African Reserve Bank.
- B Industrial Development Corporation.
- C Department of Trade and Industry.

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Real flows	A	provided by the state and used by all members of society
1.2.2	Recession	B	measures changes in prices of goods and services
1.2.3	Public goods	C	it strengthens institutional capacity and facilitates development
1.2.4	Terms of trade	D	the flow of goods and services
1.2.5	World Bank	E	promotes development in the Southern African region
1.2.6	Integrated manufacturing strategy	F	the international institution that promotes economic recovery and development
1.2.7	Development Bank of Southern Africa	G	a negative economic growth for at least two consecutive quarters
1.2.8	Consumer price index	H	the flow of income and expenditure
		I	the ratio between export prices and import prices

(8 x 1) (8)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6) in the ANSWER BOOK.
- 1.3.1 An economy that includes the foreign sector
- 1.3.2 The short-term and very short-term market for savings and loans
- 1.3.3 A curve that shows the relationship between tax rates and taxable income
- 1.3.4 The worldwide interaction of economies, with trade as a key element
- 1.3.5 The rate at which banks borrow money from the Reserve Bank
- 1.3.6 The removal of unnecessary regulations that inhibit the free operation of markets (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****40 MARKS – 20 MINUTES**

2.1 Answer the following questions.


2.1.1 State TWO methods that are used to calculate national income aggregates. (2 x 1) (2)

2.1.2 How will the contraction phase of a business cycle influence the economy through interest rates? (1 x 2) (2)

2.2 Study the information below and answer the questions that follow.

**ECONOMIC INDICATORS**

Economic indicators are statistics used to measure some aspect of the economy which helps to forecast business cycles, for example unemployment rates, retail sales and job advertising space. Besides economic indicators the length and amplitude of a business cycle are other factors that underpin the forecasting of business cycles. The Reserve Bank also compiles composite indicators to reflect the performance of the economy.



[Adapted from the Internet 2013]

2.2.1 Identify a leading economic indicator from the above data. (2)

2.2.2 Define the term *composite indicator*. (2)

2.2.3 What does the amplitude of a business cycle demonstrate? (2)

2.2.4 Explain the length of a business cycle as a feature that underpins forecasting. (4)

2.3 Study the table below and answer the questions that follow.

<b>EXTRACT FROM THE BALANCE OF PAYMENTS</b>	
	<b>R MILLION</b>
<b>CAPITAL TRANSFER ACCOUNT</b>	<b>+241</b>
<b>FINANCIAL ACCOUNT</b>	
Net direct investments.....	12 900
Net portfolio investments.....	54 477
Other investments.....	107 688
<b>Balance on financial account.....</b>	<b>175 065</b>
<b>Unrecorded transactions.....</b>	<b>-1 801</b>
<b>CHANGES IN NET GOLD AND OTHER FOREIGN RESERVES .....</b>	<b>?</b>

[Source: SARB Quarterly Bulletin, December 2013]

- 2.3.1 Which item captures a South African business that purchases property in the United States of America? (1)
- 2.3.2 Define the term *balance of payments*. (2)
- 2.3.3 What is the purpose of the item 'Unrecorded transactions'? (2)
- 2.3.4 If the balance on the current account was –R164 548, calculate the value for 'Changes in Net Gold and other Foreign Reserves'. Show ALL calculations. (5)
- 2.4 Compare a *free floating exchange rate system* with a *managed floating exchange rate system*. (2 x 4) (8)
- 2.5 Discuss the multiplier and its effect on the national income if the marginal propensity to consume (mpc) is 0,6 and investment increases by R10 bn. (4 x 2) (8)
- [40]**

**QUESTION 3: ECONOMIC PURSUITS****40 MARKS – 20 MINUTES**

3.1 Answer the following questions.

- 3.1.1 Name any TWO monetary policy instruments used by the Reserve Bank. (2 x 1) (2)
- 3.1.2 Why are economic indicators important to the government? (1 x 2) (2)

3.2 Study the extract below and answer the questions that follow.

**BUY BACK SOUTH AFRICA**

This campaign is an initiative of the Department of Trade and Industry (DTI), Manufacturing Circle and Proudly South African. It is directed towards the purchase of South African-manufactured products. It forms part of the government strategy of growing the economy. It is important to strengthen and diversify the country's industrial base to develop export markets.

However, the European Union has banned the import of contaminated citrus fruit from South Africa.


[Adapted from *Business Report*, November 2013]

- 3.2.1 Which government department initiated the Buy Back SA Campaign? (1)
- 3.2.2 What does the government intend to achieve through this campaign? (1)
- 3.2.3 How can the government benefit from diversifying the country's industrial base? (2 x 2) (4)
- 3.2.4 What negative effect might the banning of citrus imports by the European Union have on local citrus producers? (2 x 2) (4)



3.3 Study the cartoon and extract below and answer the questions that follow.

**SUMMIT ON BLACK ECONOMIC EMPOWERMENT**



The purpose of the most recent BEE summit was to scrutinise the last decade of the BEE system. Efforts were in place to improve the system although they still faced several problems, such as companies using fronting to sidestep prescribed legal requirements, as well as the verification of the BEE levels of companies.

There is a serious shortage of black industrialists in the country; therefore transformation is needed in the sector.

[Adapted from *Business Report*, October 2013]

- 3.3.1 What is the aim of black economic empowerment? (2)
- 3.3.2 What challenges does the BEE policy currently face? (2 x 1) (2)
- 3.3.3 Explain the message depicted in the cartoon. (2)
- 3.3.4 In your opinion, why do we still experience a serious shortage of black industrialists in the country? (2 x 2) (4)
- 3.4 Briefly discuss the aims of regional development. (4 x 2) (8)
- 3.5 Analyse *population growth* and *life expectancy* as social indicators relating to demographics. (2 x 4) (8)
- [40]**

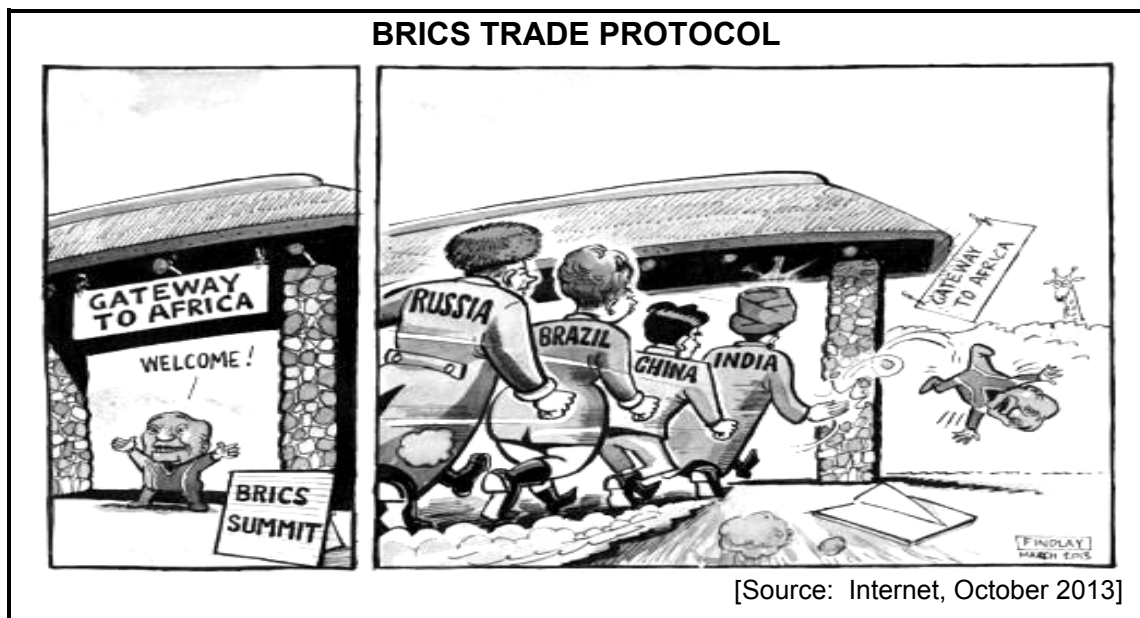
**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**  
**40 MARKS – 20 MINUTES**

4.1 Answer the following questions.

4.1.1 Give TWO supply reasons for international trade. (2 x 1) (2)

4.1.2 What is the main purpose of the expanded public works programme (EPWP)? (1 x 2) (2)

4.2 Study the cartoon below and answer the questions that follow.



4.2.1 Define the term *trade protocol*. (2)

4.2.2 Explain the message depicted in the cartoon. (2)

4.2.3 Why is South Africa regarded as the gateway to Africa? (2)

4.2.4 How will South Africa benefit from its BRICS membership? (4)

4.3 Study the table below and answer the questions that follow.

<b>NATIONAL INCOME AND PRODUCTION ACCOUNTS OF SOUTH AFRICA</b>	
	<b>2012 R million</b>
Compensation of employees	1 451 603
Net operating surplus	922 030
Consumption of fixed capital	405 640
<b>Gross Value Added @ Factor Cost</b>	<b>2 779 273</b>
Other taxes on production	56 527
Other subsidies on production	15 538
<b>(A)</b>	<b>2 820 262</b>
Taxation on products	338 804
Subsidies on products	20 086
<b>Gross Domestic Product @ Market Prices</b>	<b>(B)</b>

[Source: SARB Quarterly Bulletin, December 2013]

- 4.3.1 Name the missing item labelled **(A)**. (2)
- 4.3.2 Define the term *gross domestic product (GDP)*. (2)
- 4.3.3 Explain the item 'Consumption of fixed capital'. (2)
- 4.3.4 Calculate the 'Gross Domestic Product @ Market Prices' labelled **(B)**. Show ALL calculations. (4)
- 4.4 Discuss the economic indicators relating to productivity. (2 x 4) (8)
- 4.5 Argue how free trade rather than protectionism will favour countries. (2 x 4) (8)

**[40]**

**TOTAL SECTION B: 80**

**SECTION C**

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

<b>STRUCTURE OF THE ESSAY:</b>	<b>MARK ALLOCATION:</b>
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
<b>Conclusion</b>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MACROECONOMICS****40 MARKS – 35 MINUTES**

Government is constantly trying to achieve specific objectives to improve the standard of living of the nation.

- Discuss the macroeconomic objectives of the state in South Africa's economy. (26)
  - In your opinion, to what extent has the South African government achieved these objectives? (10)
- [40]**

**QUESTION 6: ECONOMIC PURSUITS****40 MARKS – 35 MINUTES**

Since 1994 the South African government has developed different strategies to transform the economy.

- Discuss the following South African growth and development strategies in detail:
    - National Skills Development Strategy (NSDS)
    - The New Growth Path (NGP)
    - National Development Plan (NDP)
  - Evaluate the strategies used in South Africa. (26)
- (10)**  
**[40]**

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**



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## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2014**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 19 pages.**

**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 A injection ✓✓
- 1.1.2 C privatisation ✓✓
- 1.1.3 C medium-term expenditure framework (MTEF) ✓✓
- 1.1.4 A policy ✓✓
- 1.1.5 B protectionism ✓✓
- 1.1.6 B Special Economic Zones (SEZs) ✓✓
- 1.1.7 A reducing production costs ✓✓
- 1.1.8 C Department of Trade and Industry ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 D the flow of goods and services ✓
- 1.2.2 G a negative economic growth for at least two consecutive quarters ✓
- 1.2.3 A provided by the state for use by all the members of a society ✓
- 1.2.4 I the ratio between export prices and import prices. ✓
- 1.2.5 F the international institution which promotes economic recovery and development ✓
- 1.2.6 C it strengthens institutional capacity and facilitate development ✓
- 1.2.7 E promotes development in the Southern African region ✓
- 1.2.8 B measures changes in prices of goods and services ✓ (8 x 1) (8)

**1.3 GIVE ONE TERM**

- 1.3.1 Open economy / four sector economy ✓
- 1.3.2 Money market ✓
- 1.3.3 Laffer curve ✓
- 1.3.4 Globalisation / free trade / international trade / foreign trade ✓
- 1.3.5 Repo rate / repurchase rate ✓
- 1.3.6 Deregulation ✓ (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 Answer the questions:****2.1.1 List TWO methods used to calculate national income aggregates.**

- Production method / Value Added / GDP (P) ✓
- Income method / GDP (I) ✓
- Expenditure method / GDP (E) ✓ (Any 2 x 1) (2)

**2.1.2 How will the contraction phase of a business cycle influence the economy through interest rates?**

In the latter stage of a downswing interest rates will decrease ✓ more people will borrow money to stimulate the economy ✓

In the early stage of a downswing interest rates will increase ✓ to dampen the economy - people will borrow less money ✓

Any other relevant answer (Max 2) (2)

**2.2 Study the information and answer the questions that follow.****2.2.1 Identify a leading economic indicator from the above data.**

Job advertising space ✓✓ (1 x 2) (2)

**2.2.2 Define the term composite indicator.**

It is a summary of various indicators of the same type into one single index. ✓✓

The three composite indicators are often used to calculate a single composite indicator to benchmark a country's economic performance ✓✓

A composite indicator measures multi-dimensional concepts e.g. competitiveness, e-trade or environmental quality, which cannot be captured by a single indicator ✓✓

Ideally a composite indicator should be based on theoretical framework which allows individual indicators to be selected, combined and weighted in a manner which reflects the dimensions or structure of the economy being measured ✓✓

Any other correct definition (1 x 2) (2)

**2.2.3 What does the *amplitude of a business cycle* demonstrate?**

- It demonstrates the power of underlying forces. ✓✓
- It demonstrates the extent of change. ✓✓
- A large amplitude shows the strength (severity) of underlying forces ✓✓
- The larger the amplitude the more extreme the changes that might occur / It shows how deep and how high the recession goes ✓✓
- The amplitude demonstrates the distance of the peaks and troughs measured from the trend line ✓✓
- It indicates the effect of economic activity ✓✓

Accept a graphical demonstration (maximum 2 marks)

Any other relevant answer

(1 x 2)

(2)

**2.2.4 Explain the length of a business cycle as a feature that underpins forecasting.**

- Is measured from peak to peak or from trough to trough / It's the time used to move through a complete cycle ✓✓
- If the length is 10 years it can be predicted that it will take 10 years for the economy to move through another complete cycle ✓✓
- Cycles may overshoot ✓✓
- Longer cycles are stronger / Shorter cycles are weak ✓✓
- The strength of the underpinning forces ✓✓

Any relevant answer

(2 x 2)

(4)

**2.3 Study the data and answer the questions that follow.****2.3.1 Which item captures a South African business that purchases property in the United States of America?**

(Net) direct investment ✓

(1)

**2.3.2 Define the term balance of payments.**

A systematic record of all transactions ✓ between one country and other countries (and the rest of the world) ✓ for a specific period e.g. one year

Any other relevant definition

(1 x 2)

(2)

**2.3.3 What is the purpose of the item *unrecorded transactions*?**

To capture the effects of errors / omissions / and timing differences ✓✓

Incorrect explanation (to balance the BOP) should NOT be taken as correct

Any other relevant explanation.

(1 x 2)

(2)



- 2.3.4 If the balance on the current account was –R164 548, calculate the value for *Changes in Net Gold and other Foreign Reserves*. Show all calculations.

Balance on the current account	-164 548 ✓
+ Capital transfer account	241 ✓
+ Balance on financial account	175 065 ✓
+ Unrecorded transactions	- 1 801 ✓
<b>Changes in net gold and other foreign reserves</b>	<b>8 957 ✓</b>

(5)

Minus 1 for any irrelevant/faulty item (double counting)

- 2.4 Compare a *free floating exchange rate system* with a *managed floating exchange rate system*.

- **Free floating exchange rate system:**

- Free floating can be defined as exchange rates which are determined by the market forces of demand and supply ✓✓
- They work automatically ✓✓ If imports increase, the demand for foreign exchange increases. The currency **depreciates** as the result of the working of market forces ✓✓
- Depreciation makes a country's imports more expensive and exports cheaper ✓✓
- Imports decrease and exports increase, and the currency appreciates as the result of the working of market forces / exchange rate fluctuates as the market conditions change ✓✓
- South Africa has a free floating exchange rate system ✓✓
- Disequilibria are automatically corrected ✓✓ (2 x 2) (4)

- **Managed floating exchange rate system:**

- A system where central banks intervene in the exchange rate markets stabilising the currency ✓✓
- Central banks use their reserves to influence the exchange rates ✓✓
- E.g. When the value of the currency declines/depreciate the central bank will sell currency in the market to increase the demand and price/exchange rate ✓✓
- Over the long term currencies have to find their equilibrium levels ✓✓
- Any other relevant fact. (2 x 2) (4)

(8)

2.5 **Discuss the multiplier and its aggregate effect on the economy, if the marginal propensity to consume (mpc) is 0,6 and investment increases by R10bn.**

- Def: A relative small investment produces a proportionately larger increase in national income ✓✓

<ul style="list-style-type: none"> <li>• Formula: Multiplier = <math>1/1-mpc</math>  <math>= 1/1-0.6</math>  <math>= 2.5</math> ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>OR <math>1/mps</math>  <math>= 1/0.4</math>  <math>= 2.5</math> ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>OR <math>y = 0.6y+10</math>  <math>y - 0.6y = 10</math>  <math>0.4y = 10</math>  <math>y = \frac{10}{0.4}</math> ✓✓ = 25 ✓✓</li> </ul>
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- The multiplier effect =  $2.5 \times R10bn$   
 $= \underline{R25bn}$  ✓✓ (max 4)

- Therefore an investment of R10bn will produce a R25bn increase in national income ✓✓
- If the candidate shows a graphical representation of the effect, the graph should indicate the change in investment of R10 bn. and the change in national income of R25 bn. ✓✓
- Accept if a candidate explains the effect based on one person's spending becomes another person's income ✓✓ (4 x 2)

(8)

**[40]**

**QUESTION 3: ECONOMIC PURSUITS****3.1 Answer the questions:****3.1.1 List any TWO monetary policy instruments used by the Reserve Bank.**

- Interest rates / repo rate ✓
- Open market transactions ✓
- Moral suasion / persuasion ✓
- Cash reserve requirements ✓
- Exchange rate policy ✓

(Any 2 x 1) (2)

**3.1.2 Why are economic indicators important to government?**

- Government use it for budgetary (and planning) purposes ✓✓
- Economic indicators are used in strategic policy planning and development ✓✓
- They are used to assess current economic conditions ✓✓  
Accept any other relevant answer.

(1 x 2) (2)

**3.2 Study the extract and answer the questions that follow.****3.2.1 Which government department initiated the Buy Back SA campaign?**

Department of Trade and Industry (DTI) ✓

(1)

**3.2.2 What does the government intend to achieve through this campaign?**

- Strengthening and diversifying the countries industrial base ✓
- Raising competitive value-added exports to the rest of the continent ✓
- Growing the economy ✓
- Developing of the traditional export market ✓
- Promote the purchase of South African manufactured products ✓

(1)

**3.2.3 How can the government benefit from diversifying the country's industrial base?**

- Producing a greater variety of goods and services will increase government revenue ✓✓
- Improve infrastructure delivery ✓✓
- The government will be able to meet its objectives of growth employment and price stability ✓✓  
Any other relevant positive effect

(2 x 2) (4)

**3.2.4 What negative effect might the banning of citrus imports by the European Union have on the local citrus producers?**

- Loss in production ✓✓
  - Lay-off employees / unemployment ✓✓
  - Decrease in income / sales decrease ✓✓
  - Down scaling of business ✓✓
  - Increase in poverty ✓✓
- Any other relevant negative effect (2 x 2) (4)

**3.3 Study the cartoon and answer the questions that follow.**

**3.3.1 What is the aim of Black Economic Empowerment?**

- Redress the inequalities of the past ✓✓
  - Empower the black people ✓✓
- Any other relevant answer (1 x 2) (2)

**3.3.2 What challenges does the BEE policy currently face?**

- Verifying the BEE levels of companies ✓
  - Fronting / corruption / nepotism ✓
  - Still a shortage of black industrialists ✓
- Any other relevant answer (2 x 1) (2)

**3.3.3 Explain the message depicted in the cartoon.**

- Some individuals misused the benefits of BEE for their own greed ✓✓
  - Before democracy Chinese were classified as 'Asians'; after democracy Chinese were classified as 'Blacks' ✓✓
- Any other relevant message (1 x 2) (2)

**3.3.4 In your opinion why do we still experience a serious shortage of black industrialists in South Africa?**

- Lack of capital ✓✓
  - Lack of training and grooming of more black industrialists ✓✓
  - Access to capital ✓✓
  - Lack of exposure and awareness to opportunities ✓✓
- Any other relevant answer (2 x 2) (4)

**3.4 Briefly discuss the aims of regional development?**

- It refers to policies which are aimed at increasing the economic livelihood of specific areas or regions ✓✓
- To limit the effects of economic centralisation, reduce the unequal development of economic activities ✓✓
- To promote the advantage of more regional development by using labour, other natural resources and infrastructure in neglected areas ✓✓
- Stimulate development in poor rural areas to prevent new imbalances from emerging ✓✓
- To implement and coordinate the implementation of national and regional industrial policies ✓✓

Accept any other relevant aim

(Any 4 x 2)

(8)

**3.5 Analyse population growth and life expectancy as social indicators under demographics.****Population growth:**

- This is determined by the birth rate, deaths and migration of people ✓✓
- South Africa's population numbered 50.5 million in 2011 ✓✓
- It is estimated that it will grow to 55 million by 2021 ✓✓
- The growth rate slowed to only 1.19% in 2011 (from 2.3% in the 1990) ✓✓

(2 x 2) (4)

**Life expectancy:**

- This expresses the number of years a new born infant will live if the prevailing patterns of mortality remain the same throughout this person's life ✓✓
- In South Africa, life expectancy went down from 62 years in 1991 to 47 years in 2005 ✓✓
- Since then it has increased again to 52 years in 2011 ✓✓

(2 x 2) (4)

(8)

Accept any other relevant facts and current data.

**[40]**

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****4.1 Answer the questions:****4.1.1 List TWO supply reasons for international trade.**

- Natural resources ✓
- Climatic conditions ✓
- Labour resources ✓
- Technological resources ✓
- Specialisation ✓
- Capital ✓

Accept any other relevant reason.

(Any 2 x 1) (2)

**4.1.2 What is the main purpose of the *Expanded Public Works Programme (EPWP)*?**

Create employment using labour intensive methods / Give people skills that they can use to find jobs ✓✓

(1 x 2) (2)

**4.2 Study the cartoon and answer the questions that follow****4.2.1 Define the term *trade protocol*.**

An agreement (trade rules or guidelines) between countries on how to trade with each other ✓✓

(2)

**4.2.2 Explain the message depicted by the cartoon.**

The other members of BRICS are using SA to exploit the resources of Africa ✓✓

Any other relevant message

(1 x 2) (2)

**4.2.3 Why is South Africa regarded as the gateway to Africa?**

- South Africa's developed infrastructure ✓✓
- South Africa's political stability ✓✓
- Financially and economically stable ✓✓
- The largest / second-largest economy in Sub-Saharan Africa ✓✓
- Investment in South Africa will give countries access to markets in Africa ✓✓

Any other relevant answer

(Any 1 x 2) (2)

**4.2.4 How will South Africa benefit from its BRICS membership?**

- to advance its national interests ✓✓
  - to promote its regional integration programme and related continental infrastructure programmes ✓✓
  - to partner with key players of the South on issues related to global governance and reform. ✓✓
  - South Africa's membership of this body has expanded BRICS' geographic and intercontinental reach ✓✓
- Any other relevant answer (Any 2 x 2) (4)

**4.3 Study the table and answer the questions that follow.****4.3.1 Name the missing item labelled (A).**

Gross Value Added / GDP at basic prices ✓✓ (1 x 2) (2)

**4.3.2 Define the term Gross Domestic Product (GDP)**

The total value of all final goods and services ✓ produced within the boundaries of the country for a specific period, e.g. a year ✓ (2)

**4.3.3 Explain the item Consumption of fixed capital**

Cost of using capital ✓ e.g. machinery/equipment used in production ✓ / Depreciation on the use of fixed assets / Diminishing value of an asset ✓ (1 x 2) (2)

**4.3.4 Calculate Gross Domestic Product @ Market Prices labelled (B). Show ALL calculations.**

Gross Value Added @ Basic prices	2 820 262✓
+ Taxation on products	338 804✓
- Subsidies on products	20 086✓
<b>Gross Domestic Product @ Market Prices</b>	<b>3 138 980✓</b>

Minus 1 for any irrelevant/faulty item (double counting) (4 x 1) (4)

4.4 **Discuss the economic indicators relating to productivity**

- **Labour productivity** ✓✓
  - To measure labour productivity real GDP should be divided by the number of workers employed for a number of years to construct an index number for each year ✓✓
  - Changes in the index indicate changes in labour productivity ✓✓
  - Productivity is the ratio between output and input of resources in the economy ✓✓ (2 x 2) (4)
- **Capital productivity** ✓✓
  - Refers to a change in output in relation to an increase in capital investment ✓✓ (2 x 2) (4)
- **Multi-factor productivity** ✓✓
- **Remuneration per worker** ✓✓
  - If labour productivity increases by less than wages, inflationary pressure will occur and the business cycle may turn unfavourable, e.g. unemployment may increase ✓✓
  - The relationship between productivity and wages is crucial for employers and workers, and they are therefore important indicators ✓✓
  - For workers it relates to improvement in their standard of living for those who are able to remain employed ✓✓
 Any other relevant fact (2 x 2) (4) (8)

4.5 **Argue how free trade rather than protectionism will favour countries.**

- Under free trade **economies of scale** will exist due to increased trade and lower unit cost ✓✓ whereas in protectionism decreased trade and higher unit cost might lead to **diseconomies of scale** ✓✓
- Under free trade countries will benefit from **comparative advantage** through specialization ✓✓ while protectionism will reduce the ability of other countries to enter the local markets ✓✓
- Free trade promotes **innovation through competition** ✓✓  
Protectionism limits competition and thus reduces innovation ✓✓
- Free trade helps to satisfy a greater **variety of wants** by increasing the choice of consumers ✓✓ while protectionism limits the choices of consumers, thereby reducing welfare ✓✓  
Accept if in tabular form.  
Accept any other relevant argument. (Any 2 x 4) (8)

**[40]****TOTAL SECTION B: 80**



**SECTION C**

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

<b>STRUCTURE OF THE ESSAY:</b>	<b>MARK ALLOCATION:</b>
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
<b>Conclusion</b>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MACROECONOMICS****40 MARKS – 35 MINUTES**

**Government is constantly trying to achieve specific objectives to improve the standard of living of the nation.**

- **Discuss the macroeconomic objectives of the state in South Africa's economy.** (26)
- **In your opinion, to what extent has the South African government achieved these objectives?** (10)

**[40]****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 ✓✓ (Max. 2)

Accept any other relevant introduction.

**BODY: MAIN PART****Objectives:**

- **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:  

$$\Delta \text{Real GDP} = \frac{\text{Real GDP current year} - \text{Real GDP previous year}}{\text{Real GDP previous year}} \times 100$$
- **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: Employment rate =  $\frac{\text{number of employed persons}}{\text{Total EAP}} \times 100$  ✓✓

- **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 stabilizing 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)

**BODY: ADDITIONAL PART**

- Learner responses can be positive or negative
- Follow the argument and see if the learner can produce enough evidence to support his/her answer

**Economic Growth:**

- SA targets 4 – 5% economic growth. Previously SA had a 5% growth rate ✓✓
- In recent years the growth rate decreased steadily ✓✓
- Presently the economic growth rate is 1.4% ✓✓

**Full Employment:**

- Compared to foreign countries unemployment is very high. ✓✓
- Expanded – over 30% ✓✓
- currently 25,5 % unemployment in SA ✓✓ for age group of 24 – 34 years of age current figures exceed 36.3% ✓✓
- Efforts by SA government to reduce these figures includes the GEAR strategy, focus on small business enterprises, Public Works Programme ✓✓

**Exchange rate stability:**

- SA now operates on a free floating exchange rate system in line with international benchmarks ✓✓
- Unfortunately our currency has lost its value, with a general trend of depreciation over the last few years ✓✓

**Price stability:**

- For the past few years South Africa has managed to remain within the 3 – 6% target ✓✓
- The current increase in the repo rate has put constraints on the inflation rate ✓✓

**Economic equity:**

- Economic equity has improved in many areas ✓✓
- E.g. BEE, affirmative action, gender equity, progressive income tax ✓✓

**Balance of Payments equilibrium:**

- The deficit on the trade balance shows a much bigger increase of imports compared to exports ✓✓

(Any 5 x 2) (Max.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)

**[40]**

**QUESTION 6: ECONOMIC PURSUITS****40 MARKS – 35 MINUTES**

Since 1994 the South African government has developed different strategies to transform the economy.

- Discuss the following South African growth and development strategies in detail:
  - National Skills Development Strategy (NSDS)
  - The New Growth Path (NGP)
  - National Development Plan (NDP) (26)
- Evaluate the strategies used in South Africa. (10) [40]

**INTRODUCTION**

Almost 30% of the South African population is absolutely poor, therefore poverty is a serious policy matter for the government ✓✓

Any other relevant definition.

(Max. 2)

**BODY: MAIN PART****NATIONAL SKILLS DEVELOPMENT STRATEGY (NSDS)**

- This policy provides the framework for skills development in the workplace. ✓✓
- JIPSA is a short- to medium term mechanism to fast track the objectives of the NSDS ✓✓
- and to prioritise the acquisition of skills necessary for accelerated and shared growth ✓✓

**Three processes for implementation:**

- It focuses on productive citizens ✓✓
- **Focuses** on equity ✓✓ quality training ✓✓ and skills development in workplace ✓✓
- Focuses on institutional learning ✓✓

**THE NEW GROWTH PATH**

- It **aims** to enhance growth ✓✓ create employment ✓✓ and greater equity ✓✓
- It was announced in October 2010 ✓✓ and the main focus was to create 5 million jobs over the next 10 years ✓✓

**Key areas where jobs can be created:**

- Infrastructure expansion with investments in five key physical and social infrastructure areas ✓✓ namely energy, transport, communication, water and housing ✓✓
- The agricultural value chain by addressing the high costs of fertilisers and other inputs ✓✓ and by promoting processing and export marketing ✓✓
- The mining value chain by increasing mineral extraction ✓✓ improving infrastructure ✓✓ and skills development ✓✓ and supporting the beneficiation on the final manufacture of consumers and capital goods ✓✓ whereby minerals are processed into higher value products locally rather than exporting raw minerals to be processed

- abroad, thus creating employment and generating wealth ✓✓
- The green economy by expanding construction and production of technologies ✓✓ for solar energy, wind energy and biofuels ✓✓
- Manufacturing sectors through innovation ✓✓ strong skills development ✓✓ reduced input costs ✓✓ and increased research and development investment ✓✓
- Tourism and certain high level services ✓✓

## **NATIONAL DEVELOPMENT PLAN (NDP)**

- Aims to eliminate poverty ✓✓ and reduce inequality by 2030 ✓✓

### **Goals are:**

- To reduce poverty ✓✓
- Economic growth/grow an inclusive economy – build capabilities ✓✓
- Economic transformation/enhancing the capability of the state and leaders working together to solve complex problems ✓✓
- Job creation/reduce unemployment ✓✓ to 14 % by 2020 and 6% by 2030 ✓✓

### **The process in the implementation of the plan includes the following:**

- The NDP and its proposal will need to be implemented in the right order over the next 17 years, it will shape the budget allocation during the period. ✓✓
- Government has already started a process to align the long term plans of the departments with the NDP and to identify areas where policy change is required for smooth implementation. ✓✓
- Government will also engage with all sectors to understand how they are contributing to the implementation process. ✓✓
- The President and the Deputy President will be the lead champions of the plan with the cabinet, in government and throughout the country, Premiers and Mayors will be active champions of the plan with their offices driving implementation at provincial and municipal levels. ✓✓
- The plan identifies the task of improving the quality of public services as critical to achieving transformation. ✓✓
- Planning and implementation should be informed by evidence-based monitoring and evaluation. ✓✓

### **Critical actions:**

- A social compact to reduce poverty and inequality and raise employment and investment ✓✓
- A strategy to address poverty and its impacts by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes ✓✓
- Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption ✓✓
- Boost private investment in labour-intensive areas, competitiveness and exports with adjustments to lower the risk of hiring younger workers ✓✓
- An education accountability chain with lines of responsibility from state to classroom ✓✓
- Phase in national health insurance, with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of

- private health care ✓✓
  - Public infrastructure investment at 10% of GDP financed through tariffs, public-private partnerships, taxes and loans and focused on transport, energy and water ✓✓
  - Interventions to ensure environmental sustainability and resilience to future shocks ✓✓
  - New spatial norms and standards – densifying cities, improving transport, locating jobs where people live, upgrading informal settlements and fixing housing market gaps ✓✓
  - Reduce crime by strengthening criminal justice and improving community environments ✓✓
- (Max.26)

## ADDITIONAL PART

### Positive outcomes of strategies:

- South Africa's public finances were stabilised, with public debt to GDP ratio brought down to 32%. ✓✓ World Bank recommends a ratio of 60% ✓✓
- The inflation rate was brought down to a stable average of between 3–6% ✓✓
- The country's international reserves increased, supporting a stable exchange rate ✓✓
- South Africa has a floating foreign exchange system with little government intervention and meets the international benchmark in this regard ✓✓
- Infrastructure development driven by the public sector has produced meaningful growth in gross fixed capital formation ✓✓
- South Africa ranks 74th in the 2011 Index of Economic Freedom with a score of 62.7 in terms of economic freedom ✓✓

### Negative outcomes of strategies:

- Economic growth of South Africa has slowed down dramatically (below 2% currently) ✓✓
- The skills development system as a whole has not yet achieved its aims and the economy remains constrained by this lack of skills ✓✓
- Many jobs were lost in manufacturing and agricultural sectors – unemployment has continued to rise between 23% to 27% ✓✓
- South Africa struggles to attract foreign direct investments due to wage levels relative to worker productivity are significantly higher than those of other countries ✓✓

### OR CAN BE PRESENTED IN THE FOLLOWING WAY:

Since 1994, several plans aimed at encouraging growth and development in South Africa have been implemented. These include the:

GEAR: 1996 – 2001 designed to:

- It was built on the strategic vision set out in the RDP ✓✓
- It was also committed government to specific macro objectives/targets ✓✓
- Continue service delivery to the poor, and to increase spending on this ✓✓
- Improve infrastructure to improve service delivery ✓✓
- Stabilise inflation through monetary policy ✓✓
- Reduce national budget deficit through a more effective fiscal policy ✓✓

ASGISA: launched in 2006

- it is committed to halve unemployment and poverty by 2014 ✓✓
- improve economic development ✓✓
- overcome constraints to economic growth ✓✓

JIPSA:

- it is the skills empowerment arm of AsgiSA ✓✓
- the initiative was launched in 2006 to address the country's chronic problem areas: unemployment and the skills shortage ✓✓

EPWP:

- it is a nationwide government intervention to create employment using labour-intensive methods, and to give people the skills they can use to find jobs when their work in the EPWP is done ✓✓

Accept any other relevant fact.

## CONCLUSION

It is debatable whether the new strategies implemented will be successful in addressing the various economic objectives because past policies have failed to meet their targets, e.g. Asgisa ✓✓ (Max. 2) **[40]**

Accept any other relevant higher order conclusion.

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**



# basic education

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Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P2**

**NOVEMBER 2014**

**MARKS: 150**

**TIME: 1½ hours**

**This question paper consists of 12 pages.**



**INSTRUCTIONS AND INFORMATION**

1. Answer FOUR questions as follows in the ANSWER BOOK:  
  
SECTION A: COMPULSORY  
SECTION B: Answer TWO of the three questions.  
SECTION C: Answer ONE of the two questions.
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

**SECTION A (COMPULSORY)****QUESTION 1****30 MARKS – 15 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–C) next to the question number (1.1.1–1.1.8) in the ANSWER BOOK, for example 1.1.9 C.
- 1.1.1 In economics the term 'short run' refers to a period where ... factors of production can change.
- A only variable
  - B all fixed
  - C both variable and fixed
- 1.1.2 In a perfectly competitive market products are ...
- A heterogeneous.
  - B homogeneous.
  - C differentiated.
- 1.1.3 Which ONE of the following is a characteristic of a monopoly?
- A Goods are homogeneous.
  - B Monopolists are price takers.
  - C There are no close substitutes.
- 1.1.4 Government intervention in the market ensures sufficient staple food for the poor by setting ... prices.
- A maximum
  - B minimum
  - C limited
- 1.1.5 The agreement reached in 2002 which focused on environmental sustainability is known as the ...
- A Johannesburg Summit.
  - B Rio+20 Summit.
  - C Kyoto Protocol.
- 1.1.6 South Africans who travel overseas are called ... tourists.
- A inbound
  - B outbound
  - C domestic

1.1.7 The sustainable use of natural resources is known as ...

- A pollution.
- B conservation.
- C preservation.

1.1.8 The promotion of South Africa as an international tourist destination is the responsibility of ...

- A the private sector.
- B international organisations like Green Peace.
- C South African Tourism (SAT).

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Explicit cost	A leads to growth in tourism
1.2.2 Shut-down point	B aircraft noise
1.2.3 Cartel	C where MC = AVC
1.2.4 Perfect market	D when a group of producers form a collective monopoly
1.2.5 Higher disposable income	E controlled by government-appointed authorities
1.2.6 Negative externality	F market price = marginal revenue
1.2.7 Domestic tourism	G people travelling within their own countries
1.2.8 Administered prices	H visiting museums and art galleries
	I actual expenditure of a business, for example wages and interest

(8 x 1) (8)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6) in the ANSWER BOOK.
- 1.3.1 The minimum profit required to prevent an entrepreneur from leaving the industry
- 1.3.2 The amount by which the total cost increases when an extra unit is produced
- 1.3.3 A situation where it is impossible to increase the welfare of one person without making another one worse off
- 1.3.4 A sustained and significant increase in the general price level
- 1.3.5 Traditional knowledge that has a practical application for the daily survival of local communities
- 1.3.6 Runaway inflationary conditions where the general price level increases by more than 50% per month (6 x 1) (6)
- TOTAL SECTION A: 30**

**SECTION B**

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


**QUESTION 2: MICROECONOMICS****40 MARKS – 20 MINUTES**

2.1 Answer the following questions.

2.1.1 State TWO characteristics of monopolistic competition. (2 x 1) (2)

2.1.2 What will happen if one firm in the perfect market decides to increase its selling price? (1 x 2) (2)

2.2 Study the extract below and answer the questions that follow.



**TOLL ROADS – WAS THIS THE BEST DECISION?**

There are major debates surrounding toll roads in South Africa, with many consumers unhappy and undecided whether it will really benefit the economy. The major question is whether the government has examined all the positives and negatives regarding toll roads.

[Adapted from *Business Times*, May 2013]

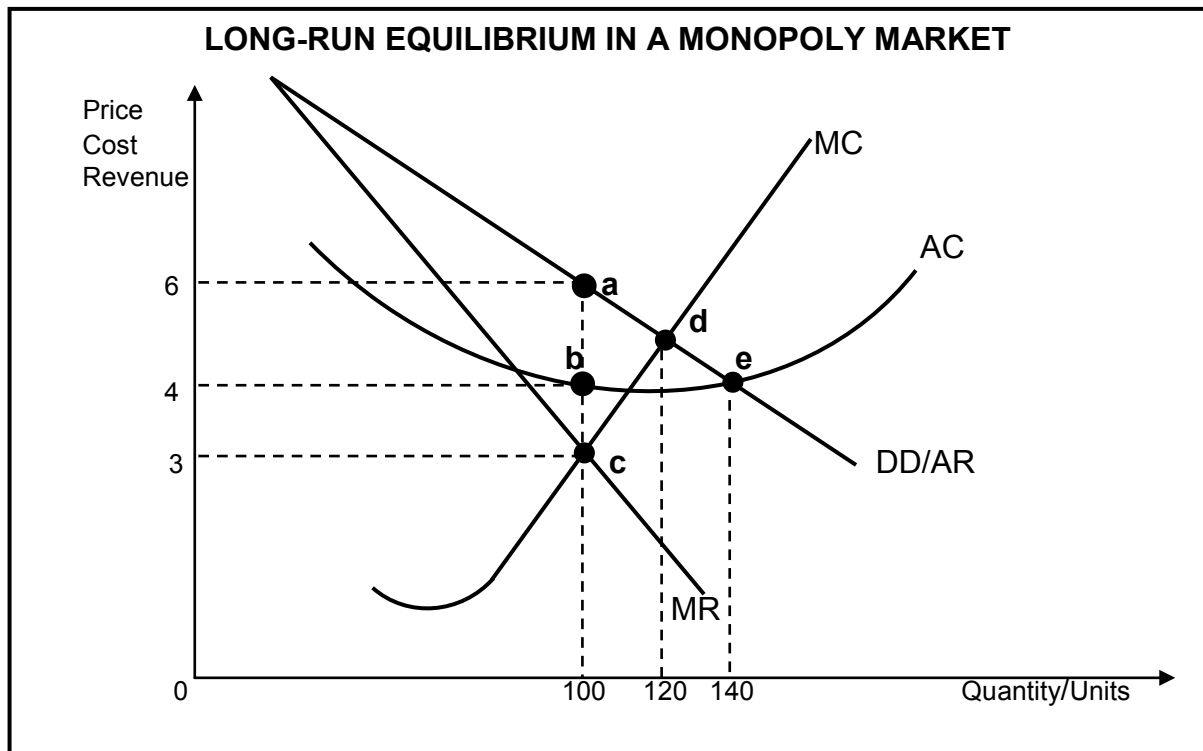
2.2.1 Explain the term *toll*. (2)

2.2.2 What method can the government use to ensure that the introduction of toll roads is the best decision? (2)

2.2.3 How can toll roads lead to market failure? (2)

2.2.4 Argue in favour of the implementation of toll roads. (2 x 2) (4)

2.3 Study the graph below and answer the questions that follow.



2.3.1 Indicate the profit maximisation point of the monopolist. (1)

2.3.2 How many units will be produced at the maximisation point? (1)

2.3.3 Determine whether the business is making an economic profit or an economic loss. Show ALL calculations. (4)

2.3.4 What favourable conditions may the monopolist enjoy in comparison to other market structures? (4)

2.4 Explain how the immobility of factors of production can cause market failure. (4 x 2) (8)

2.5 Explain how SASOL can compete in an oligopolistic market with other petrol-selling companies in South Africa. (4 x 2) (8)

**[40]**

**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 20 MINUTES**

3.1 Answer the following questions.

- 3.1.1 Give TWO examples of World Heritage Sites in South Africa. (2 x 1) (2)
- 3.1.2 How can tourism influence the lives of poor people near tourist destinations? (1 x 2) (2)

3.2 Study the extract below and answer the questions that follow.

**SOUTH AFRICA SWITCHES OFF LIGHTS FOR THE EARTH**

On the last Saturday of March South Africa and the world at large switched off their lights for an hour in celebration of 'Earth Hour'.

In clarifying the reasons behind the event, the World Wide Fund for Nature South Africa (WWFSA) highlighted that in South Africa electricity and fuel were produced mainly from 'dirty non-renewable' resources like coal, oil and gas. It therefore urged people to be aware of the kind of destruction brought about by such kinds of energy.

More importantly, the organisation explained that South Africa should change to renewable solar energy and also reduce transport energy consumption. If humans could embrace the power of nature rather than working against it, sustainable energy supply could be ensured.

[Adapted from [www.wwf.org.za](http://www.wwf.org.za), October 2013]

- 3.2.1 What are resources that can be replaced called? (2)
- 3.2.2 What do you think is the aim of celebrating 'Earth Hour'? (2)
- 3.2.3 How can people reduce transport fuel consumption in order to sustain the environment? (2)
- 3.2.4 In your opinion, why are non-renewable resources referred to as 'dirty'? (4)

3.3 Study the table below and answer the questions that follow.

<b>HEADLINE INFLATION CLASSIFICATION OF INDIVIDUAL CONSUMPTION</b>			
<b>Item category</b>	<b>Weight</b>	<b>June</b>	<b>July</b>
Food and non-alcoholic beverages	15,41	6,8	6,8
Alcoholic beverages and tobacco	5,43	6,3	7,0
Clothing and footwear	4,07	3,0	3,1
Housing and utilities	24,52	5,8	5,5
Housing content, maintenance and equipment	4,79	2,9	2,9
Health	1,46	5,0	4,8
Transport	16,43	3,7	8,2
Communication	2,63	1,5	1,8
Recreation and culture	4,09	4,3	3,4
Education	2,95	9,0	9,0
Restaurants and hotels	3,50	6,1	6,5
Miscellaneous goods and services	14,72	7,4	7,6
Overall CPI	100,00	5,5	6,3

[Source: SARB Quarterly Bulletin, September 2013]

- 3.3.1 What are unadjusted CPI figures called? (2)
- 3.3.2 Why is the weighting of items in the basket of goods important? (2)
- 3.3.3 Why would you exclude food from the CPI basket when calculating core inflation? (2)
- 3.3.4 Comment on the impact that the overall CPI index has on the consumer. (4)
- 3.4 Discuss the economic benefits of tourism for the government and infrastructure development. (2 x 4) (8)
- 3.5 Why are industries often accused of contributing to land and water pollution? (4 x 2) (8)
- [40]**



**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES  
40 MARKS – 20 MINUTES**

4.1 Answer the following questions.

4.1.1 Give TWO examples of the preservation of the environment. (2 x 1) (2)

4.1.2 How can the consumer benefit from competition? (1 x 2) (2)

4.2 Study the extract below and answer the questions that follow.

**SOUTH AFRICA TO BE ONE OF THE WORLD'S TOP 20  
TRAVEL DESTINATIONS BY 2020**

South African tourism has been growing since 1994. The international tourist arrivals increased by 10,2% in 2012. In 2012 tourism contributed 3% to the country's GDP compared to 9% worldwide. The country has also sharpened its focus on increasing domestic tourism. It re-launched its Sho't Left tourism marketing campaign targeting young and trendy South Africans and encouraging them to explore their own country.



[Adapted from [www.thesouthafrican.com](http://www.thesouthafrican.com), October 2013]

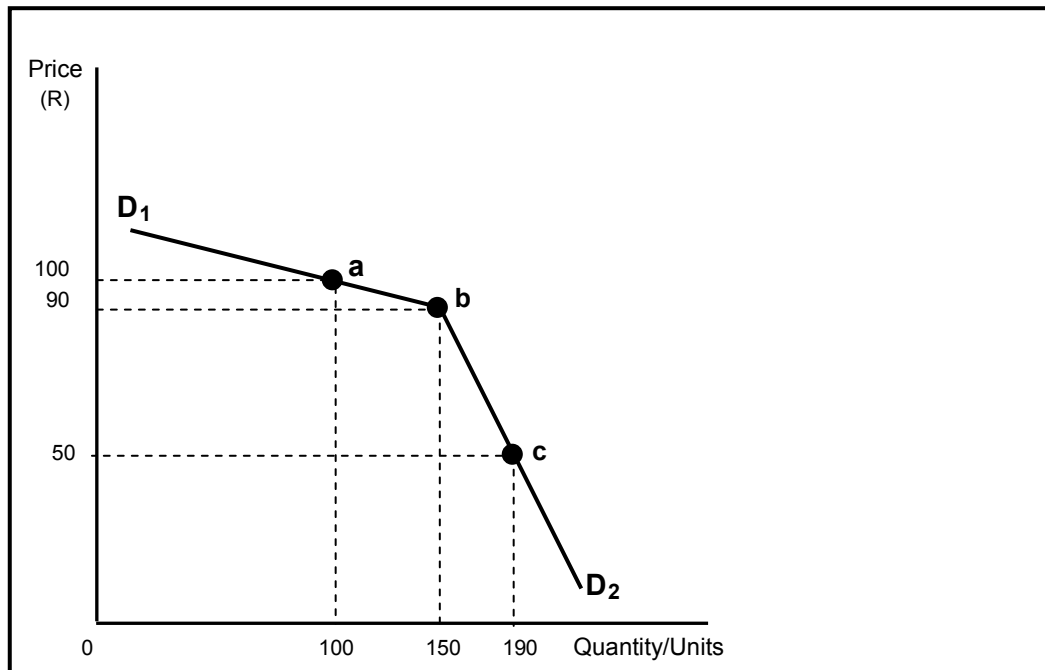
4.2.1 Identify the type of tourism illustrated in the photograph above. (1)

4.2.2 What is meant when South Africans are encouraged to explore their own country? (1)

4.2.3 How would you ensure that South Africa becomes a world top 20 travel destination by 2020? (4)

4.2.4 Why is tourism viewed as a major job creator? Give examples from your own community to support your answer. (2 x 2) (4)

4.3 Study the graph below and answer the questions that follow.



- 4.3.1 Which imperfect market structure is illustrated above? (1)
- 4.3.2 Name the downward sloping demand curve above. (1)
- 4.3.3 Explain how price leadership works in this type of market. (4)
- 4.3.4 Assume that the current selling price is R90. Explain why this business will not lower prices to improve its sales. (4)
- 4.4 Explain *environmental taxes* and *marketable permits* as intervention strategies to achieve environmental sustainability. (2 x 4) (8)
- 4.5 What are the effects of the implementation of minimum wages in South Africa? (4 x 2) (8)

**[40]**

**TOTAL SECTION B: 80**

**SECTION C**

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

Your answer will be assessed as follows:

<b>STRUCTURE OF THE ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
<b>Conclusion</b>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS****40 MARKS – 35 MINUTES**

Under perfect market conditions the market price of products is determined through the interaction of supply and demand.

- Discuss perfect competition under the following headings:
  - A comparison of the demand curve of the individual producer and industry
  - Profit maximisation
 Use graphs to support your discussion. (26)
- In your opinion, does the Competition Act of South Africa promote fair competition? (10) **[40]**

**QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 35 MINUTES**

Inflation is a phenomenon that many countries in the world have to deal with.

- Examine in detail the causes of cost-push inflation. (26)
- Has South Africa's inflation-targeting policy been beneficial to the economy? Motivate your response. (10) **[40]**

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P2**

**NOVEMBER 2014**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 20 pages.**

**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 A only variable ✓✓  
 1.1.2 B homogeneous ✓✓  
 1.1.3 C there are no close substitutes ✓✓  
 1.1.4 A maximum ✓✓  
 1.1.5 A Johannesburg Summit ✓✓  
 1.1.6 B outbound ✓✓  
 1.1.7 B conservation ✓✓  
 1.1.8 C South African Tourism ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 I actual expenditure of a business, for example wages and interest ✓  
 1.2.2 C where  $MC = AVC$  ✓  
 1.2.3 D when a group of producers form a collective monopoly ✓  
 1.2.4 F market price = marginal revenue ✓  
 1.2.5 A leads to a growth in tourism  
 1.2.6 B aircraft noise ✓  
 1.2.7 G people travelling within their own countries ✓  
 1.2.8 E controlled by government-appointed authorities ✓ (8 x 1) (8)

**1.3 GIVE ONE WORD**

- 1.3.1 Normal profit ✓  
 1.3.2 Marginal cost ✓  
 1.3.3 Pareto efficiency / Pareto optimal / Pareto ✓  
 1.3.4 Inflation ✓  
 1.3.5 Indigenous Knowledge Systems / IKS ✓  
 1.3.6 Hyperinflation ✓ (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS****2.1 Answer the following questions.****2.1.1 State TWO characteristics of monopolistic competition.**

- A large number of producers (sellers) are active in the market ✓
  - The nature of the product is differentiated ✓
  - Entry and exit into the market is free (relatively easy) ✓
  - Businesses have little control over the price of the product ✓
  - Information for both buyers and sellers is incomplete ✓
  - Non price competition and branding play an important role in monopolistic competition ✓ (2 x 1) (2)
- Accept any other correct characteristic.

**2.1.2 What will happen if one firm in the perfect market decides to increase its selling price?**

This firm will not be able to sell any units due to high levels of competition / the market price will remain unchanged / the firm will go out of business ✓✓

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

**2.2 Data Response****2.2.1 Explain the term toll.**

Tolling is an billing system used on certain highways / roads or parking bays / fee / tax ✓✓ (2)

**2.2.2 What method can the government use to ensure that the introduction of toll roads is the best decision?**

Cost Benefit Analysis / CBA / market research / survey / SWOT analysis / impact studies / environmental studies / positive and negative aspects / needs broad public participation (public was not consulted)

Accept any other relevant method ✓✓ (2)

**2.2.3 How can toll roads lead to market failure?**

- Companies can pass the additional cost onto consumers / higher production cost ✓✓
- It could lead to a reduction in output / supply ✓✓
- Mass action against e-tolling can disturb the free flow of goods and people - disturbing the economy ✓✓

Accept any other relevant argument (2)

2.2.4 **Argue in favour of the implementation of toll roads.**

- Source of income for the province (government) ✓✓
- Money needed to maintain roads and infrastructure ✓✓
- Job creation ✓✓

Accept any other positive response with regard to the consumer, business, government and foreign investors (2 x 2) (4)

2.3 **Study the graph and answer the questions that follow.**2.3.1 **Indicate the profit maximisation point of the monopolist.**

MR=MC / c ✓ (1)

2.3.2 **How many units will be produced at the maximisation point?**

100 ✓ (1)

2.3.3 **Determine whether the business is making an economic profit or an economic loss. Show all calculations.**

<p>Total Revenue: <math>6 \times 100 = 600</math> ✓          Total Cost: <math>4 \times 100 = \underline{400}</math> ✓</p>	<p><b>OR</b> <math>6 - 4</math> ✓ = <math>2 \times 100</math> ✓  <math>= 200</math> ✓</p>
--	---

Profit = Total Revenue – Total Cost  
 $= 600 - 400$   
 $= \underline{200}$  ✓

The business is making **economic profit** ✓  
 Accept a graphical motivation (max 2). (4)

2.3.4 **What favourable conditions may the monopolist enjoy in comparison to other market structures?**

- The monopoly is the only supplier of that particular product ✓✓
- At liberty to set own prices / charges higher prices ✓✓
- Decide on production levels / restrict its output ✓✓
- Laws protection ✓✓
- Protected by barriers of entry ✓✓
- Favourable geographical area ✓✓
- Does not produce at the lowest possible cost ✓✓
- The monopoly is least efficient at allocating resources and perfect competition is the most efficient at allocating resources ✓✓

Accept any other relevant answer (Any 2 x 2) (4)

2.4 **Explain how the immobility of factors of production can cause market failure.**

- Markets may not be able to respond to consumer demand immediately if factors of production cannot respond and move around easily ✓✓
- Resources tend not to be very mobile and do not adjust easily to consumer demand ✓✓
- Labour may take time to move into new occupations and geographical areas ✓✓ e.g. family ties, friends, convenience, schools ✓✓
- Unskilled labour are not able, willing or do not always have the time or money to gain the skills they need – this causes unemployment or employment at low salaries ✓✓
- Physical capital, cannot easily be moved to places where they are needed ✓✓ e.g. factory buildings and other infrastructure ✓✓
- It takes time for industries to adapt to new technological changes / structural changes ✓✓ e.g. computer-assisted production ✓✓

Accept any relevant examples.

(Any 4 x 2)

(8)

2.5 **Explain how SASOL can compete in an oligopolistic market with other petrol-selling companies in South Africa.**

They will engage in non-price competition ✓✓ by focusing on some of the following:

- Advertising and marketing ✓ e.g. television and radio ✓
- Additional services ✓ e.g. convenience stores ✓
- Branding ✓ SASOL logo ✓ e.g. fuel for cleaner engine ✓
- Friendly staff ✓ e.g. offer additional services such as tyre pressure check ✓
- Clean sanitary facilities ✓ cleaned regularly / additional services e.g. a baby room ✓
- Competitions ✓ e.g. win a car ✓
- Loyalty rewards for customers ✓ e.g. fill-up to a certain amount, getting a free engine wash ✓
- Collaborate with businesses ✓ e.g. fast-selling food outlets ✓
- Advertise ✓ with and in conjunction with other businesses ✓
- Account holders ✓ certain companies filling, only pay month-end ✓

Accept any other relevant answer.

(Any 4 x 2)

(8)

**[40]**



**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES****3.1.1 Give TWO examples of World Heritage Sites in South Africa.**

- Mapungubwe ✓
- The Vredefort Dome ✓
- The Sterkfontein Caves / Cradle of Humankind ✓
- Robben Island ✓
- Richtersveld Cultural and Botanical landscapes ✓
- ISimangaliso Wetland Park ✓ / Greater St Lucia Wetland Park ✓
- The Cape Fynbos region ✓ / Table Mountain ✓ / Agulhas National Park ✓
- Ukhahlamba Drakensberg Park ✓ (Any 2 x 1) (2)

**3.1.2 How can tourism influence the lives of poor people near tourist destinations?**

- Get employed ✓✓
  - Sell goods and services to the tourists ✓✓
- Any other positive or negative arguments e.g. drug trafficking and prostitution, increased crime rates, pollution, led to increased prices for locals. (Any 1 x 2) (2)
- Any other relevant answer.

**3.2 3.2.1 What are resources that can be replaced called?**

Renewable resources ✓✓ (2)

**3.2.2 What do you think is the aim of celebrating 'earth hour'?**

To make people aware of the role played by the production of electricity and fuel to environmental damage / saving energy / make people aware of the destruction of oil, coal and gas ✓✓

Accept any other relevant opinion. (2)

**3.2.3 How can people reduce transport fuel consumption in order to sustain the environment?**

- Using means of transport that carry a large number of passengers such as trains and buses ✓✓
  - Using lift clubs/ travelling in groups ✓✓
  - Walking ✓✓
  - Using bicycles ✓✓
  - Using energy efficient vehicles e.g. hybrid cars ✓✓
- Accept any other relevant answer (Any 1 x 2) (2)

3.2.4 **In your opinion, why are non-renewable resources referred to as 'dirty'?**

- When burnt, they produce greenhouse gases ✓✓
  - Non-renewable resources cause pollution ✓✓
  - This will cause damage to the ozone layer / environment ✓✓
  - Which will lead to global warming ✓✓
  - Which will cause climate change ✓✓ (Any 2 x 2)
- Accept any other relevant response (4)

3.3 3.3.1 **What are unadjusted CPI figures called?**

Headline inflation ✓✓ (2)

3.3.2 **Why is the weighting of items in the basket of goods important?**

To indicate the relative share / importance of the total consumer spending on the various items / it is clear that food and beverages, housing and utilities and transport's relative importance in total spending exceed that of the other ✓✓ (2)

3.3.3 **Why would you exclude food from the CPI basket when calculating core inflation?**

Core inflation excludes items that have prices that are highly volatile (substantive increase and decrease in prices) / affected by government intervention ✓✓ (2)

3.3.4 **Comment on the impact that the overall CPI index has on the consumer.**

- Generally CPI increased / Overall CPI index increased from 5.5 in June to 6.3 in July ✓✓
  - Consumers paid more in July than they did in June for the same items/the cost of living increased / June's figure is within the inflation target range, but July lies outside the target range affecting the cost of living in a negative way ✓✓
  - Measures inflation and economic growth ✓✓
- Accept any other relevant impact. (4)

### 3.4 Discuss the economic benefits of tourism for the government and infrastructure development.

#### Government

- To raise revenue: Tourism makes a direct and indirect contribution to the government revenue through taxes ✓✓ e.g. airport departure taxes, air tickets, VAT, excise duty ✓✓
- Advertise the economy: delivers excellent service to tourists and create a good image of the country ✓✓
- Create jobs and relieve poverty: especially in the informal sector ✓✓ e.g. musicians ✓✓
- It earns foreign exchange for the country thereby increasing its foreign reserves ✓✓ e.g. casino's, accommodation and transport form a very profitable source of foreign reserves ✓✓
- To recover external cost: It helps the government to recover from tourists a portion that serves as a compensation for providing the infrastructure ✓✓
- With excellent service, tourism can create a good image for the country ✓✓ e.g. public amenities such as showers and toilets on beaches ✓✓
- Achieve socio-economic objectives: e.g. black economic empowerment and SMME development ✓✓ (Max 4)

#### Infrastructure development

- All infrastructure built to support tourism become assets to the country ✓✓ e.g. information services ✓✓
  - Residents and tourists enjoy adequate and well maintained physical and basic infrastructure / social infrastructure ✓✓ such as ambulances, medical clinics, information ✓✓
  - Security services and police services that are provided for use by tourists are important for use by residents ✓✓
  - Economic infrastructure is prioritised by government to support tourism growth ✓✓ e.g. ports, beaches, rivers and lakes ✓✓
  - Most economic corridors have tourism as an important focus ✓✓
  - PPP's are sometimes used for the development of infrastructure ✓✓
- Accept any other relevant answers (Max 4) (8)

### 3.5 Why are industries often accused of contributing to land and water pollution?

- Production process often causes pollution when people introduce foreign matter into the environment. ✓✓
  - Firms often release chemical and physical materials on land and in water. ✓✓
  - Water pollution kills the organisms that live in water. ✓✓
  - Land pollution reduces the fertility of soil. ✓✓
  - Extraction of natural resources through mining often results in the damage to land. ✓✓
  - Deforestation often takes place when firms cut trees in preparation for construction of industrial sites. ✓✓
- Accept any other relevant answers. (4 x 2) (8)

(8)  
[40]

**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**

- 4.1 4.1.1 **Give TWO examples of the preservation of the environment.**
- Ecological system ✓
  - Heritage site ✓
  - Indigenous forest ✓
  - Wetland ✓
  - River mouth system ✓
  - Taxation / subsidies / private ownership / reserves / land expropriation / e.g. West Coast nature reserve
  - Any other relevant fact. (Any 2 x 1) (2)
- 4.1.2 **How can the consumer benefit from competition?**
- Will pay lower prices ✓✓
  - Equal opportunities ✓✓
  - Better quality services ✓✓
  - Higher standard of living ✓✓
  - Any other relevant fact. (Any 1 x 2) (2)
- 4.2 4.2.1 **Identify the type of tourism illustrated in the photograph above**
- Cultural tourism ✓ (1)
- 4.2.2 **What is meant when South Africans are encouraged to *explore their own country*?**
- South Africans are encouraged to travel/be tourist in their own country ✓ e.g. Sho't-left campaign ✓ (1)
- 4.2.3 **How would you ensure that SA becomes a world Top 20 travel destination by 2020?**
- International tourism should increase even more than the 10,2% in 2012 ✓✓
  - Tourism as an industry should contribute more to the GDP ✓✓
  - Focusing even more on domestic tourism ✓✓
  - Encouraging South Africans to explore their own country ✓✓
  - Reduce crime / marketing / natural exhibitions / infrastructure / build on a tourist and friendly environment / upmarket technology
  - Any other relevant fact. (Any 2 x 2) (4)

4.2.4 **Why is tourism viewed as a major job creator? Give examples from your own community to support your answer.**

- Tourism is labour intensive ✓✓ implying that a large number of jobs are created with every unit of capital invested e.g. local population using beads and wood to create jewellery ✓✓
  - Tourism employs many skills ✓✓ from hairdressers next to the road ✓✓ / tour guides offering various tours to tourists ✓✓
  - Provide immediate employment to local people ✓✓ e.g. live entertainment at Gold Reef City or Table Mountain ✓✓
  - Provide entrepreneurial opportunities to many individuals with a small capital outlay ✓✓
- Any other relevant fact. (Any 2 x 2) (4)

4.3 4.3.1 **Which imperfect market structure is illustrated above?**

Oligopoly ✓ (1)

4.3.2 **Name the above downward sloping demand curve above.**

Kinked demand curve ✓ (1)

4.3.3 **Explain how price leadership works in this type of market.**

- The dominant firm will initiate a change in price, e.g. increase. They will realise economic profits (abnormal profits) ✓✓
- Other competitors will also increase their prices ✓✓

**OR**

- Dominant firm will decrease prices, luring customers away from other firms in the market ✓✓
  - Other competitors will decrease price not to lose their market share ✓✓
- (Any 2 x 2) (4)

4.3.4 **Assume that the current selling price is R90. Explain why this business will not lower prices to improve its sales.**

- Below price of R90, the firm sees the demand curve as being relative price inelastic, the firm thinks that if it reduces the price of its product, other firms will follow its lead. ✓✓
- As a result all the other firms will sell a bit more output, but the firms will no longer be producing their profit maximisation output. ✓✓
- If the firm lowers its prices to R50 the total income will be R9 500 (50 X 190) compared to the original income of R13 500 (90 x 150) ✓✓ The firm suffers a loss of R4 000 ✓✓ (2 x 2) (4)

4.4 Explain *environmental taxes* and *marketable permits* as intervention strategies to achieve environmental sustainability.

**Levying environmental taxes**

- Environmental taxes are taxes that are imposed on output of goods that generates external environmental costs (pollution) ✓✓
- These taxes are called green taxes / eco taxes ✓✓
- Carbon dioxide from wineries and vehicle tyres are taxed. ✓✓
- The tax rate is equal to the external marginal costs. ✓✓ (2 x 2) (4)

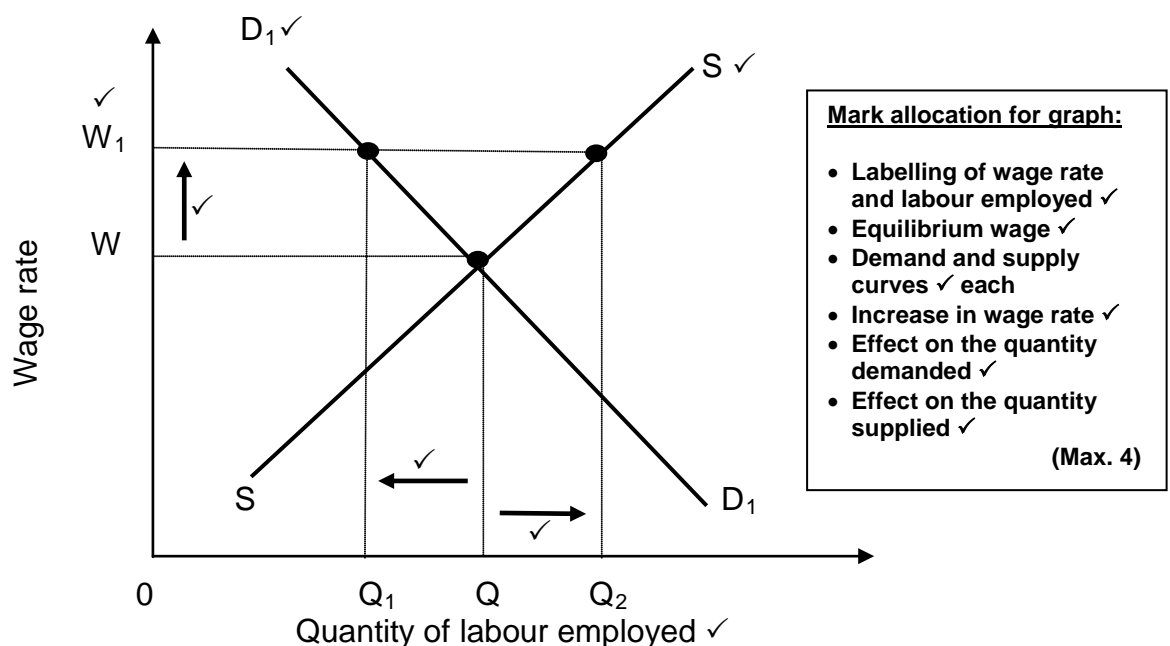
**Marketable permits**

- Government gives each business a licence to pollute to a certain extent. ✓✓
- Businesses can sell their licences to other businesses that has a larger or increased pollution level. ✓✓
- In South Africa marketable permits are granted by the Department of Minerals and Energy. ✓✓ (2 x 2) (4) (8)

4.5 **What are the effects of the implementation of minimum wages in South Africa?**

- The market fails to pay fair increases in salaries of people who are not in a strong enough bargaining position with their employers ✓✓
  - As a result, they are unable to secure real wage increases and their wages remain low and therefore unfair income takes place ✓✓
  - A minimum wage will increase the wage rate, however less workers will be demanded (over supply) in the labour market ✓✓
  - This will lead to an increase in unemployment ✓✓
  - Examples of workers that minimum wages are applied: farm workers, domestic workers ✓✓
- (Any 4 x 2)

**GRAPH:**



**DISCUSSION:**

- Minimum wages improve the distribution of income from W to W1 ✓✓
  - However quantity of labour demanded will decrease from Q to Q1 ✓✓
  - The quantity supply of labour will increase from Q to Q2 ✓✓
  - Therefore, an oversupply of labour (increase in unemployment) will occur with the new minimum wage at W1 ✓✓
- Accept any other relevant argument.

(Max. 8)

(8)  
[40]

**TOTAL SECTION B:**

**80**

**SECTION C**

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

Your answer will be assessed as follows:

<b>STRUCTURE OF THE ESSAY:</b>	<b>MARK ALLOCATION:</b>
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
<b>Conclusion</b>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS****40 MARKS – 35 MINUTES**

Under perfect market conditions the market price of products is determined through the interaction of supply and demand.

- **Discuss perfect competition under the following headings:**
    - **A comparison of the demand curve of the individual producer and industry**
    - **Profit maximisation**
- Make use of graphs to support your discussion. (26)**
- **In your opinion, does the Competition Act of South Africa promote fair competition? (10) [40]**



**INTRODUCTION**

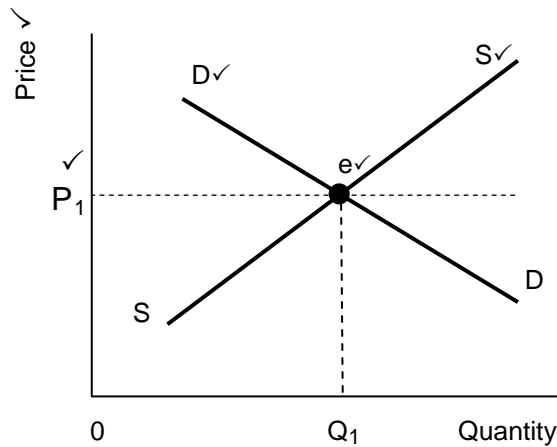
An industry consists of all the firms that produce the same product where the output of an industry is the sum of the output of its individual firms. ✓✓

Accept any other relevant answer

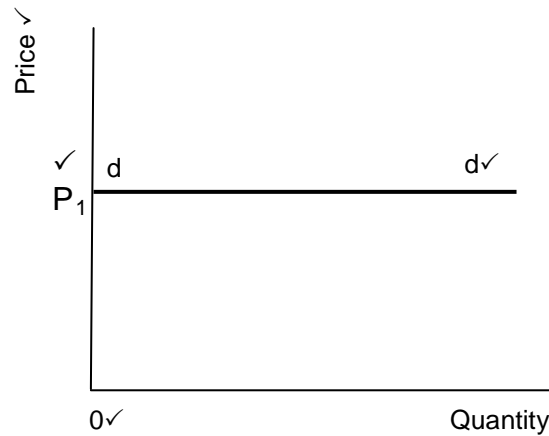
**(Max. 2)**

**BODY: MAIN PART**

**Demand curve for the market ✓**



**Demand curve of a perfect Competitor ✓**



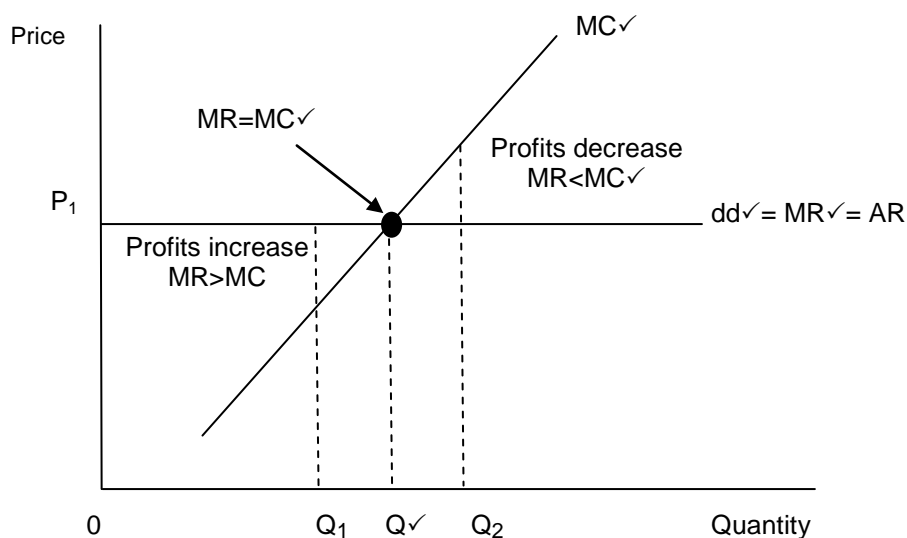
Mark allocation	
• Labelling of axes	1 mark
• Labelling on axes	1 mark
• Draw and labelling of demand curve	1 mark
• Draw and labelling of supply curve	1 mark
• Indication of equilibrium	1 mark
• Heading	1 mark
<b>Max: 4 marks</b>	

Mark allocation	
• Labelling of axes	1 mark
• Labelling on axes	1 mark
• Indication of origin	1 mark
• Draw and labelling of demand curve	1 mark
• Heading	1 mark
<b>Max: 4 marks</b>	

- In a perfectly competitive market the price of a product is determined by the interaction between market demand and market supply for the product. ✓✓
- The market demand curve is represented by DD which is downward sloping and the supply curve (SS) is upward sloping. ✓✓
- As a result of the interaction between market demand and market supply, the equilibrium is established at P1. ✓✓
- Extending this price the graph of the individual produce. The demand curve for the firm is horizontal that indicates that the individual producer is a price taker. ✓✓

**2. Profit maximisation**

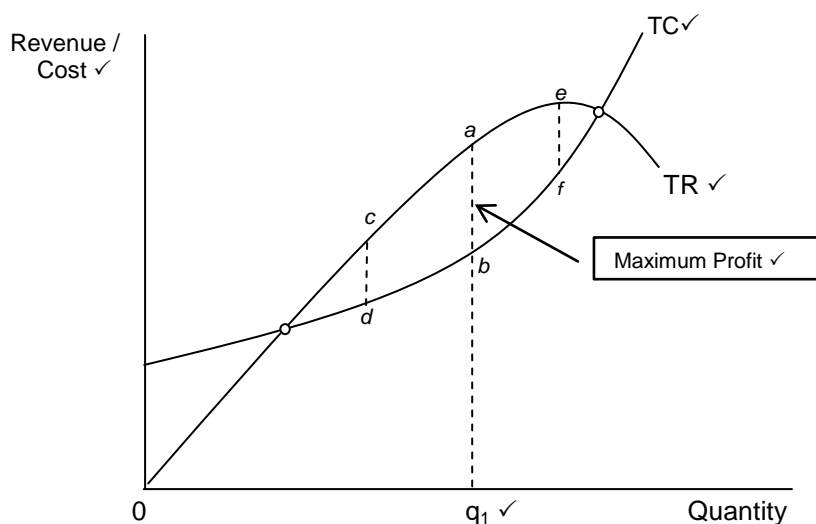
**Marginal cost/marginal revenue approach**



Mark allocation	
• Correct heading	1 mark
• Labelling on axes	1 mark
• Drawing and labelling of curves	1 mark each
• Indication of equilibrium (MR=MC)	1 mark
• Indicating area where MR > MC	1 mark
• Indicating area where MR < MC	1 mark
<b>Max 4 marks</b>	

- The firm produces maximum profits if it produces the quantity where the marginal revenue is equal to marginal cost (MR=MC) ✓✓
- As long as marginal revenue is greater than marginal cost, the marginal revenue contributes towards total profits ✓✓
- By producing an additional unit, the producer gains the additional unit and his profit increases more than it cost to produce. MR > MC: profits increase ✓✓
- When the marginal revenue is less than marginal cost, total profits will decline / MR < MC: profits decline ✓✓
- It cost the firm more to produce an additional unit than it gets from selling the additional unit it is therefore not in the interest of the firm to produce the extra unit ✓✓
- If the marginal cost of producing an extra unit is higher than the marginal revenue received, the firm will make a loss ✓✓
- For the producer to maximise profits, it should expand production to the point where marginal revenue is equal to marginal cost ✓✓

**OR**

**Total cost/Total revenue approach****Mark allocation**

- |  |        |
|--|--------|
| • Labelling of axis                          | 1 mark |
| • Labelling on axis                          | 1 mark |
| • Positioning and labelling of total cost    | 1 mark |
| • Positioning and labelling of total revenue | 1 mark |
| • Correct indication of maximum revenue      | 1 mark |

**Maximum 4 marks**

- The firm will realise maximum profit where total revenue and total cost is at its greatest - (a-b) on the graph ✓✓
- The firm starts to realise profits if it produce or increase output to the right of break-even point A ✓✓
- Any output beyond (right of break-even point B will realise in a loss; total cost is higher than total revenue ✓✓
- If the firm produce up to point e, peak of total revenue, it will still realise profits, however it will not realise maximum profits ✓✓
- The firm therefore maximises sales ✓✓
- If the firm want to realise maximum output it should produce to point a ✓✓
- The firm therefore maximises profit.

Candidates should also be credited if tables are used in their discussions.

Discussion max 14 marks

Max. 26 marks

**ADDITIONAL PART****Yes✓****Arguments in favour:**

- The aim of the Competition Act is to increase efficiencies in the market ✓✓
- Improve equity in markets by ensuring access to people who were previously disadvantaged to participate in the economy ✓✓
- Contribute to developmental objectives ✓✓
- Provide consumers with competitive prices and product choices ✓✓
- Ensure that small and medium sized enterprises have an equitable opportunity to participate in the economy ✓✓
- Promotes the spread of ownership ✓✓

- **Three institutions were created to achieve these objectives:**
  - Competition Commission: ✓ to investigate, control and evaluate restrictive business practices, ✓✓ abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. ✓✓
  - Competition Tribunal: ✓ grant exemptions, authorise or prohibit large mergers, adjudicate, grant an order for costs on matters referred by the Commission ✓✓
  - Competition Appeal Court: ✓ consider any appeal from or review a decision of the Competition Commission; ✓✓ confirm, amend or set aside a decision by the Competition Tribunal ✓✓ confirm an order for the disinvestment of assets of parties that merged without following the Act. ✓✓
- **Examples of cases investigated by the Competition Commission and/or Competition Tribunal or Appeal Court:**
  - BMW ✓ over-pricing cars ✓✓ (outcome fined) ✓✓
  - Tyre industry ✓ collusion amongst tyre manufacturers ✓✓ (outcome fined) ✓✓
  - Construction industry ✓ collusion of bidding prices for building stadiums in 2010 ✓✓ (outcome fined) ✓✓
  - Bread (Tiger Brands) ✓ collusion of bread companies to fixing prices ✓✓ (outcome fined) ✓✓
  - Cell phone companies ✓ (rates) as well as interconnection rates ✓✓ (outcome reducing interconnection fees over a few years ✓✓)
  - Telkom ✓ monopolising communication towers ✓✓ (outcome fined) ✓✓
- **Effects of these investigations:**
  - Install good business practices, deterred for other companies that wanted to apply inappropriate business practices ✓✓ (accept any other relevant example)  
Any cases investigated by the Competition Commission. The candidate has to mention the parties involved and the outcome of such investigation.

**If only cases were mentioned without any deliberation (Max. 5)**  
**(Max. 10)**

## CONCLUSION

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body /
- An opinion or valued judgement on the facts discussed /
- Additional support information to strengthen the discussion /
- A contradictory viewpoint with motivation /
- Recommendations.

E.g. It is critically important to protect the market mechanism of supply and demand by enhancing fair and vibrant competition in the economy; therefore the role of the Competition Act cannot be underestimated. ✓✓ **(Max. 2)**

**[40]**

**QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 35 MINUTES**

**Inflation is a phenomenon that many countries in the world have to deal with.**

- **Examine in detail the causes of cost-push inflation. (26)**
- **Has South Africa's inflation-targeting policy been beneficial to the economy? Motivate your response. (10) [40]**

**INTRODUCTION**

Inflation is a sustained and significant increase in general price level over a period of time and a simultaneous decrease in the purchasing power of money. ✓✓

Accept any other relevant introduction. **(Max. 2)**

**BODY: MAIN PART****Causes of cost-push inflation**

- **Increase in Wages:** ✓
  - In South Africa, increase in wages constitute more than 50% of Gross Value Added at basic prices ✓✓
  - If the increase in wages is not accompanied by an increase in production, the cost of production will rise ✓✓
  - Producers will increase the prices of their products to offset the high cost of production ✓✓
  - Strikes and stay-aways / labour union activities ✓✓
- **Key inputs/ increase in prices of imported capital goods** ✓
  - When the prices of key inputs that are imported increase, domestic cost of production increases especially in the manufacturing sector ✓✓
  - Supply shocks e.g. sudden increase of oil causes a knock-off effect ✓✓
- **Exchange rate depreciation** ✓
  - A decrease in the value of the rand will result in an increase in prices of imports ✓✓
- **Profit margins** ✓
  - When firms increase profit margins, the prices that consumers pay also increase ✓✓
  - Sometimes firms use their market power to push up prices ✓✓
- **Productivity** ✓
  - Less productive factors of production will lead to increased cost per unit ✓✓
  - Strikes and stay-aways often reduce production output and can result in price increases ✓✓
- **Natural disasters** ✓
  - Natural disasters such as drought, flood and global warming can impact on the cost of production ✓✓
  - This is often the case in relation to food prices ✓✓

- **Interest rates** ✓
    - An increase in interest rates results businesses paying more money for capital loaned ✓✓
    - Firms recover these costs by increasing the prices of their products ✓✓
  - **Increase in taxation** ✓
    - Increase in *direct tax* like company income tax may lead to businesses increasing their prices to offset the extra burden ✓✓
    - Increase in *indirect tax* such as custom duty will lead to increase in costs of supplying a particular product, therefore the price will increase ✓✓
  - **Administered prices increase** ✓ e.g. fuel prices ✓✓
  - **Shoplifting and losses** ✓ caused by employees are added to the prices of products ✓✓
- Accept any other relevant fact. Maximum 8 marks for headings. **(Max. 26)**

## BODY: ADDITIONAL PART

### YES / NO ✓

- **Inflation targeting** is when a particular percentage is set as an acceptable level for an increase in general price levels ✓✓
- The SARB's inflation target is a range of 3% and 6% ✓✓
- The aim of **inflation targeting policy** is to achieve and maintain price stability ✓✓
- The implementation of the inflation target is easy to understand – expressed in numbers which makes it very clear and transparent ✓✓
- It reduces uncertainty and promotes sound planning in the public and private sectors ✓✓
- It provides an explicit yardstick that serves to discipline monetary policy and improves the accountability of the central banks ✓✓
- The SARB make use of monetary policy, specifically the repo rate to keep the inflation within the target range ✓✓
- The government make use of fiscal policy regarding public sector revenue and expenditure ✓✓

### Positive effects

- Where demand is higher than supply an increase in interest rates help to bring the demand down ✓✓
- The policy can helps businesses to make economic plans without worrying about the effects of high inflation ✓✓
- South Africa's price level has been fairly stable since the introduction of the inflation targeting policy in 2000 ✓✓

### Negative effects

- Inflation targeting can cause a reduction in economic growth ✓✓
  - This is because the raising of interest rates, result in a decrease in total spending which is needed for production to increase ✓✓
  - Decreased economic growth can increase unemployment ✓✓
  - South Africa has been experiencing an increase in unemployment since the implementation of the policy in 2000 ✓✓
  - Inflation targeting is difficult to implement when the cause of inflation is supply shocks ✓✓
- (Max. 10)**

**CONCLUSION**

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body.
- An opinion or valued judgement on the facts discussed.
- Additional support information to strengthen the discussion.
- A contradictory viewpoint with motivation.
- Recommendations.

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

**(Max. 2)**

**[40]**

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**