



# basic education

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

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2015**

**MARKS: 150**

**TIME: 2 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 – 20 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 Savings flow back into the circular flow as ...
- A government spending.
  - B investment.
  - C exports.
- 1.1.2 The severity of cyclical fluctuations in business cycles is indicated by ...
- A amplitudes.
  - B moving averages.
  - C extrapolations.
- 1.1.3 Public goods for which consumers have to pay are known as ... goods.
- A community
  - B private
  - C collective
- 1.1.4 The financial account in the balance of payments records transactions related to ...
- A production.
  - B assets and liabilities.
  - C net gold exports.
- 1.1.5 The practice of selling goods in a foreign country at lower prices than in the country of origin is known as ...
- A exportation.
  - B importation.
  - C dumping.
- 1.1.6 According to the United Nations' classification, South Africa falls in the ... human development index (HDI) group of countries.
- A low
  - B medium
  - C high

1.1.7 Money paid by the government to businesses as incentives to decrease their cost of production is known as ...

- A subsidies.
- B tariffs.
- C sureties.

1.1.8 Demographics, as a social indicator, deals with ...

- A mortality rates.
- B nutrition.
- C housing.

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches the 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	Portfolio investment	A	price of one country's currency in terms of another country's currency
1.2.2	Leading indicators	B	rich industrial countries of the world
1.2.3	Medium-term expenditure framework	C	a trade policy that leads to an increase in local production
1.2.4	Exchange rate	D	aims to reduce the centralisation of industries
1.2.5	Import substitution	E	education and health
1.2.6	G8	F	give advance warning of changes in economic activity
1.2.7	Social indicators	G	collective term for developing countries
1.2.8	Regional development	H	shows income and expenditure estimates for three years
		I	buying and selling equities/shares

(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 process whereby a relatively small change in injections results in a proportionally larger increase in national income
- 1.3.2 A market for short-term savings and loans
- 1.3.3 Goods and services, like education, that benefit society as a whole
- 1.3.4 The sector that needs to be included for the economy to be regarded as an open economy
- 1.3.5 The coefficient that measures the inequality of income
- 1.3.6 The number of years a person is expected to live (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: MACROECONOMICS****40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Give TWO examples of injections in the circular flow. (2 x 1) (2)

2.1.2 What effect will quotas have on imports? (1 x 2) (2)

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

<b>NATIONAL INCOME ACCOUNTS OF SOUTH AFRICA</b>		
	<b>R millions</b>	
	<b>2012</b>	<b>2013</b>
Compensation of employees	1 451	1 576
Net operating surplus	922	961
Consumption of fixed capital	406	443
<b>Gross value added at factor cost</b>	<b>2 779</b>	<b>2 980</b>
Other taxes on production	56	64
LESS: Subsidies on production	15	14
<b>... (A) ...</b>	<b>2 820</b>	<b>3 030</b>
Taxes on products	338	374
LESS: Subsidies on products	20	19
<b>Gross domestic product at market prices</b>	<b>3 138</b>	<b>3 385</b>

[Adapted from *SARB Quarterly Bulletin*, September 2014]

2.2.1 What method of calculation was used in the table above to determine the gross domestic product? (1)

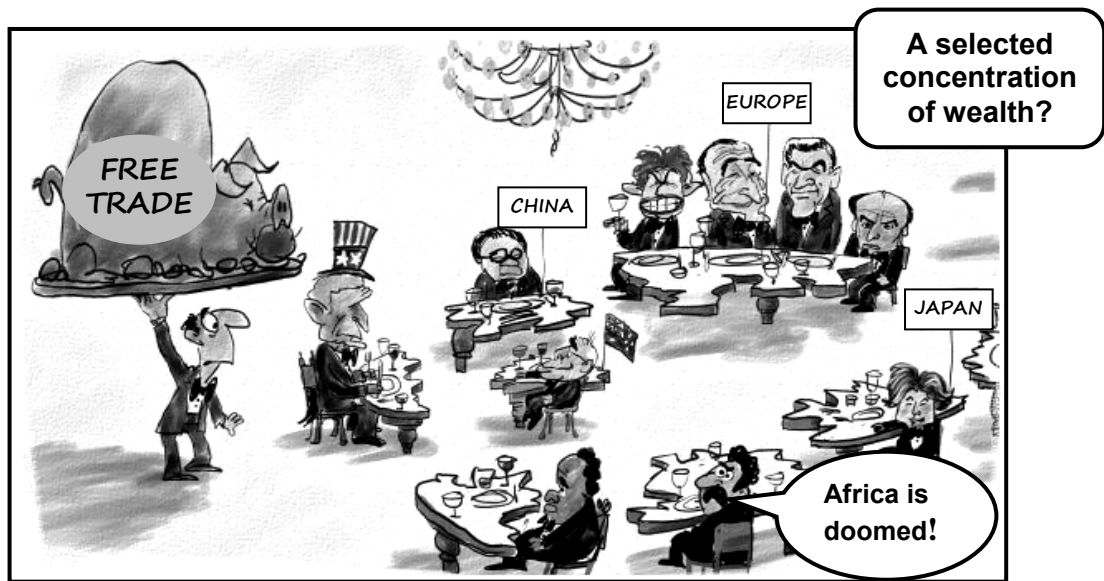
2.2.2 Give ONE example of taxes on products. (1)

2.2.3 Name the missing item labelled (A). (2)

2.2.4 How would you convert GDP to GNP? (2)

2.2.5 Calculate the compensation of employees as a percentage of GDP at market prices in 2013. Show ALL calculations. (4)

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



[Adapted from [www.economiccartoons.com](http://www.economiccartoons.com)]

- 2.3.1 What message is conveyed in the cartoon above? (2)
- 2.3.2 Which international organisation promotes free trade? (2)
- 2.3.3 Suggest ONE way in which a country can be disadvantaged by free trade. (2)
- 2.3.4 How does South Africa benefit from trade relations with China? (4)
- 2.4 Briefly explain the different kinds of tariffs as a method of import substitution. (4 x 2) (8)
- 2.5 How can the household, as an important participant in the circular flow model, contribute to building the economy? (4 x 2) (8)
- [40]**

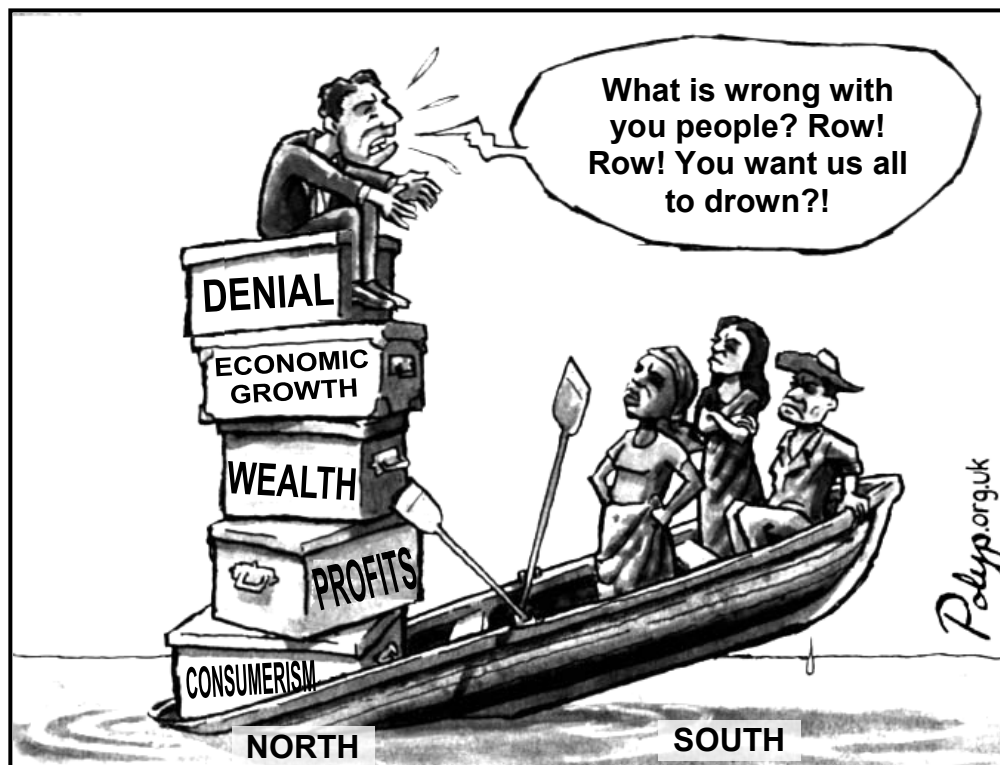
**QUESTION 3: ECONOMIC PURSUITS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO redress measures currently used in South Africa. (2 x 1) (2)

3.1.2 How does economic growth relate to economic development? (1 x 2) (2)

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

[Source: [Poly.org.uk](http://Poly.org.uk), October 2014]

3.2.1 What is the difference in the per capita income between countries in the North and countries in the South? (2)

3.2.2 What message is conveyed in the cartoon above? (2)

3.2.3 Why will the subsidising of agricultural produce by wealthy countries make it difficult for developing countries to participate? (2)

3.2.4 How do countries in the North contribute to the destruction of the environment? (2 x 2) (4)



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

**THE SOUTH AFRICAN EXPERIENCE IN SDIs**

In 1996 the SDI was developed in South Africa as an integrated planning tool.

It was modelled on the highly successful route between Gauteng and Mpumalanga in South Africa and the port of Maputo in Mozambique.

A strong local, regional and international investment profile continues to respond to the improving logistics and policy environment created by the participating governments. To date, the private sector has committed an estimated figure of well beyond R35 billion worth of investments in southern Mozambique and Mpumalanga.

[Adapted from Report on SEZ, DTI]

- |       |   |             |
|-------|---|-------------|
| 3.3.1 | What does the abbreviation <i>SDI</i> stand for?  | (2)         |
| 3.3.2 | Give ONE example of an SDI in South Africa.   | (2)         |
| 3.3.3 | Explain the term <i>corridors</i> .   | (2)         |
| 3.3.4 | How will South Africa benefit from SDIs?  | (2 x 2) (4) |
| 3.4   | Briefly discuss special economic zones (SEZs) in South Africa.  | (4 x 2) (8) |
| 3.5   | To what extent has the government's fiscal policy succeeded in ensuring a desirable redistribution of income? | (4 x 2) (8) |
|       |   | <b>[40]</b> |

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**  
**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name any TWO phases of a business cycle. (2 x 1) (2)

4.1.2 How would a high level of education influence the ability of an individual to become employed? (1 x 2) (2)

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

<b>SOUTH AFRICA: TERMS OF TRADE</b>			
<b>Year</b>	<b>Index of import prices</b>	<b>Index of export prices</b>	<b>Terms of trade</b>
2010	141	171	121.3
2011	153	191	<b>A</b>
2012	163	200	122.7
2013	179	214	119.6

[Source: SARB Quarterly Bulletin, March 2015]

4.2.1 Identify the institution responsible for publishing the data above. (1)

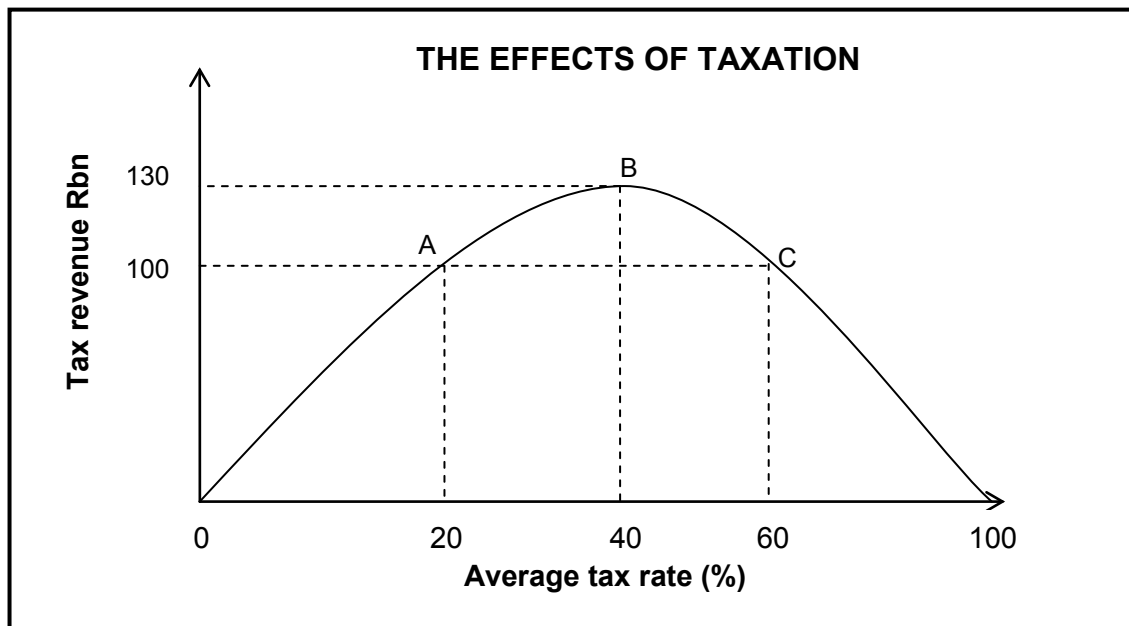
4.2.2 What is the trend in the index of import prices? (1)

4.2.3 Explain the term *terms of trade*. (2)

4.2.4 Briefly explain why an increase in the terms of trade will have a positive effect on the welfare of the country. (2)

4.2.5 Calculate the terms of trade for 2011 (**A**). Show ALL calculations. Round off your answer to ONE decimal place. (4)

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



4.3.1 Which curve is depicted in the graph above? (2)

4.3.2 What tax rate will generate maximum revenue for the government? (2)

4.3.3 What is the correlation between a tax rate of zero and a tax rate of 100% for the government? (2)

4.3.4 Explain the implication of a tax rate of 60% on the taxpayer. (4)

4.4 Differentiate between the *devaluation* and *appreciation* of a currency. (2 x 4) (8)

4.5 How can the South African government improve the efficiency of service delivery? (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 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/Differentiate/ Explain/Assess/Debate <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/How?/Suggest	Max. 26  Max. 10
<b>Conclusion</b> Any higher-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

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

The new economic paradigm is embedded (rooted) in demand-and-supply-side policies to influence the economy.

- Discuss the use of monetary and fiscal policies to influence demand and supply in the smoothing of business cycles. (26 marks)
- How has the Keynesian (endogenous) school of thought influenced business cycles? (10 marks)

**[40]****QUESTION 6: ECONOMIC PURSUITS****40 MARKS – 40 MINUTES**

Economists use different indicators to help with decision-making.

- Discuss, in detail, the following economic indicators that are used to assess the performance of the economy:
  - Inflation rate
  - Employment (26 marks)
- How successful is the South African Reserve Bank in stabilising prices on the different markets as its main objective? (10 marks)

**[40]**

**TOTAL SECTION C:**  
**GRAND TOTAL:**

**40**  
**150**



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## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2015**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 20 pages.**

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

- |       |                               |         |      |
|-------|-------------------------------|---------|------|
| 1.1.1 | B (investment) ✓✓             |         |      |
| 1.1.2 | A (amplitudes) ✓✓             |         |      |
| 1.1.3 | C (collective) ✓✓             |         |      |
| 1.1.4 | B (assets and liabilities) ✓✓ |         |      |
| 1.1.5 | C (dumping) ✓✓                |         |      |
| 1.1.6 | B (medium) ✓✓                 |         |      |
| 1.1.7 | A (subsidies) ✓✓              |         |      |
| 1.1.8 | A (mortality rate) ✓✓         | (8 x 2) | (16) |

**1.2 MATCHING ITEMS**

- |       |  |         |     |
|-------|--|---------|-----|
| 1.2.1 | I – Buying and selling equities ✓  |         |     |
| 1.2.2 | F – Give advance warning of change in economic activity ✓                    |         |     |
| 1.2.3 | H – Shows income and expenditure estimates for three years ✓                 |         |     |
| 1.2.4 | A – Price of one country's currency in terms of another country's currency ✓ |         |     |
| 1.2.5 | C – A trade policy that leads to an increase in local production ✓           |         |     |
| 1.2.6 | B – Rich industrial countries of the world ✓                                 |         |     |
| 1.2.7 | E – Education and health ✓   |         |     |
| 1.2.8 | D – Aims to reduce the centralisation of industries ✓                        | (8 x 1) | (8) |

**1.3 GIVE ONE TERM**

- |       |                           |         |     |
|-------|---------------------------|---------|-----|
| 1.3.1 | Multiplier ✓              |         |     |
| 1.3.2 | Money / financial ✓       |         |     |
| 1.3.3 | Merit / public ✓          |         |     |
| 1.3.4 | Foreign / international ✓ |         |     |
| 1.3.5 | Gini ✓                    |         |     |
| 1.3.6 | Life expectancy ✓         | (6 x 1) | (6) |

**TOTAL SECTION A: 30**

**SECTION B**

Answer any TWO of the three questions.

**QUESTION 2: MACROECONOMICS**

- 2.1      2.1.1      **Give TWO examples of injections in the circular flow.**
- Export income / X ✓
  - Investments / I ✓
  - Government expenditure/spending / G ✓
- Any (2 x 1) (2)
- 2.1.2      **What effect will quotas have on imports?**
- It will restrict imports (decline) ✓✓
  - Imports become more expensive ✓✓
- (1 x 2) (2)
- 2.2      **Data Response**
- 2.2.1      **What method of calculation was used in the table above to determine the gross domestic product?**
- Income method / GDP (I) ✓ (1)
- 2.2.2      **Give ONE example of taxes on products.**
- VAT ✓
  - Sins tax / excise duty ✓
  - Fuel levy ✓
- (1)
- 2.2.3      **Name the missing item labelled (A).**
- GVA (GDP) at basic prices ✓✓ (2)
- 2.2.4      **How would you convert GDP to GNP?**
- GDP plus primary income from the rest of the world ✓ minus primary income to the rest of the world ✓ / GDP plus/minus ✓ net primary income ✓ (2)
- 2.2.5      **Calculate the compensation of employees as a percentage of GDP at market prices in 2013. Show ALL calculations.**
- $1\ 576/3\ 385 \checkmark \times 100 \checkmark = 46,55\% \text{ or } 47\% \checkmark \checkmark$  (4)

## 2.3 Data Response

### 2.3.1 What message is conveyed in the cartoon above?

Free trade is benefitting the developed countries / less developed countries are disadvantaged ✓✓  
(Accept any other relevant answer)

(2)

### 2.3.2 Which international organisation promotes free trade?

World Trade Organisation (WTO) ✓✓

(2)

### 2.3.3 Suggest ONE way in which a country can be disadvantaged by free trade.

- Dumping can take place ✓✓
  - It can lead to economic instability ✓✓
  - Exploitation of natural resources ✓✓
  - It can compromise a country's economic independence ✓✓
  - Infant industries may not grow (mature) ✓✓
  - Lead to increased unemployment ✓✓
  - The environment, safety and labour regulations are undermined ✓✓
  - Foreign companies can sue governments for losses ✓✓
- (Accept any other relevant answer)

(2)

### 2.3.4 How does South Africa benefit from trade relations with China?

- Greater variety of products on South African markets ✓✓
  - Many products are cheaper ✓✓
  - Chinese investment greater in South Africa: boost the economy ✓✓
  - Both countries form part of BRICS - it will benefit them even more ✓✓
- (Accept any other relevant answer)

Any (2 x 2)

(4)

## 2.4 Briefly explain the different kinds of *tariffs* as a method of import substitution.

- **Ad valorem** ✓ a percentage of the value on luxury goods ✓✓ such as motorcars, jewellery and perfumes ✓
- **Specific** ✓ an amount per unit, mass or size ✓✓ e.g. food, animals and plants ✓
- **Composite / multiple** ✓ when a specific tariff and an ad valorem tariff are levied on imported products ✓✓ e.g. R10 is levied on a product plus a percentage of 20% of the value of the product ✓

(Accept any other relevant answer)

(4 x 2)

(8)



2.5 **How can the household as an important participant in the circular flow model contribute to building the economy?**

- The owners of the four factors of production can try to increase the quality thereof to make a better contribution to the economy ✓✓
- Households can sell their factors of production at lower rates to help to lower the inflation rate and build the economy ✓✓
- Households (labourers) can limit labour unrest and strikes where they usually claim unreal increases in payment (much more than the current inflation rate) ✓✓
- Households can increase their savings and contribute indirectly to increased production in the manufacturing sector ✓✓
- Households can limit their spending on luxury goods that will limit the aggregate demand and stabilise prices ✓✓
- Households can concentrate on buying South African goods to stimulate local production, future exports and increased penetration of markets internationally ✓✓
- Households can pay their relevant taxes and claim better service delivery and infrastructure development ✓✓

(Accept any other relevant answer)

Any (4 x 2)

(8)  
**[40]**

**QUESTION 3: ECONOMIC PURSUITS**

3.1 3.1.1 **Name any TWO redress measures currently used in South Africa.**

- BBBEE Act ✓
- Employment Equity Act ✓
- Land Restitution Act ✓
- Land Redistribution Act ✓
- Policy Promoting Equality ✓
- Poverty reduction policy ✓
- Affirmative Action ✓

(Accept any relevant answer)

Any (2 x 1) (2)

3.1.2 **How does economic growth relate to economic development?**

*When an economy is growing the following may result:*

- More jobs will be created ✓✓
- More people will receive income ✓✓
- The standard of living will improve ✓✓
- You need economic growth for economic development to take place. Economic growth does not guarantee economic development ✓✓

(Accept any other relevant answer)

Any (1 x 2) (2)

3.2 **Data Response**

3.2.1 **What is the difference in the per capita income between countries in the North and countries in the South?**

- South has low per capita income / which constitute 15% of the world's income ✓
- North has high per capita income / which constitutes 85% of the world's income ✓

(Accept any other relevant answer)

(2 x 1) (2)

3.2.2 **What message is conveyed in the cartoon above?**

North/South divide / North is controlling the South / The North benefits more than the South / The North has all the wealth compared to the South / The South are marginalised ✓✓

(Accept any other relevant answer)

(2)

3.2.3 **Why will the subsidising of agricultural produce by wealthy countries make it difficult for developing countries to participate?**

- Subsidies lead to lower market prices for wealthy countries and developing countries experience unfair competition internationally ✓✓
- Most African countries are dependent on agricultural produce that determine their national income in a large way. Most people are influenced negatively by the hothouse effect – produce decreases ✓✓

(Accept any other relevant response) (2)

3.2.4 **How do countries in the North contribute to the destruction of the environment?**

- Mass production of goods and services causing pollution ✓✓
- High levels in industrial activities cause climate change ✓✓
- Over industrialisation lead into the exhaustion of natural resources ✓✓
- Deforestation due to over industrialisation ✓✓ (2 x 2) (4)

(Accept any other relevant response)

3.3 **Data Response**

3.3.1 **What does the abbreviation *SDI* stand for?**

Spatial Development Initiative ✓✓ (2)

3.3.2 **Give ONE example of an SDI in South Africa.**

- Maputo Development Corridor ✓✓
- Richards Bay SDI ✓✓
- Wild Coast SDI ✓✓
- Lubombo SDI ✓✓
- Fish River SDI ✓✓
- West Coast Investment Initiative ✓✓
- Platinum SDI (Coast to coast) ✓✓
- Phalaborwa SDI ✓✓ (2)

3.3.3 **Explain the term *corridors*.**

A corridor is a spatial area that forms a passage way allowing access from one area to another and offering advantages to mining, manufacturing and other businesses ✓✓

(Accept any other relevant answer) (2)

### 3.3.4 How will South Africa benefit from SDIs?

- Improving logistics and policy environment ✓✓
  - New investments ✓✓
  - Job opportunities ✓✓
  - New business opportunities ✓✓
  - New export opportunities ✓✓
- (Accept any other relevant answer)

Any (2 x 2) (4)

### 3.4 Briefly discuss special economic zones (SEZs) in South Africa.

- It is a geographical demarcated area where specific economic activities have been identified to develop ✓✓
  - Main aim is to expand the manufacturing sector ✓✓
  - Produce for the export market ✓✓
  - Create additional industrial hubs so that the national industry base will be diversified ✓✓
  - These areas may enjoy incentives such as tax relief and support systems to promote industrial development ✓✓
  - There are plans to reduce tax to 15% as an incentive to attract new industries ✓✓
  - The **aim** of creating SEZ is to attract:
    - only new businesses ✓✓
    - business which are developing a new product line ✓✓
    - business which are expanding their volume ✓✓
  - The DTI has indicated that the existing IDZs where special tax incentives do not apply, would be graduated into SEZs ✓✓
  - It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment ✓✓
- (Accept any other relevant fact)

Any (4 x 2) (8)

**3.5 To what extent has the government's fiscal policy succeeded in ensuring a desirable redistribution of income?**

- Progressive personal income tax implicates higher tax rates levied on high income earners and lower rates of taxes applying to lower income earners - it leads to a desirable redistribution of income ✓✓
- A too progressive personal income tax system has led to tax evasion and avoidance – this might cripple the system. The number of people responsible for most of the income of the state is decreasing ✓✓
- Taxes on assets owned as well as wealth taxes (CGT) are both categories where those who can afford it; must pay the taxes concerned ✓✓
- Cash benefits include grants to the poor – old age pensions; disability grant; UIF are amounts paid to those who form part of the lower income groups of people without any income ✓✓
- Benefits in kind comprises lower fees or no fee for certain income categories, e.g. health care, education, protection, municipal services tries to redistribute income successfully although major problems of nepotism, apathy, lack of motivation and inefficiency occurs in these sectors where money allocated for these groups are not spent accordingly ✓✓
- Land reform programme involves returning of land to people that were previously dis-owned without compensation as well as people excluded from owning land in the past. Implementation of this policy remains problematic due to certain decisions being taken that might reduce mass production dramatically and we might not be able to feed the nation – disadvantaging the poor even more ✓✓
- Cash and financial benefits to SMMEs where Government provides training, employment subsidies and financing of SMMEs - previously disadvantaged groups will enjoy preference and income would be successfully redistributed ✓✓
- Public works programmes provide employment but usually on a temporarily basis e.g. where unemployed are appointed to build stadiums for a World Cup ✓✓
- Property subsidies are paid to persons earning less than R3 500 per month ✓✓

(Accept any other relevant facts)

Any (4 x 2)

(8)  
**(40)**

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**

- 4.1      4.1.1      **Name any TWO phases of a business cycle.**
- Recession ✓
  - Depression ✓
  - Prosperity ✓
  - Recovery ✓
- (Accept any other relevant fact) Any (2 x 1) (2)
- 4.1.2      **How does a high level of education influence the ability of an individual to get employed?**
- It provides skills to do a specific job ✓✓
  - It provides knowledge to do a specific job ✓✓
- (Accept any other relevant answer) Any (1 x 2) (2)
- 4.2      **Data Response**
- 4.2.1      **Identify the institution responsible for publishing the data above.**
- South African Reserve Bank / SARB ✓ (1)
- 4.2.2      **What is the trend in the index of import prices?**
- The index of import prices is increasing ✓ (1)
- 4.2.3      **Explain the term *terms of trade*.**
- The ratio of the index of export prices to the index import prices /  
The relationship between export price and import prices / It  
expresses a country's export prices in terms of its import prices ✓✓  
(Accept any other relevant fact) (2)
- 4.2.4      **Briefly explain why an increase in the terms of trade will have a positive effect on the welfare of the country.**
- There will be increasing economic welfare because more revenue  
is earned with the same expenditure ✓✓  
(Accept any other relevant fact) (2)
- 4.2.5      **Calculate the terms of trade for 2011 (A). Show ALL calculations. Round off your answer to ONE decimal place.**
- $\frac{191}{153} \times 100 = 124,8$  ✓  
(Max 4) (4)

4.3 **Data Response**

- 4.3.1 **Which curve is depicted in the graph above?**  
Laffer curve ✓✓ (2)
- 4.3.2 **What tax rate will generate maximum revenue for the government?**  
40% ✓✓ (2)
- 4.3.3 **What is the correlation between a tax rate of zero and a tax rate of 100 % for the government?**  
In both scenarios government will receive no income ✓✓ (2)
- 4.3.4 **Explain the implication of a tax rate of 60% on the taxpayer.**
- Tax evasion or tax avoidance will occur because too much tax is levied on the taxpayer ✓✓
  - Taxpayer's burden will increase (by 20%) ✓✓
  - Some of the tax payers will stop working due to the increased tax load ✓✓ (2 x 2) (4)

4.4 **Differentiate between *devaluation* and *appreciation* of a currency.****Devaluation:**

- A decrease in the value of a currency ✓ by authorities (government) ✓
- Refers to a fixed exchange rate system ✓✓
- The government might devalue a currency to improve exports ✓✓
- The government can change the rate from \$1 = R10 changes to \$1 = 12 ✓✓ (Max 4)

**Appreciation:**

- An increase in the value of a currency ✓ due to market forces ✓
- Typical of a floating exchange rate system ✓✓
- \$1 = R10 changes to \$1 = 8 ✓✓ (Max 4) (8)

4.5 **How can the South African government improve *efficiency in service delivery*?**

- Goods and services should be provided in the desired quantity and quality ✓✓
  - Public goods can be efficiently provided if pareto efficiency is achieved ✓✓
  - Minimising *red tape* / avoid bureaucracy ✓ rules and procedures should be streamlined to minimize the negative impact on the delivery of services ✓
  - Increase training ✓ effective training must be provided for government officials e.g. in-service training, reskilling ✓
  - Improve motivation ✓ by providing *awards* to productive workers, financially or payment in kind ✓
  - Eliminate corruption ✓ put effective monitoring measures in place ✓ (8)
- (Accept any other relevant answer) Any (4 x 2) [40]

**TOTAL SECTION B:****80**

**SECTION C**

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

<b>STRUCTURE OF 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/Differentiate/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/How/ Suggest	Max. 10
<b>Conclusion</b> Any higher order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or valued judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if so required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5 MACROECONOMICS**

The new economic paradigm is embedded (rooted) in demand-and-supply-side policies to influence the economy.

- Discuss the use of monetary and fiscal policies to influence demand-and-supply in the smoothing of business cycles. (26 marks)
- How has the Keynesian (endogenous) school of thought influenced business cycles? (10 marks)

**INTRODUCTION**

- Theories by the Monetarists (Friedman) and Keynesians (Keynes) are extreme and only true under specific circumstances /
- Under real circumstances, government pursues economic growth irrespective of being inherently stable or unstable market conditions prevalent /
- According to the New Economic paradigm, it is possible for output rise over extended periods of time without being hampered by supply constraints and inflationary pressures/-does not render ideal policies /
- Smoothing of the business cycle is when policy is used to prevent dramatic peaks and troughs /
- Consecutive periods of increasing and decreasing economic activities ✓✓  
(Accept any other relevant introduction) **(Max 2)**



**BODY****MAIN PART**

- Governments' aim with business cycle policies is to achieve the best possible growth rates ✓✓
- They need to apply policies to smooth out cyclical movements, so that peaks do not end up in high inflation and troughs do not result in high unemployment ✓✓
- Governments use monetary and fiscal policies to do this ✓✓
- Fiscal policy - more successful in stimulating a depressed economy ✓✓
- Monetary policy is more effective when 'dampening' an overheated economy that has inflation rising ✓✓

**Monetary policies**

When the level of economic activity changes the SARB can use expansionary and contractionary measures reduce fluctuation of such economic activities.

- An expansionary monetary policy is implemented when the economy is in recession in order to stimulate economic activities ✓✓
- Interest rates can be reduced to encourage spending ✓✓
- Household and firms can therefore borrow more and spend more ✓✓
- The increased spending increases the level of economic activity. Investment will increase and more factors of production will be employed ✓✓
- Higher levels of production and income and expenditure will be achieved ✓✓
- If the supply of goods and services does not increase in line with increase in demand inflation will increase. This means that demand will be greater than supply ✓✓
- Inflation can be curbed by reducing money supply and availability of credit ✓✓
- To dampen the demand at the peak the government will be able to reduce money supply by increasing interest rates ✓✓ selling government bonds and securities (open market transactions) and reduce the supply of money in circulation ✓✓ increase the cash reserve requirements to manipulate money creation activities of banks ✓✓ persuade banks to decrease lending (moral suasion) ✓✓ and to devalue the exchange rate (exchange rate policy) ✓✓

**Fiscal policy**

When the level of economic activity changes the Minister of Finance can use expansionary and contractionary measures reduce fluctuation of such economic activities ✓✓

- An expansionary fiscal policy can be implemented when the economy is in recession in order to stimulate economic activities ✓✓
- An increase in government expenditure will increase aggregate demand ✓✓
- This serves as an injection into the economy as production will increase, more factors of production will be employed ✓✓
- This will lead to higher income and higher expenditure ✓✓
- Taxes can be reduced, which will lead to an increase in disposable income ✓✓
- This serves as an injection into the economy and eventually aggregate demand will increase ✓✓
- When the economy grows too fast government can reduce its spending and increase taxes ✓✓
- This will lead to a decrease in aggregate demand which will reduce production as fewer goods and services will be needed ✓✓

**Demand-side policies:**

Traditional monetary and fiscal policies focus on aggregate demand ✓✓

A demand-side approach only – does not render ideal results, often growth has to be cut due to problems in inflation, balance of payments and shortages of skilled labour ✓✓

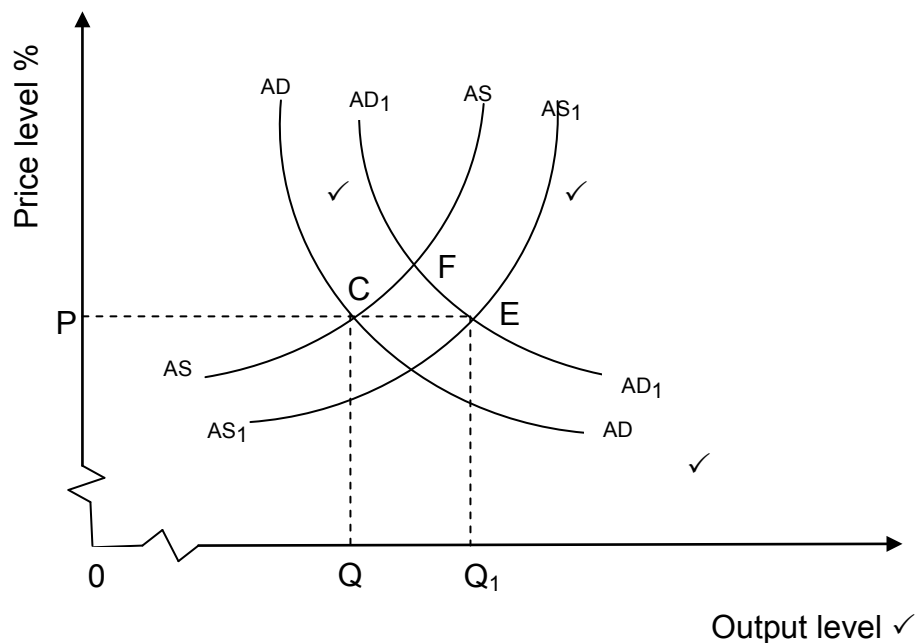
- Aggregate supply needs to be managed as well - focus on increased flexibility of supply components ✓✓
- If the costs of increasing production is completely flexible, a greater output can be supplied at any given price level ✓✓

**Supply-side policies** governments can arrange things in the economy in a way that is cooperative to changes in demand.

- **Reduction of costs** ✓ Greater output supplied at any given price level. AS shifts to  $AS_1$  and AD to  $AD_1$  ✓✓ output expands from Q to  $Q_1$  with prices stable ✓✓
- **Government measures that can reduce costs** ✓
  - Infrastructural services like communication, transport and energy costs ✓✓
  - Administrative costs like inspections and regulations - add to overall costs ✓✓
  - Cash incentives like subsidies ✓✓ and compensation to exporters ✓✓
- **Measures to improve efficiency of inputs** ✓
  - Tax rates - high rates of personal income tax are disincentives ✓✓ and shifts AS to the right - usually achieved with incentive schemes and measures such as tax rates ✓✓
  - Capital consumption by replacing capital goods on a regular basis that will create opportunities for businesses to keep up with technological development ✓✓
  - Human resources development where the quality of labour can be improved by improving health care, education and training which will increase the efficiency of businesses ✓✓
  - Free advisory services to promote opportunities to export and establish business activities in foreign countries which includes weather forecasts, veterinary services and research ✓✓
- **Improving efficiency of markets** ✓
 

Measures to improve efficiency include

  - Deregulation where laws and regulations are removed to make markets free ✓✓
  - Competition are encouraged to establish new businesses, invite foreign direct investment and remove power imbalances ✓✓
  - Levelling the economic playing fields because private businesses cannot compete with public enterprises due to legislative protection ✓✓

**AGGREGATE DEMAND AND SUPPLY ✓****MARK ALLOCATION FOR GRAPH**

Correct heading	= 1 mark
Correct position of curves	= 2 marks
Labelling of axis	= 1 mark
Labelling of curves	= 1 mark
<b>TOTAL = 5 MARKS</b>	

**The effects of demand-side and supply-side policies:**

- **Inflation** ✓ Aggregate demand and supply are in equilibrium at point C ✓✓ Aggregate demand is stimulated and moves to AD<sub>1</sub>, supply responds and relocates at AS<sub>1</sub> ✓✓ larger real output without price increases ✓✓
- **Supply often sticky and fixed in short term** ✓ with increase in demand to AD<sub>1</sub>, supply stays constant - intersects at point F - real production and prices increase ✓✓ (inflation) - creates conditions where supply is more flexible - through the use of supply-side measures ✓✓
- **Unemployment** ✓ Demand-side policies effective in stimulating economic growth ✓✓ increases demand for labour ✓✓ reduces unemployment ✓✓ then inflation rises ✓✓ (Max 26)

**ADDITIONAL PART****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 ✓✓

(Max. 10)

(Accept any other relevant response)

**CONCLUSION**

It remains critical that business cycles must be clearly monitored through the indicators available, policy makers must act quickly by using monetary and fiscal instruments in order to prevent instability in the economy ✓✓

(Accept any other relevant conclusion)

(Max. 2)

**(40)**

**QUESTION 6: ECONOMIC PURSUITS**

**Economists use different indicators that help in decision-making.**

- **Discuss, in detail, the following economic indicators that are used to assess the performance of the economy:**
  - **Inflation rate**
  - **Employment** **(26 marks)**
- **How successful is the South African Reserve Bank in stabilising prices on the different markets as its main objective?** **(10 marks)**

**INTRODUCTION**

Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take ✓✓

(Accept any other suitable introduction)

(Max. 2)

**BODY****MAIN PART****THE INFLATION RATE**

Inflation can be described as an increase in the general level of prices in an economy that is sustained over a period of time ✓✓

SARB aims to keep the inflation rate stable between 3 and 6% ✓✓

The following instruments are used to measure inflation:

- **Consumer Price Index (CPI) / Headline inflation** ✓
  - This is the weighted average of the prices of a general basket of goods and services likely to be bought by consumers ✓✓
  - The weights are obtained from expenditure of different income categories of households ✓✓
  - Decides on a base year for calculating the CPI which is similar for all SNA items ✓✓
  - Decides on a formula for calculating the CPI ✓✓
  - Decides on the collection of prices – in SA it is obtained by means of surveys ✓✓
  - It shows changes in the general purchases of a currency (e.g. rand) ✓✓
  - It is also used for inflation targeting ✓✓
  - Pertains to cost of living ✓✓
  - Capital and intermediate goods are excluded ✓✓
  - Prices include VAT ✓✓
  - Interest rates are taken into account ✓✓
  - Prices of imported goods are not shown explicitly ✓✓

- **Producer Price Index (PPI) ✓**

- PPI measured prices of locally produced goods when they leave the factory gate and imported goods when they enter the country ✓✓
- It consist of a basket of local, exported and imported goods ✓✓
- It includes capital and intermediate goods, but not services ✓✓
- Prices exclude VAT ✓✓
- Interest rates are excluded ✓✓
- It measures the cost of production and not the cost of living ✓✓
- It also serves as an indicator to predict consumer inflation (CPI) ✓✓

- **GDP deflator ✓**

- The GDP deflator is ratio that indicates the relationship of the GDP at nominal prices to the GDP at real prices (formula) ✓✓
- The GDP deflator is calculated for all goods produced in a country for a certain year and is not based on a certain basket of goods ✓✓
- GDP at constant prices is used to measure economic growth and inflation ✓✓

## **EMPLOYMENT**

- **Employment**

- The number of employed persons expressed as percentage of the EAP gives the employment rate ✓✓
- The South African employment rate was 75% during 2014 and is not accompanied by a similar growth in employment numbers ✓✓
- Employment indicators are important and used to calculate trends in employment in different sectors or industries ✓✓ that indicates structural changes in the economy ✓✓ to calculate productivity ✓✓ or to show the success of the economy in utilising its full potential ✓✓
- Full employment or high levels of employment is an indicator of a strong economy with high levels of growth and development ✓✓
- High levels of unemployment are normally a sign of deep-seated problems in an economy ✓✓ lack of domestic and foreign direct investment, low levels of labour productivity and rigid labour laws or high levels of poverty ✓✓
- Employment indicators are used to calculate: (1) trends in different sectors or industries ✓✓ (2) productivity ✓✓ and (3) successes of the economy in utilising its full potential ✓✓

There are various employment indicators that are used to monitor employment progress:

- **The economically active population (EAP / labour force) ✓**

- The official employment ages in South Africa are between (15 - 65) who are willing to work ✓✓
- It includes workers in the formal sector, informal sector, employers, self-employed persons and unemployed persons ✓✓

- **Unemployment** ✓
  - Strict definition - the unemployed are those people within the economically active population who; did not work during the seven days prior to the interview, want to work are available to start work within two weeks of the interview and have taken active steps to look for work or start some form of self-employment in the four weeks prior to the interview ✓✓
  - Expanded definition includes everyone who desires employment, irrespective of whether or not they actively tried to obtain one ✓✓
  - The unemployment rate is expressed as the percentage of unemployed persons out of the total number of people willing and able to work, in other words the labour force ✓✓
  - StatsSA obtains labour data from the Quarterly Labour Force Surveys to calculate unemployment ✓✓
  - In South Africa the official unemployment rate was 25% in 2014 and is the most important cause of poverty ✓✓

**There are various methods of calculating the number of unemployed:**

- **Census** ✓ questionnaires are distributed to respondents and included in the questionnaires are questions relating to the work status of people ✓✓
- **Surveys** ✓ Every year Statistics South Africa undertakes a workforce survey to calculate the unemployment rate ✓✓
- **Registration** ✓ The unemployed can register with the Department of Labour - registered unemployed persons may receive payments from the unemployment insurance fund and registration is the most accurate method of calculating the unemployment rate because not all unemployed persons are registered ✓✓
- **Employment** ✓
  - The employed are those who performed work for pay, profit or family gain in the seven days prior to the survey interview for at least one hour, or who were absent from work during these seven days but did not have some form of work to return to ✓✓
  - Data linked to employment is an important indicator used to determine labour productivity, the rate of employment in different economic sectors, the income per worker and the success of a country's economy ✓✓
  - If employment is compared with the EAP the unemployment rate can be calculated ✓✓
  - StatsSA publishes the *Labour Force Survey* in March and September every year and contains information such as the employment rate, the unemployment rate and the levels of employment in the formal and informal sectors ✓✓

(Max 26)

**ADDITIONAL PART**

- The CPI breached the upper range of the inflation target during 2014. SARB has increased interest rates to bring the inflation rate back into lower ranges, thus stabilising prices. ✓✓
- Setting the inflation target of 3 – 6% was a major initiative by the state that helped SARB to stabilize prices ✓✓
- A decline in international crude oil prices in recent months suppressed global inflationary pressures. This contributed largely to lower domestic inflation ✓✓ - favourably affecting Producer price inflation. Due to this the Reserve Bank were able to keep the repo rate unchanged ✓✓ PPI for intermediate manufactured goods has a positive impact on the stabilising of prices ✓✓
- Although the Reserve Bank has been very successful in stabilizing prices, certain external factors which influenced the global economy like the World recession has impacted negatively on the SARB efforts in stabilizing prices ✓✓
- Other factors like disinvestment due to poor governance led to a sharp decline in stability which hampered the stabilizing effects of SARB ✓✓
- The poor value of the Rand on international markets is a major negative contributing factor on the inflation rate due to a major dependency on imports ✓✓

(Accept any other relevant fact)

(Max. 10)

**CONCLUSION**

Economic indicators are some of the most important and powerful tools that the government can use to influence the direction that the economy should take as against other countries ✓✓

(Max. 2)

**[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 2015**

**MARKS: 150**

**TIME: 2 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 – 20 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 A business that CANNOT influence the price:
- A Price-taker
  - B Price-maker
  - C Monopolist
- 1.1.2 A perfect competitor will make ... in the long run.
- A economic profit
  - B economic loss
  - C normal profit
- 1.1.3 Product differentiation and ... play an important role in non-price competition.
- A price
  - B advertising
  - C government policy
- 1.1.4 Goods highly desirable for the general welfare of people, but often not highly rated by the market, are called ... goods.
- A demerit
  - B merit
  - C non-durable
- 1.1.5 People's disposable incomes tend to ... during periods of inflation.
- A decrease
  - B increase
  - C remain constant
- 1.1.6 An inflation rate that excludes interest rates on mortgage bonds:
- A Administered-price inflation
  - B Food inflation
  - C CPIX

1.1.7 The setting of maximum permitted levels of emissions such as carbon dioxide is called ... measures.

- A education
- B government
- C command and control (CAC)

1.1.8 The potential for tourism growth is much greater in ... countries.

- A developing
- B developed
- C European

(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, for example 1.2.9 J.

COLUMN A		COLUMN B	
1.2.1	Oligopoly	A	organisational features of markets
1.2.2	World Heritage Site	B	a period of sustained decreases in price
1.2.3	Implicit costs	C	international agreements aimed at reducing greenhouse gases
1.2.4	Duopoly	D	a market controlled by a small group of businesses
1.2.5	Non-renewable resources	E	a place with special cultural or physical significance
1.2.6	Market structure	F	value of inputs owned by the entrepreneur and used in production
1.2.7	Kyoto Protocol	G	a market controlled by two businesses
1.2.8	Deflation	H	may become depleted if used repeatedly
		I	a period when prices increase

(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 additional cost incurred when production increases by one more unit

1.3.2 Prices that are set by authorities above the equilibrium price to benefit the producer

1.3.3 Businesses working together in an oligopoly market to fix prices

1.3.4 A market that lacks optimum resource allocation and is unable to produce the quantity of goods that people want

1.3.5 A tax charged on goods that harm the environment

1.3.6 An increase in prices of goods due to an increase in input costs

(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 – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Give TWO characteristics of public goods. (2 x 1) (2)

2.1.2 Why are oligopolists reluctant to compete with each other on price in order to get a greater share of the market? (1 x 2) (2)

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

**THE CHALLENGING TASK OF THE COMPETITION COMMISSION**

The Competition Commission is a statutory body constituted in terms of the Competition Act, 1998 (Act 89 of 1998) by the government of South Africa and mandated to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy.

Since it is responsible for investigating all complaints of anticompetitive practices across the entire economy, it receives vast numbers of complaints about different types of anticompetitive behaviour relating to all markets/sectors. If found guilty, a fine is imposed which is endorsed by the Competition Tribunal.

[Adapted from the website of the Competition Commission]

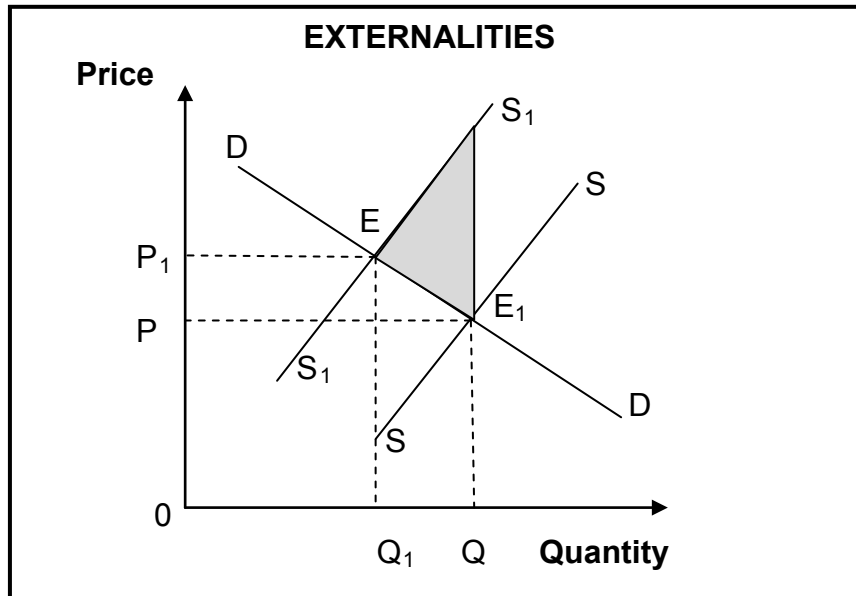
2.2.1 Identify TWO examples of anticompetitive behaviour in the extract above. (2 x 1) (2)

2.2.2 What is the role of the Competition Commission? (2)

2.2.3 What can businesses do if they are not happy with the fine imposed on them by the Competition Commission? (2)

2.2.4 How can consumers benefit from increased competition in the economy? (2 x 2) (4)

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



- 2.3.1 What type of externality is shown in the graph above? (2)
- 2.3.2 Explain the term *externality*. (2)
- 2.3.3 What is indicated in the shaded area on the graph? (2)
- 2.3.4 How can the above externality cause market failure? (2 x 2) (4)
- 2.4 Briefly discuss the number of businesses and the nature of the product as characteristics of a perfect market structure. (2 x 4) (8)
- 2.5 Motivate why the government implements minimum wages in the labour market. (4 x 2) (8)
- [40]**

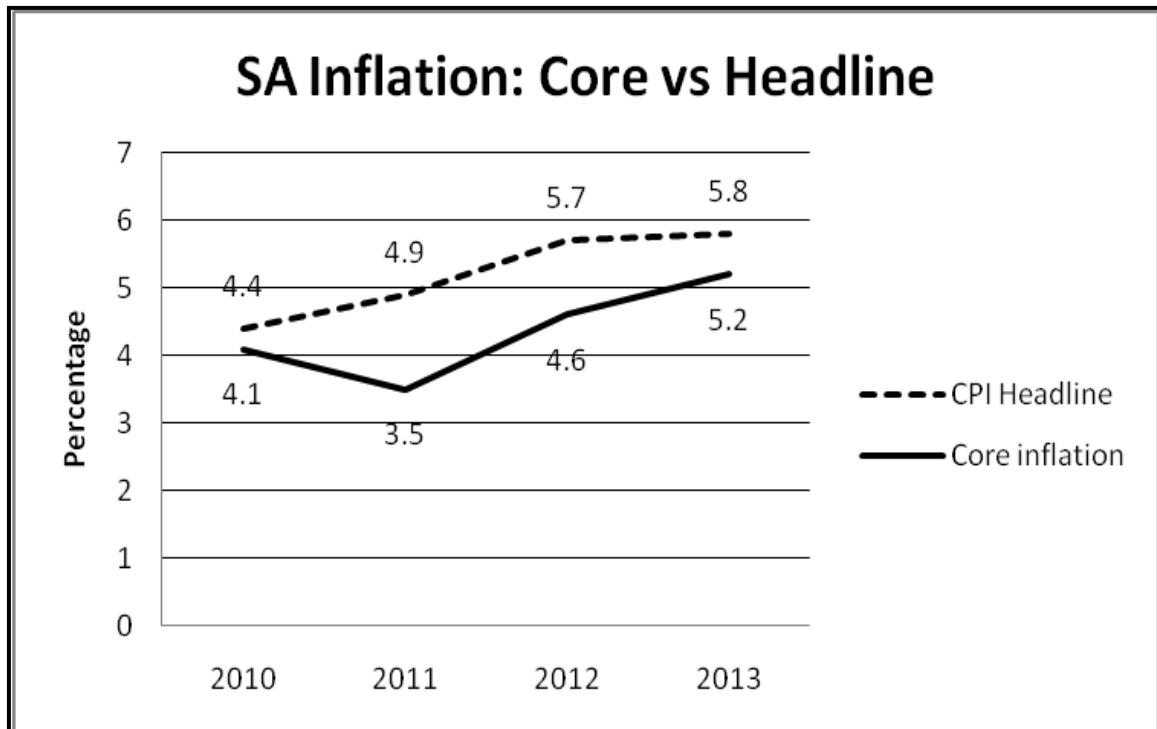
**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO ways to measure inflation. (2 x 1) (2)

3.1.2 How can climate change influence agricultural production? (1 x 2) (2)

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



[Source: [www.statsa.gov.za](http://www.statsa.gov.za)]

3.2.1 Which ONE of the two types of inflation is the official inflation rate? (1)

3.2.2 What is the inflation target range set by the SARB? (1)

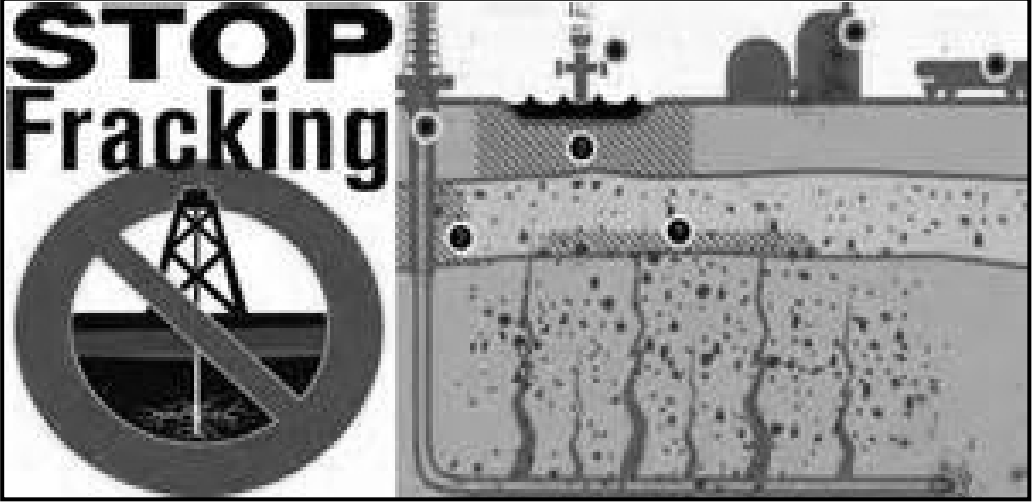
3.2.3 What effect will an increase in interest rates have on the trend of the CPI curve? (2)

3.2.4 What negative influence will inflation have on the balance of payments? (2)

3.2.5 Why is core inflation lower than the CPI? (2 x 2) (4)



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



Shale gas extraction by hydraulic fracturing (fracking) of rock formations has transformed the energy outlook. Countries become self-sufficient in natural gas and could become big exporters, boosting the economy while gas as substitution for coal in electricity generation has decreased carbon emissions. Opponents of fracking claim that it and other consequences of extracting shale gas harm the environment through poor practice, leading to water pollution.

[Adapted from *The Economist*, January 2015]

- 3.3.1 What is *fracking* according to the extract above? (1)
- 3.3.2 Name any ONE non-renewable resource. (1)
- 3.3.3 Name TWO economic benefits of fracking for the South African economy. (2 x 2) (4)
- 3.3.4 In your opinion, what impact will fracking have on the environment? (2 x 2) (4)
- 3.4 Briefly discuss the term *producer price index*. (4 x 2) (8)
- 3.5 What are the benefits of using technology in sustaining the environment? (4 x 2) (8)
- [40]**

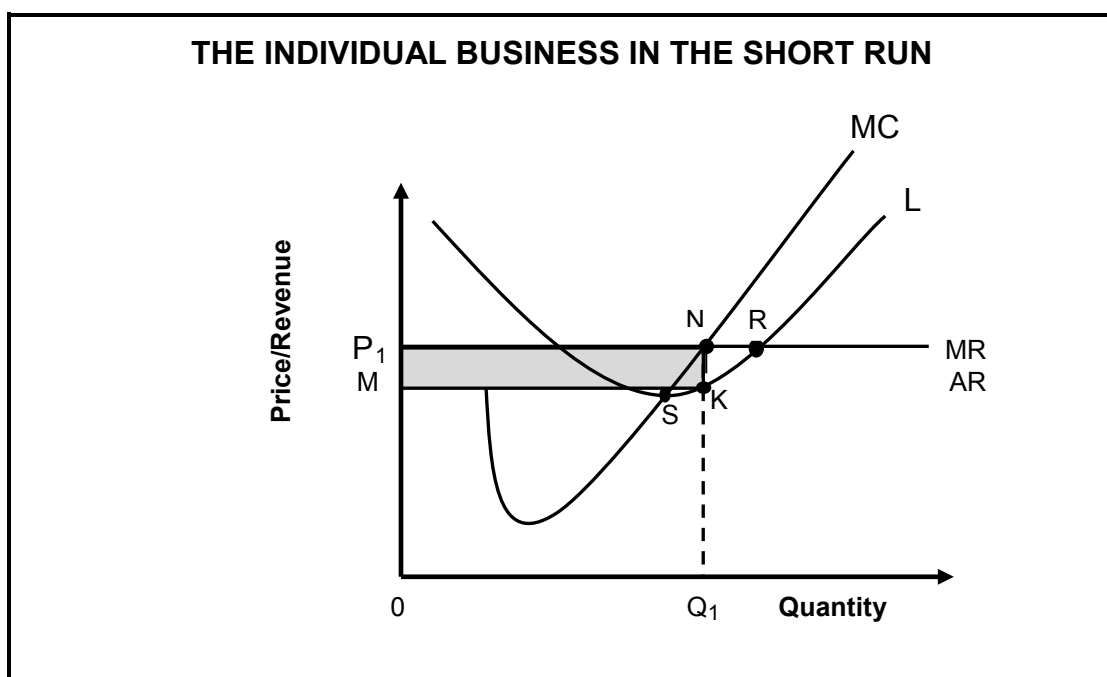
**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**  
**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name TWO kinds of inefficiencies related to market failures. (2 x 1) (2)

4.1.2 What effect will the overexploitation of land have on agricultural output in South Africa? (1 x 2) (2)

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



4.2.1 Which point (label) on the graph indicates profit maximisation? (1)

4.2.2 Name the curve labelled L. (1)

4.2.3 What is depicted by the shaded area? (2)

4.2.4 Briefly explain the term *short run*. (2)

4.2.5 Explain why this equilibrium position will NOT remain fixed. (2 x 2) (4)

4.3 Read the extract below and answer the questions that follow.

**PENSIONERS URGED TO USE INVESTMENT TOOLS TO PROTECT  
RETIREMENT SAVINGS FROM INFLATION**

Factors such as inflation hikes and market volatility could have a significant impact on South African pension funds. In order to protect their retirement lump sums from these potentially erosive factors, local pensioners are urged to use specialised investment tools to safeguard their future.

[Source: [www.fanews.co.za](http://www.fanews.co.za)]

- |                         |  |         |                          |
|-------------------------|--|---------|--------------------------|
| 4.3.1                   | State TWO factors from the extract above that will have an impact on retirement savings.     | (2 x 1) | (2)                      |
| 4.3.2                   | Explain the term <i>retirement lump sum</i> .  |         | (2)                      |
| 4.3.3                   | How can the government use fiscal policy to combat inflation?                                |         | (2)                      |
| 4.3.4                   | How can pensioners safeguard themselves against the eroding effect of inflation?             | (2 x 2) | (4)                      |
| 4.4                     | Explain the uses of cost-benefit analysis (CBA).   | (4 x 2) | (8)                      |
| 4.5                     | In your opinion, how is the environment as a common resource responsible for market failure? | (4 x 2) | (8)                      |
| <b>TOTAL SECTION B:</b> |  |         | <b>[40]</b><br><b>80</b> |

**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 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/Differentiate/ Explain/Assess/Debate	Max. 26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the given graph and explain/Complete the given graph/Calculate/Deduce/Compare/ Explain/Distinguish/Interpret/Briefly debate/How?/Suggest	Max. 10
<b>Conclusion</b> Any higher-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

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

A monopoly is the extreme opposite of a perfect competitive market.

- Examine the monopoly as a market structure. (26 marks)
- Explain long-run equilibrium of the monopolist with the aid of a neatly labelled graph. (10 marks)

**[40]****QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES**

Tourism is the fastest growing industry in the world.

- Examine, in detail, the effects of tourism on the South African economy. (26 marks)
- How can indigenous knowledge systems be used to promote tourism in South Africa? (10 marks)

**[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 2015**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 20 pages.**

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

- 1.1.1 A (price taker) ✓✓
- 1.1.2 C (normal profit) ✓✓
- 1.1.3 B (advertising) ✓✓
- 1.1.4 B (merit) ✓✓
- 1.1.5 A / B / C (decrease / increase / remain constant) ✓✓
- 1.1.6 C (CPIX) ✓✓
- 1.1.7 B / C (government / command and control - CAC) ✓✓
- 1.1.8 A (developing) ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 D – A market controlled by a small group of businesses ✓
- 1.2.2 E – A place that is listed as having special cultural or physical significance ✓
- 1.2.3 F – Value of inputs owned by the entrepreneur and used in production ✓
- 1.2.4 G – A market controlled by two businesses ✓
- 1.2.5 H – May become depleted if used repeatedly ✓
- 1.2.6 A – The organisational features of markets ✓
- 1.2.7 C – International agreements aimed at reducing greenhouse gases ✓
- 1.2.8 B – A period when prices decrease persistently ✓ (8 x 1) (8)

**1.3 GIVE ONE TERM**

- 1.3.1 Marginal ✓
- 1.3.2 Minimum / floor prices ✓
- 1.3.3 Collusion / cartel ✓
- 1.3.4 Imperfect market / monopoly / oligopoly / monopolistic competition / inefficient market ✓
- 1.3.5 Environmental / Green / Carbon / Eco ✓
- 1.3.6 Cost-push inflation / cost inflation / producer price inflation ✓ (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: MICROECONOMICS****2.1.1 Give TWO characteristics of public goods.**

- Non-excludable ✓
  - Non-competitive / Non-rivalry ✓
  - Social benefits outstrip private benefits ✓
  - Infinite consumption ✓
  - Non-rejectability / cannot refrain from consuming even if they want to ✓
- (2 x 1) (2)

**2.1.2 Why are oligopolists reluctant to compete with each other on price in order to get a greater share of the market?**

They act on the behaviour of others: if one business increases its price it loses its market share. When the firm decrease their price, others will follow and a price war might arise ✓✓  
(Accept any other relevant response) (2)

**2.2 Data Response****2.2.1 Identify TWO examples of anti-competitive behaviour in the extract above.**

- Abuse of dominant positions ✓
  - Mergers ✓
  - Restrictive business practices ✓
- (2 x 1) (2)

**2.2.2 What is the role of the Competition Commission?**

- To investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the SA economy /
  - Tries to give all South Africans equal opportunities to participate fairly in economic activities to make the economy more efficient ✓✓
- (2)

**2.2.3 What can businesses do if they are not happy with the fine imposed on them by the Competition Commission?**

They can approach the Competition Appeal Court ✓✓ (2)

2.2.4 **How can consumers benefit from increased competition in the economy?**

- It provide all South Africans with equal opportunities to participate fairly in the South African economy ✓✓
- It will provide for markets in which consumers have access to ✓✓
- It will ensure good quality of service delivery ✓✓
- It will ensure good quality of products ✓✓
- Consumers' choices will be improved ✓✓
- Consumers will reap the benefits of lower prices ✓✓

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

2.3 **Study the graph**

2.3.1 **What type of externality is shown in the graph above?**

Negative ✓✓ (2)

2.3.2 **Explain the term *externality*.**

Costs or benefits to third parties which are not included in the market price of a good / spill-over effect / third party effects ✓✓ (2)

2.3.3 **What is indicated by the shaded area on the graph?**

External cost / welfare loss / dead weight ✓✓ (2)

2.3.4 **How can the above externality cause market failure?**

- If the cost of the externality was included in the price the firm will produce less ✓✓
- The market is producing at Q which is more than what is socially desirable at  $Q_1$  ✓✓
- The market has failed to allocate resources properly ✓✓  
(Accept the opposite viewpoint if the graph has been interpreted as a positive externality) (2 x 2) (4)



2.4 **Briefly discuss the number of businesses and nature of the product as characteristics of a perfect market structure.**

**Number of businesses**

- There are a large number of sellers ✓✓
- It should not be possible for one seller to influence the price / When there are many sellers the share of each seller in the market is so small that the seller cannot influence the price ✓✓
- Sellers are price takers; they accept the prevailing market price ✓✓
- If they increase prices above the market price, they will lose customers ✓✓

**Nature of product**

- Products are homogenous (i.e. identical / same) ✓✓
- There is no differences in style, design and quality ✓✓
- In this way products compete solely on the basis of price and can be purchased anywhere ✓✓

(Accept any other relevant response)

(2 x 4)

(8)

2.5 **Motivate why the government implements minimum wages in the labour market.**

- Pressure was put on the South African government to introduce labour laws which require employers to pay minimum wages ✓✓
- The application of minimum wage laws is needed to improve a redistribution of income ✓✓
- To redress inequality (Gap between wealthy and poor) ✓✓
- To improve the standard of living ✓✓
- Government tried to protect domestic workers and farm workers – thus preventing exploitation ✓✓

(Accept any other relevant fact)

(4 x 2)

(8)

**[40]**

**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES****3.1.1 Name any TWO ways to measure inflation.**

- Price index / CPI / PPI ✓
- Weighting ✓
- Inflation rate ✓

Any (2 x 1) (2)

**3.1.2 How can climate change influence agricultural production?**

- Climate change may have a positive effect, increasing agricultural production (of certain products) ✓✓
- Climate change might have a negative effect, where a decrease in agricultural products is experienced due to lower rainfall, increased heat ✓✓
- Adaptation in the production of agricultural products due to climate change. Extreme heat, drought, floods, will definitely influence the type of agricultural activities allowed to take place ✓✓

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

**3.2 Data Response****3.2.1 Which ONE of the two types of inflation is the official inflation rate?**

CPI Headline ✓

(1)

**3.2.2 What is the inflation target range set by the SARB?**

The inflation target is between 3% and 6% ✓

(1)

**3.2.3 What effect will an increase in interest rates have on the trend of the CPI curve?**

- There will be a fall/drop in the trend line ✓ due to a decrease in the demand for goods and services (less demand for credit, less savings) ✓
- There could be an increase in the trend line ✓ because interest on mortgage bonds are part of the basket ✓

(2)

**3.2.4 What negative influence will inflation have on the balance of payments?**

- South African exports will become expensive therefore the country will sell less ✓✓
- Imports will be higher than exports, as such the balance of payment will have a deficit ✓✓

(1 x 2) (2)

3.2.5 **Why is core inflation lower than the CPI?**

- Products with highly volatile prices are excluded ✓✓
- E.g. fresh vegetables / fish / and fresh meat are excluded ✓
- The CPI headline inflation is calculated by using a selection basket of goods and services that the average household use ✓✓
- The reason is that these high volatile price changes will distort the real changes in prices ✓✓

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

3.3 **Data Response**3.3.1 **What is *fracking* according to the extract above?**

Shale gas extraction by hydraulic fracturing ✓ (1)

3.3.2 **Name any ONE non-renewable resource.**

Coal ✓  
Natural gas ✓  
(Accept any other relevant answer) (1)

3.3.3 **Name TWO economic benefits of fracking for the South African economy.**

- South Africa becomes self-sufficient in natural gas ✓✓
  - and can become big exporters of gas ✓✓
  - Earner of foreign exchange ✓✓
  - Boost local economy ✓✓
  - Less reliance on coal as energy ✓✓
  - Creation of jobs ✓✓
  - New entrepreneurial opportunities ✓✓
  - Lead to economic growth ✓✓
- (Accept any other relevant answer) Any (2 x 2) (4)

3.3.4 **In your opinion, what impact will fracking have on the environment?**

- It could cause water contamination ✓✓
  - Animals could die of drinking contaminated water ✓✓
  - Could have an effect on people's health when eating these animals ✓✓
  - Could cause air pollution ✓✓
  - Can have a more environmentally friendly impact than coal ✓✓
  - It can be utilised as a cheaper energy resource ✓✓
- (Accept any other relevant answer) (2 x 2) (4)

3.4 **Briefly discuss the term *producer price index*.**

- PPI is very useful in the analysis of inflation, due to the fact that PPI measures the cost of production ✓✓
- PPI measures prices at the level of first significant commercial transaction / Prices of imported goods are measured at the point where they enter the country and manufactured goods are priced when they leave the factory ✓✓
- The basket consists of goods only (no services) ✓✓
- Capital and intermediate goods are included ✓✓
- Prices exclude VAT ✓✓
- Interest rates are excluded ✓✓
- Prices of imported goods are shown explicitly ✓✓ (4 x 2) (8)

3.5 **What are the benefits of using technology in sustaining the environment?**

- Technology can facilitate a solution to environmental problems by providing alternative production techniques ✓✓
- The development of clean technologies can have lower levels of toxic emissions and stop the existence of high risk chemical waste in the environment ✓✓
- It makes it possible for developing countries to comply with emissions targets / Substituting products that are more environmentally friendly e.g. paper bags instead of plastic bags; unleaded petrol ✓✓
- Although the production of platinum causes pollution, the use of the platinum reduces pollution ✓✓
- Technology facilitates the development of new techniques or equipment to save energy and replace coal and oil with greener energy resources such as wind or sun ✓✓
- It enables the recycling of waste material such as bottles, cans, cardboard to ensure a cleaner environment ✓✓
- The on-site treatment and controlled disposal of waste can be achieved by using technology ✓✓

(Accept any other relevant fact)

Any (4 x 2)

(8)  
[40]

**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES****4.1.1 Name TWO kinds of inefficiencies related to market failures.**

- Productive / technical inefficiencies ✓
- Allocative inefficiencies ✓ (2 x 1) (2)

**4.1.2 What effect will the overexploitation of land have on agricultural output in South Africa?**

The agricultural output will be affected negatively/reduced output ✓✓  
(Accept any other relevant fact) (1 x 2) (2)

**4.2 Data Response****4.2.1 Which point (label) on the graph indicates profit maximisation?**

N ✓ (1)

**4.2.2 Name the curve labelled L.**

Average Cost / AC / ATC / SAC ✓ (1)

**4.2.3 What is depicted by the shaded area?**

Economic Profit ✓✓ (2)

**4.2.4 Briefly explain the term *short run*.**

Period where only variable factors of production can change / there is at least ONE fixed input / fixed cost remains constant ✓✓  
(Accept any other relevant response) (2)

**4.2.5 Explain why this equilibrium position will NOT remain fixed.**

- Profits will attract more entrants into the market, which will lead to an increase in supply ✓✓
  - This will drive prices down towards average costs and profits will decrease ✓✓
  - The new equilibrium position will be a normal profit ✓
- (Accept any other relevant explanation) (2 x 2) (4)

**4.3 Data Response**

4.3.1 **State TWO factors from the extract above that will have an impact on retirement savings.**

- Inflation hikes ✓
  - Market volatility ✓
- (2)

4.3.2 **Explain the term *retirement lump sum*.**

A cash payment / money that you receive on retirement ✓✓  
(Accept any other relevant answer) (2)

4.3.3 **How can the government use fiscal policy to combat inflation?**

- Increase in direct tax ✓✓
  - Increase in indirect taxation ✓✓
  - Reduction in government expenditure ✓✓
- (Accept any relevant answer) (2)

4.3.4 **How can pensioners safeguard themselves against the eroding effect of inflation?**

- The retirement fund should be invested in high yield returning investment/portfolios ✓✓
  - Purchasing of property ✓✓
  - Purchasing of blue chip shares ✓✓
  - Specialized investment tools ✓✓ (Accept if specified)
- (Accept any relevant answer) (2 x 2) (4)

4.4 **Explain the uses of the cost-benefit analysis (CBA).**

- The cost-benefit analyses is generally used in the public sector when evaluating large-scale public investment projects ✓✓
- E.g. New highways, railway lines, airports, dams, ports and public transport ✓
- The CBA is used to assess the net social benefit that will accrue to the population from these projects ✓✓
- CBA requires careful definitions of the projects, accurate estimation of projects lives, and comprehensive consideration of externalities ✓✓
- Essentially, CBA concentrates on the economic efficiency benefits from a project ✓✓
- Calculations in a CBA should be done by using market prices or shadow prices to correct distortions which cripple market prices ✓✓
- Due to the fact that costs and benefits occur at different points in time their future value need to be converted to present value ✓✓
- The CBA can be used to redistribute income, by making payments to the losers and expect payment from the gainers through a levy or indirect tax ✓✓
- If the benefits exceeds the costs, acceptance of the project is recommended regardless of who benefits and who bears the costs ✓✓
- However where decision makers feel that the redistribution of income associated with a project is unacceptable, they may reject the project despite its benefits ✓✓
- The CBA is a tool/technique that seeks to bring greater objectivity to decision-making ✓✓

Any (4 x 2) (8)

4.5 **In your opinion, how is the environment as a common resource responsible for market failure?**

- Many parts of the environment are not privately owned therefore the efficiency of these resources are compromised ✓✓
- The environment forms part of global community goods and thus have the characteristics of non-excludability ✓✓
- Many of the services provided by the environment do not have a price and as a result there is no incentive to economise in their use ✓✓
- Most environmental resources are increasingly scarce and at zero price therefore the resources will be overused ✓✓

(Accept any other relevant answer)

Any (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 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/Differentiate/ Explain/Assess/Debate <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/How?/Suggest	Max. 26  Max. 10
<b>Conclusion</b> Any higher-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS**

A monopoly is the extreme opposite of a perfect competitive market.

- **Examine the monopoly as a market structure.** (26 marks)
- **With the aid of a neatly labelled graph, explain long-run equilibrium of the monopolist.** (10 marks)

**[40]**



## INTRODUCTION

Monopoly exists when there is only one seller of a product, when the product has no close substitutes, and when barriers block entry into the market completely ✓✓

(Max. 2)

## BODY

### MAIN PART

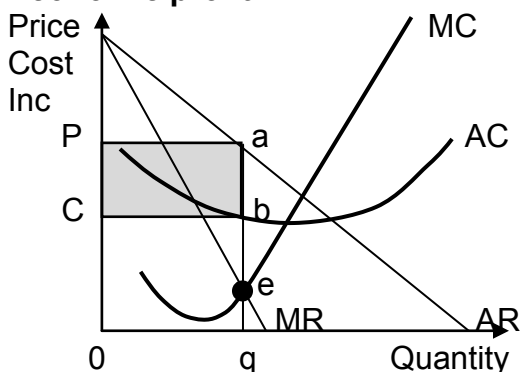
- **Number of producers** ✓
  - The monopolist has full control over the supply of a product, because it is the only seller ✓✓
  - The monopoly also represents the total industry e.g. De Beers, Eskom ✓✓
- **Nature of the product** ✓
  - The product is unique and has no close substitutes ✓✓
  - E.g. electricity and rail transport ✓
- **Economic profit** ✓
  - The monopoly makes a short-term loss or profit ✓✓
- **Technical superiority** ✓
  - A monopoly has technical advantage over potential competitors and their access to resources and technical superiority make it difficult for others to compete ✓✓
- **Access to scarce resources** ✓
  - A single firm owns and controls a specific scarce resources and excludes other companies from entering the market ✓✓
- **Demand curve** ✓
  - Monopolists are also confronted with a demand curve for their product but because they are the only supplier of the product they can decide at what point on the demand curve they wish to be ✓✓
  - The monopolist is the only supplier of the product in the market - the demand curve that confronts the monopolist is that of the market as a whole ✓✓
  - The market demand curve which slopes downwards from left to right / graph ✓✓
- **Production level** ✓
  - Once the monopolist has decided on a price, the quantity sold is determined by market demand - by reducing the price, monopolists can sell more units of the product and vice versa ✓✓
  - Monopolists influence the product-price combination of the product they sell without any reaction from other market participants ✓✓
  - Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is blocked ✓✓

- **Market forces** ✓
  - Although the monopolist is the only supplier of a product, the product is still influenced by market forces in the economy ✓✓
  - Consumers have limited budgets and a monopoly can therefore not demand excessive prices for the product and the monopolist product has to compete for consumer's favour with all the other products available in the economy ✓✓
  - E.g. Transnet competes road, air etc. means of transport ✓✓
  
- **Control over the price** ✓
  - A monopolist has considerable control over the market price – but demand limits it ✓✓
  - A monopoly does not have control over demand, so demand will influence the final market price ✓✓
  - A monopoly can only decide at which point on the demand curve it wants to produce ✓✓
  
- **Substitutes** ✓
  - There are few products that have no close substitutes whatsoever ✓✓
  - For many years even though there was no competition for telephone services in South Africa, consumers could still use alternative forms of communication such as letters and telegrams ✓✓
  
- **Favourable circumstances** ✓
  - Sometimes entrepreneur may enjoy favourable circumstances in a certain geographic area ✓✓
  - E.g. there may be only one supplier of milk in a particular town, a hardware store or hotel ✓✓
  - There may even be laws that protect them, e.g. Post Offices in South Africa ✓✓
  - Pure monopolies are a common rarity in South Africa ✓✓
  - Not only are substitutes available, but there is often nothing to prevent other entrepreneurs from entering the market hence what may be called a quasi-monopoly ✓✓
  
- **Market information** ✓
  - All buyers and the single seller have full knowledge of all the current market conditions ✓✓
  
- **Exploitation of consumers** ✓
  - The monopolist may produce fewer products at a higher price compared to businesses under perfect competition ✓✓
  - E.g. De Beers, because the monopolist is the only producer of the product in the market, there is always the possibility of consumer exploitation. Most governments take steps to guard against such practices and new and existing monopolies are usually well monitored ✓✓

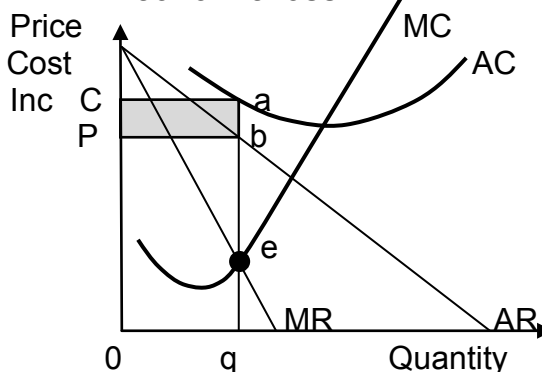
- **Market entry** ✓
  - The barriers prevent other producers from entering the market to supply the same type of product ✓✓
    - **Natural monopolies** ✓
      - High development cost are frequently a reason - the provision of electricity is often used as an example
      - To build a nuclear power station and transmission lines to distribute electricity costs billions of rands ✓✓
      - E.g. Eskom as a single business in the country that supplies electricity ✓ operates as a natural monopoly and is frequently owned and regulated by the government ✓
    - **Artificial monopolies** ✓
      - The barriers to entry are not economic in nature but artificial like patent rights which are legal and exclusive rights of a patent holder to manufacture a product using his or her unique invention ✓✓
      - Patents are also frequently encountered in the pharmaceutical industry ✓✓
      - Licensing is another way in which artificial monopoly is applied, e.g. TV and radio licenses ✓✓
      - licences protect operators against entry of other competitors ✓✓
- **Economies of scale** ✓
  - These give advantages to large existing companies ✓✓
  - Occur when the cost per unit decreases when the output increases ✓✓
  - Large businesses production costs per unit are lower than those of small businesses, e.g. Eskom ✓✓
- **The geographical area** ✓
  - This can cause a natural barrier as well, e.g. only one holiday resort can fit on the seafront as an exclusive beach ✓✓
- **Size of the market** ✓
  - Sometimes a business enjoys favourable circumstances in a certain small market ✓✓
  - E.g. there may be only one hardware store in a particular small town ✓✓

(Accept any other relevant facts)

**Economic profit**



**Economic loss**



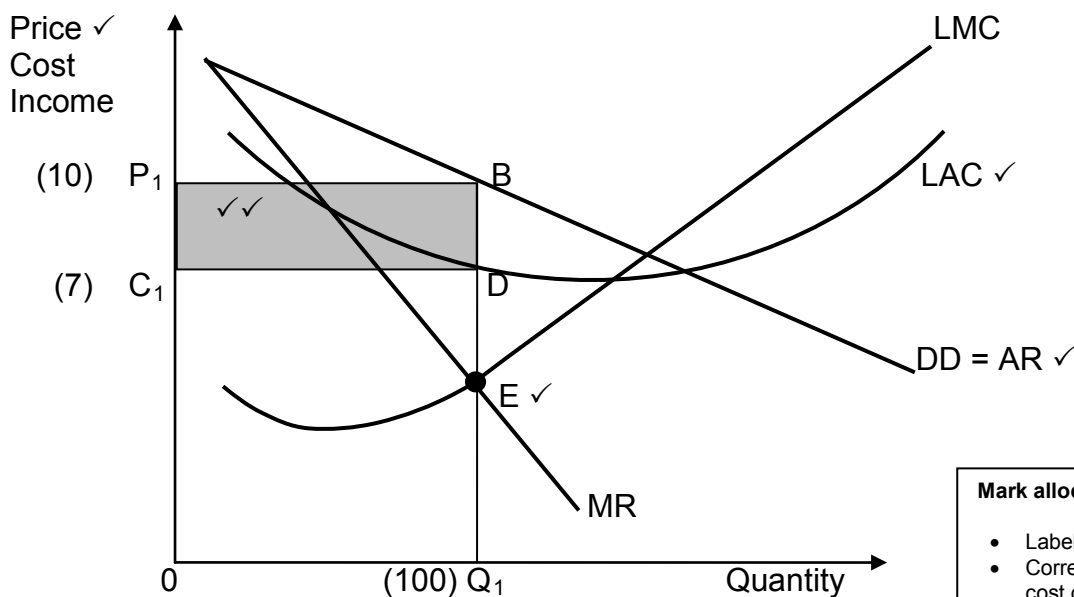
(Allocate a maximum of 8 marks for graphs)

(Max 26 marks)

Mark allocation per graph:  
 Indication of economic profit / loss = 2 marks  
 Correct drawing and labelling of axes = 1 mark  
 Correct drawing and labelling of curves = 1 mark  
**MAXIMUM = 4 MARKS PER GRAPH**

**ADDITIONAL PART**

**ECONOMIC PROFIT OF THE MONOPOLIST**



Mark allocation for graph:	
• Labelling of axes	- 1 mark
• Correct drawing and labelling of cost curves	- 1 mark
• Correct drawing and labelling of income curves	- 1 mark
• Profit Maximisation	- 1 mark
• Shaded area (profit)	- 2 marks
<b>Max = 6 marks</b>	

- In the long term the monopolist makes economic profit ✓✓
  - The LMC curve intersects the LAC curve at its minimum point ✓✓
  - Profit maximising point is at point E (LMC = MR) where production is Q1 at a price of P1 per unit/The monopolist will produce at Q1 (100) (profit maximisation point E) at a price of P1 (10) ✓✓
  - At this production level the average revenue is R10 and average cost is R7 ✓✓
  - Therefore the monopolist is making a profit of R3 per unit (total economic profit of R300). The total economic profit is represented by the shaded area ✓✓
- (Accept any other relevant explanation) (Max 6 marks)

**CONCLUSION**

The monopolist is a price maker but cannot set a price independently of output. A higher price will always result in less quantity. ✓✓  
(Accept any other relevant conclusion) (Max. 2)

**[40]**

**QUESTION 6: CONTEMPORARY ECONOMIC ISSUES**

**Tourism is the fastest growing industry in the world.**

- **Examine in detail the effects of tourism on the South African economy.**  
**(26 marks)**
- **How can indigenous knowledge systems be used to promote tourism in South Africa?**  
**(10 marks)**

**[40]**

**INTRODUCTION**

This is the activities of people travelling to and staying in places outside their usual environment for a period not longer than one consecutive year for leisure, business and other purposes and not related to a remunerative activity from within the place visited ✓✓ (Max. 2)

**BODY****MAIN PART**

- **Gross domestic product (GDP)** ✓

Tourism impacts mostly on the services industry than on agriculture or manufacturing although there are upstream effects when agriculture provides foodstuffs to restaurants and manufacturing provides vehicles for transport ✓✓

- **Direct contribution on GDP** ✓

- Statistics South Africa (SSA) shows that in 2010 inbound tourists contributed R69 billion and domestic tourists R99 billion, amounting to R168 billion - about 3% of South Africa's GDP ✓✓

- **Indirect contribution on GDP** ✓

- If the indirect contribution is added, tourism add about 7% to GDP ✓✓
- The WTTC estimated that tourism contributed 9% to the GDP of the world economy in 2011 ✓✓
- In developing economies the service sector is responsible for around 40% of GDP, while it is responsible for more than 65% of GDP in developed economies ✓✓
- South Africa is similar to that of developed economies and services contributed more than 67 % of GDP in 2011 ✓✓

- **Employment** ✓

- Tourism has a major effect on employment and this amounted to 1.18 million workers in 2011 ✓✓
- Tourism is the world's largest generator of jobs ✓✓ Reasons:
  - Tourism is labour intensive ✓✓  
More jobs can be created with every unit of capital invested in tourism than elsewhere ✓✓
  - Tourism employs many skills ✓✓  
It ranges from accountants and hairdressers to tour guides and trackers, the tourism industry draws upon numerous skills ✓✓
  - Tourism can provide immediate employment ✓✓  
If one quarter of tourists accommodation establishment in South Africa starts to offer live entertainment to guests, thousands of entertainers could be employed within days ✓✓
  - Tourism provides entrepreneurship opportunities ✓✓  
The tourism industry accommodates informal sector enterprises, from craft and fruit vendors to pavement vendors, chair rentals ✓✓

- **Poverty** ✓
  - Tourism is widely recognised as one of the fastest and more effective redistribution mechanisms in development ✓✓
  - It brings development to the poor in rural areas ✓✓
  - Tourism provides an alternative to urbanisation, permitting women and youth to continue a rural family lifestyle while giving them business opportunities ✓✓
  - E.g. to start and operate small-scale tourism businesses around community assets (forests, parks and rivers) ✓
- **Externalities** ✓
  - The rapidly expanding tourism industry could have both positive and negative impacts that extend well into the future ✓✓
  - While tourism attracts large amount of revenue, it can also cause undue environmental damage that can harm the very foundation on which it depend ✓✓
  - All other economic resources, tourism uses resources and produces wastes and also creates environmental costs (pollution) and benefits in the process ✓✓
  - Rapid growth in tourism aiming at short-term benefits usually results in more negative effects and these includes the degeneration of traditions and cultural values and environmental damage to sites and setting ✓✓
- **Environment** ✓

Tourism activities create environmental stress:

  - Permanent environmental restructuring which includes major infrastructure ✓✓
  - Waste product generation such as biological and non-biological waste that damages fish production ✓✓
  - Direct environmental stress caused by tourist activities, e.g. the destruction of vegetation and dunes ✓✓
  - Effects on population dynamics such as migration and increased urban densities ✓✓
- **Investment** ✓

An adequate physical, economic and basic services infrastructure is essential for tourist destinations which means they invest in the following:

  - Transport infrastructure, e.g. roads, airports ✓✓
  - Communication and infrastructure including telephone lines, electronic signal stations and radio, TVs' ✓✓
  - Energy infrastructure such electricity and liquid fuel ✓✓
  - Basic service infrastructure such as clean water and sewerage systems ✓✓

**(Max. 26)**

**ADDITIONAL PART****How can Indigenous Knowledge Systems be used to promote tourism in South Africa?**

- More cultural villages can be improved to facilitate and promote tourism ✓✓ e.g. Shangana in Mpumalanga, Basotho in the Free State and Simunye Zulu Lodge in Kwazulu-Natal where guides explain and demonstrate storytelling and indigenous knowledge practices ✓✓
- Advertising campaigns domestically and internationally by travel agencies, hotels and B & B, lodges and SA Tourism can focus on promoting these heritage sites in brochures and fliers, social media. These actions will make tourists more aware of these attractions ✓✓
- Encourage tourists to experience different cultures and townships - experience life at home with a household and eat at a shebeen or township restaurant ✓✓
- World Heritage Sites of South Africa can be promoted for their cultural significance e.g. the Fossil Hominid Sites of Sterkfontein, Mapungubwe Cultural Landscape, Richtersveld Cultural and Botanical Landscape, Vredefort Dome and Robben Island ✓✓
- Environmental World Heritage Sites of South Africa selected for their natural importance namely the Cape Floral Region Protected Areas, Isimangaliso Wetlands Park as well as uKhahlamba/Drakensberg Park which has been selected for its mixed significance ✓✓
- Arts and culture festivals e.g. the National Arts Festival, the Hermanus Festival, Awesome Africa Music Festival and Macufe African Cultural Festival should more widely be advertised to encourage tourists to attend ✓✓
- According to the World Health Organisation, a large majority of the African population make use of traditional medicines for health, social-cultural and economic reasons and forms part of the unique experience tourists experience when visiting local villages ✓✓
- In South Africa tourists are made more aware of the important role traditional medicine plays in poverty reduction and employment creation ✓✓
- Relaxation of restrictive tourist visa laws to facilitate easier entry into South Africa ✓✓

(Accept any other relevant answers)

(Max. 10)

**Conclusion**

South Africa attracted over 7,8 million tourists in 2011/For every 8.1 additional tourist to South Africa, one new job is created/one per cent increase in tourism adds R532 million annually to the SA economy. ✓✓

(Accept any other relevant higher order conclusion)

(Max. 2)

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