# REMOTE LEARNING ACTIVITY BOOKLET

# (RELAB)

## SUBJECT: ECONOMICS

## GRADE: 11

## TEACHER GUIDE

## A. INTRODUCTION AND PURPOSE OF THE RELAB

The COVID-19 pandemic has created the largest disruption of education systems in human history, affecting over a billion learners in more than 200 countries. Closures of schools, institutions and other learning spaces have impacted on the majority of the world's student population. This has brought far-reaching changes in all aspects of our lives. Social distancing and restrictive movement policies have significantly disturbed traditional educational practices.

To control the coronavirus spread, most countries have been working to encourage parents and schools to help students continue to learn at home through distance learning. In South Africa, the implementation of a rotational timetable for non-matric learners has left a void in curriculum completion. The Gauteng Department of Education (GDE) has therefore embarked on an innovative initiative to develop learning activities to assist learners to continue their studies while at home through the Remote Learning Activity Booklet, also known as RELAB. This is in keeping with its Strategic Goal 2 which aims to promote quality education across all classrooms and schools.

The RELAB is underpinned by the following policies:

a) **The Department of Basic Education (DBE) Circular S13 of 2020** which requires the GDE to support the implementation of the Recovery Annual Teaching Plan (RATP); and

b) **GDE Circular 11 of 2020** which requires districts to issue learning activity packs to support schools for lockdown learning.

This is based on the premise that there are learning constraints at home whereby the majority of learners do not have access to devices or data to use for online learning. Many households are dependent on schools to provide them with learning resources packs.

RELAB is designed in a study guide format, where the content is explained briefly with related concepts as revision in the form of e.g. notes, mind-maps and content progression from the previous grade/s followed by exemplar exercises and practice exercises. The exercises are pitched at different cognitive levels to expose Grade 10 and 11 learners to the different cognitive levels of questioning as outlined in the Curriculum and Assessment Policy Statement(CAPS).

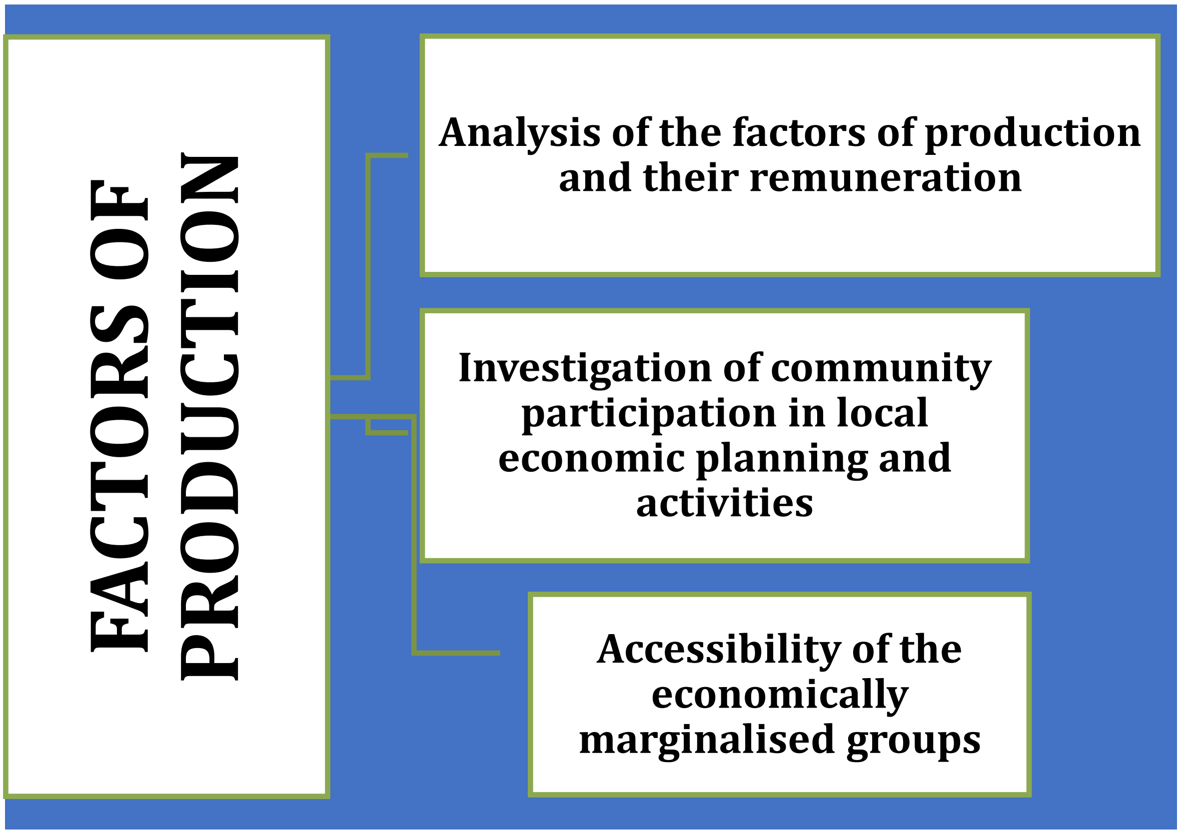
The RELAB is intended to ensure that learners work on exercises based on topics or skills taught while at school. These exercises must then be completed at home and feedback will be provided by educators. Educators will then diagnose learner responses, remediate where necessary and plan further intervention.

Educators are encouraged to create WhatsApp groups to remind learners of what is expected of them in a particular week. The prudent use of the RELAB will help alleviate the backlog in curriculum coverage and prepare learners for formal assessment.

## B. TABLE OF CONTENTS

# MACROECONOMICS

## TOPIC 1:ECONOMICS: BASIC CONCEPTS, FACTORS OF PRODUCTION WEEKS 1-2



## QUESTIONS

**SECTION A: TYPICAL EXAM QUESTIONS**

**QUESTION 1: Section A – Short Questions**


**:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 A ✓ inputs into the production process.
1.1.2 A ✓ economic rent
1.1.3 A ✓ inputs
1.1.4 A ✓ inelastic
1.1.5 A ✓ renewable
1.1.6 B ✓ entrepreneur
1.1.7 B ✓ unskilled labour
1.1.8 C ✓ fixed
1.1.9 B ✓ transfer earnings
1.1.10 B ✓ human
1.1.11 C ✓ HIV and Aids
1.1.12 D ✓ empowerment

(12 x 2) (24)

**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 – 1.2.11) in the ANSWER BOOK.**

1.2.1 H ✓ They cannot be produced without any human input.
1.2.2 F ✓ Refer to those goods and services which help in the production process.

1.2.3 G ✓Any and all particular geographical locations, mineral deposits, forests, water, arable land, sun-shine, fish stocks, atmospheric quality etc.
1.2.4 B ✓ Is made possible by the availability of natural resources
1.2.5 I ✓ The remuneration received from the sale of a factor of production which is scarce.
1.2.6 D ✓ The quantity of labour depends on the size of the population and the proportion of the population that is able and willing to work.
1.2.7 C ✓ Dividing the process of production into distinct and several component processes and assigning each component in the hands of a labourer or a set of labourers, who are specialists in that particular process.
1.2.8 E ✓ All man-made physical assets like plant and machinery, tools, buildings, roads, dams and communication, etc., are the various forms of physical capital.
1.2.9 L ✓ The remuneration received for the supply of labour by households
1.2.10 K ✓ The investment that is made in the form of money or monetary instruments.
1.2.11 A ✓ The process whereby something or someone is pushed to the edge of a group and accorded lesser importance, this is predominantly a social phenomenon by which a minority or sub-group is excluded, and their needs or desires ignored. (11 x 1) (11)

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number.**

1.3.1 Entrepreneurship✓
1.3.2 Net profit✓
1.3.3 Technological knowledge✓
1.3.4 Capital formation✓
1.3.5 Nominal wage✓
1.3.6 Depreciation✓
1.3.7 Entrepreneurs✓
1.3.8 Economic goods✓
1.3.9 In service training✓
1.3.10 Marginalisation✓
1.3.11 Rent✓ (11 x1) (11)

**SECTION B**

**SECTION B: TYPICAL EXAM QUESTIONS**

**QUESTION 2:**


**:** When the question requires you to "list" or "name", you need not write a sentence but merely few words or a phrase. This **MUST** be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

**2.1 List any TWO examples of non-renewable resources.**

- Gold✓
- coal✓
- fossil ✓
- fuel✓
- platinum✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.2 Name any TWO main economic activities in modern society)**

- Production✓
- Consumption✓
- Exchange✓ **(2 x 1) (2**

(Accept any other relevant correct response)

**2.3 Name any TWO broad categories of labour**

- Higher level (skilled) ✓
- Intermediate (semi-skilled) ✓
- Lower level (unskilled) ✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.4 Name TWO examples of capital goods.**

- Machines✓
- Tools✓
- Equipment✓
- Factories✓
- Office buildings✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.5 Name TWO factors which must be present to enable a country to make use of its natural resources.**

- Quality of natural resources✓
- Availability of skilled labour✓
- Technology✓ **(2 x 1) (2)**
- Accessibility of natural resources✓

(Accept any other relevant correct response)

**2.6 Name any TWO components of capital**

- Physical✓
- Financial✓ **(2 x 1) (2)**

**2.7 Name TWO factors that influence the labour force participation rate**

- The age distribution of the population ✓

- Retirement and social security ✓
- Economic structures ✓
- Emancipation of women ✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.8 List any TWO forces that determine interest rates. (2 x 1) (2)**

- Savings ✓
- Spending✓
- Borrowing✓
- Investment✓
- Exchange rates✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.9 Name any TWO strategies that the government implement to address socio-economic inequality.**

- Broad Based Black Economic Empowerment Policy✓
- Human Resource Development Strategy. ✓
- SETA's. ✓
- National Youth Agency
- Expanded Public Works Programme✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.10 Name TWO factors that influence the labour force participation rate.**

- The age distribution of the population✓
- Retirement and social security✓
- Economic structures✓
- Emancipation of women✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**QUESTION 3:**

**:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences

**3.1 Why is the supply of land fixed?**

- The resources are not man-made ✓✓
- These resources are scarce in relation to the demand for them ✓✓
- The availability of non-renewable resources cannot be increased if more resources are required ✓✓ **(2 x 1) (2)**
-

(Accept any other correct relevant response)

**3.2 Why is it important for government to use the procurement system?**

- To address past discriminatory policies and practices ✓✓

- To redistribute wealth by channelling funds to businesses belonging to previously disadvantaged groups ✓✓
- To achieve anti-discrimination objectives in a workplace ✓✓
- To direct investment funds into underdeveloped and disadvantaged rural communities by means of conventional constructional projects ✓✓
- To the participation of SMME's in providing goods and services for government procurement ✓✓ **(2 x 1) (2)**
-

(Accept any other correct relevant response)

**3.3 What will happen to the rent on land that is situated far from the market, if the government builds a railway line to connect the farmer to the market? (1 x 2) (2)**

- The rent will increase, since the land is now more accessible to the market. ✓✓
(Accept any other relevant correct response)

**3.4 What do we mean when we say that labour is heterogeneous?**

- We mean that people differ in terms of attitude, personalities, physical attributes and productivity✓✓ **(1 x 2) (2)**
(Accept any other relevant correct response)

**3.5 Why is the quality of labour more important than the quantity of labour?**

- The quality of labour determines how productive the labour is, the more productive the labour is, the more the productionPP. **(1 x 2) (2)**
(Accept any other relevant correct response)

**3.6 Since Natural resources are scarce, what would be your suggestion as to how they should be used? (1 x 2) (2)**

- Natural resources should be used efficiently✓✓
(Accept any other relevant correct response)

**3.7 Why is it that land and labour are referred to as primary factors of production?**

- Because land and labour are naturally given✓✓ **(1 x 2) (2)**
(Accept any other relevant correct response)

**3.8 How does the government use procurement to distribute wealth?**

- By channelling funds through businesses belonging to previously disadvantaged groups. ✓✓ **(1 x 2) (2)**
(Accept any other relevant correct response)

**3.9 How does a high level of education influence the ability of an individual to get employed? (1 x 2) (2)**

- It provides skills to do a specific job.✓✓
- It provides knowledge to do specific job.✓✓
(Accept any other relevant correct response)

**3.10 What effect will HIV/Aids have on the supply of labour? (1 x 2) (2)**

- The supply of labour will decline due to death caused by HIV/AIDS related

illnesses. ✓✓ **(1 x 2) (2)**
(Accept any other relevant correct response)

3.11 **What impact does the Expanded Public Works Programme have on your local community?**

- Community projects are earmarked✓✓
- Jobs are created while at the same time, community upliftment takes place. ✓✓
- Poverty is alleviated. ✓✓
- An income for the unemployed is provided. ✓✓ **(1 x 2) (2)**

(Accept any other relevant correct response)

3.12 **How effective is local government in promoting the role of community participation?**

- Government has absorbed so many local communities to the economic mainstream through government funding to support SMME. ✓✓
- Through subsidies granted to rural areas to promote entrepreneurship. ✓✓
- NYDA is also used to assist young people who want to venture into business✓✓ **(1 x 2) (2)**

(Accept any other correct, relevant response)

**DATA RESPONSE**

**:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

**QUESTION 4:**

**4.1 DATA RESPONSE**

**4.1.1 What is depicted by the cartoon above?**

- The factors of production✓ **(1)**

**4.1.2 Which factor above requires the willingness and ability to combine the other three factors for production to take place?**

- Entrepreneur✓ **(1)**

**4.1.3 Describe the term *entrepreneur***

- An enterprising and ambitious person who has the ability to coordinate and combine the other factors of production efficiently and profitably.✓✓ **(2)**

(Accept any other relevant correct response)

**4.1.4 How does the market reward an entrepreneur and punish an entrepreneur?**

- Successful entrepreneurs are rewarded with profits, while unsuccessful
- Entrepreneurs are punished by bankruptcies✓✓ **(2)**

  (Accept any other relevant correct response)

**4.1.5 Why do we need entrepreneurs in the economy of South Africa? (4)**

- Entrepreneurs are the people who organise and assume the risk of staring and running a business✓✓
- Entrepreneurs make an important contribution to solving the economic questions of what to produce, how to produce and for whom to produce. ✓✓

  (Accept any other correct alternative response) **(2 x 2 ) (4)**

**4.2 DATARESPONSE**

**4.2.1 What factor of production is represented in the above extract? (1)**

- Natural resource/land✓

**4.2.2 Who is the current Minister of Water and Sanitation? (1)**

- Lindiwe Sisulu✓

**4.2.3 Describe the term *natural resources.***

- All the aspects of nature, including mineral deposits, water, land, natural forests, marine resources, animal life, the atmosphere and vegetation✓✓**(2)**

  (Accept any other correct alternative response)

**4.2.4 What was the aim of the 2016 Water Week?**

- Aimed at re-emphasising the importance of water, the scarcity of water and the need to manage water in a sustainable way. ✓✓ **(2)**

  (Accept any other relevant correct response)

**4.2.5 What is the impact of scarcity on renewable and non-renewable resources?**

- Renewable resources can be replaced by nature over even after exploitation time ,e.g. trees, wildlife soil. ✓✓

  Non-renewable resources cannon be replaced over time once exploited e.g. coal, platinum oil. ✓✓ **(2 x 2) (4)**

  (Accept any other relevant correct response)

**4.3 DATA RESPONSE**

**4.3.1 List ONE factor that influence rent**

- Demand for the product or services produced✓
- Climate✓
- Quality of natural resources✓

- Technology✓
- Location✓ **(1)**

**4.3.2 What do we call the rent charged for the exploitation of mines?**

- Dead rent ✓ **(1)**

**4.3.3 Briefly describe the term *economic rent*'.**

- Is the remuneration or payment made for the use of factors of production which is limited in supply.✓✓ **(2)**

  (Accept any other relevant correct response)

**4.3.4 Explain why the supply of land is fixed.**

- The supply of natural resources is fixed and limited to what nature provides us.✓✓
- It is limited because the resources are not man made. ✓✓
- These resources are scarce in relation to the demand for them.✓✓
- The availability of non-renewable resources cannot be increased if more resources are required. ✓✓
- It is possible, however, to exploit more of the available resources✓✓.
- The disadvantage of doing this that they will be used up more quickly.✓✓
- New technology can improve the productivity of some natural resources.✓✓

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

**4.3.5 Calculate the economic rent according to the graph?**

- Economic rent = R35 000✓ – R10 000 ✓ = R25 000 ✓✓ **(4)**

**4.4 DATA RESPONSE**

**4.4.1 According to the above image, what is the demand of the workers?**

- A living wage✓ **(1)**

**4.4.2 Mention any ONE characteristics of labour**

- Aim is to earn an income. ✓
- It is part of the owner. / Cannot be separated from the worker ✓
- It cannot be stored. ✓
- It differs in quality. ✓
- Supply cannot be increased suddenly✓ **(1)**

  (Accept any other relevant correct response)

**4.4.3 Describe the term *labour***

- Labour is a measure of the work done by human beings.it is the human input in the production process. ✓✓
- The input can either be mental (e.g. an accountant), or physical (e.g. a driver). ✓✓

- It includes all human effort exerted with a view to obtaining reward in the form of income. ✓✓ **(2)**
  (Accept any other correct and relevant response)

**4.4.4 What is the difference between nominal wages and real wages?**

Nominal wages refer to the amount of money that the worker receives at the end of the period, whereas real wages refer to the value of goods and services that a worker can buy with the nominal wage.✓✓ **(2)**
(Accept any other relevant correct response)

**4.4.5 How can the productivity of labour be improved?**

- Business and government can increase labour productivity of workers by direct investing in or creating incentives such as rewards, certificates, bonuses, increased wages & salaries etc.✓✓
- Investment in physical capital: Increasing the investment in capital goods including infrastructure from governments and the private sector can help productivity while lowering the cost of doing business.✓✓
- Quality of education and training: Offering opportunities for workers to upgrade their skills, and offering education and training at an affordable cost, help raise a corporation's and an economy's productivity.✓✓
- Technological progress: Developing new technologies, including hard technology like computerization or robotics and soft technologies like new modes of organizing a business or pro-free market reforms in government policy can enhance worker productivity.✓✓ **(2 x 2) (4)**

(Accept any other correct and relevant response)

**4.5 DATA RESPONSE**

**4.5.1 Which institution is responsible to publish the information depicted on the table above?**
- Statistics South Africa✓ **(1)**

**4.5.2 In which year was employment at its highest?**
- 2009✓ **(1)**

**4.5.3 What trend do you observe in the working age population from the table?**
- There is an increase/increasing. ✓✓ **(2)**
  (Accept any other relevant correct response)

**4.5.4 Explain the term Not Economically Active** **(2)**
- Are people that are not suitable for work. ✓✓
- People over the age of 65. ✓✓
- Those under the age of 15 years old.

(Accept any other relevant correct response)

**4.5.5 Calculate the unemployment rate for 2011**
4 364/17✓ 482 X 100 ✓= 25%✓✓ OR 24,9% **(4)**

**4.6 DATA RESPONSE**

**4.6.1 Identify the market equilibrium for labour in the graph.** **(1)**
- EL✓

**4.6.2 According to the above graph, how are wages determined in the labour market?** **(1)**
- By the interaction of demand for labour and supply for labour/Demand and Supply✓

**4.6.3 Briefly describe the term *labour?*** **(2)**
- Application of human mental and physical effort to produce goods and services with the view of obtaining a reward in the form of income.✓✓
(Accept any other correct relevant response)

**4.6.4 Explain how HIV and AIDS affect the quality of labour**
- The supply of skilled and experienced workers will decline ✓✓
- it will influence productivity of workers ✓✓
- they cannot perform their tasks efficiently ✓✓ **(2)**
(Accept any other correct relevant response)

**4.6.5 How does the national development plan propose to increase ✓ employment and economic growth?**
- improving labourers' skills by means of better education and training ✓✓
- improving the functioning of demand and supply in the labour market ✓✓
- stimulating exports where South Africa has a comparative advantage e.g. mining and tourism ✓✓
- snowballing investment in social and economic infrastructure ✓✓
- raise productivity giving more people an opportunity to participate in the economy ✓✓
(Accept any other correct relevant response) **(2 x 2) (4)**
**[10]**

**4.7 DATA RESPONSE**

**4.7.1 Classify the type of labour that is performed by person B.** **(1)**
- Semi-skilled.✓

**4.7.2 Under which of the categories above (A, B or C) would you classify the bulk of South Africa's labour force?**
C (unskilled) ✓ **(1)**

**4.7.3 Describe the term *specialisation of labour.***

- The separation of work process into a number of tasks, with each task performed by a separate person or group of persons.✓✓ **(2)**
  (Accept any other relevant correct response)

**4.7.4 Briefly explain any ONE characteristic of labour.**

- The ownership of labour does not belong to the firm but to the person selling the labour service.✓✓
- Labourers need to be physically present when their services are used.✓✓
- Labour cannot be stored or hoarded for use in the future.✓✓
- The geographical and occupational mobility of labour is relatively low.✓✓
- Labour is heterogeneous, it has many different characteristics✓✓
- The use of labour by a firm is a bargaining process between the firm and the worker.✓✓
- It is not possible to increase the supply of labour.✓✓ **(2)**
  (Accept any other relevant correct response)

**4.7.5 Why would you regard labour as an important factor of production?**

- Production requires labour (physical and mental effort). ✓✓
- Economy therefore needs a suitable labour force in order to grow. ✓✓
- The labour force needs to have the right number of skilled and unskilled workers available. ✓✓
- Education is important in developing labour in a country. ✓✓
- The more educated a labour force is, the more productive they are.
- Many South African businesses are labour intensive and so labour costs make up a big part of production costs. ✓✓
- Trade unions play an important role, however, in protecting the rights and dignity of workers, protecting their wage and encouraging employers to invest more in adult education and training. ✓✓
  (Accept any other relevant correct response) **(2 x 2)(4)**

[10]

**:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document.

**QUESTION 5** **Paragraph type questions – Middle Cognitive**

**5.1 Briefly explain the availability and use of factors of production as methods of growing the economy**. **(8)**

- Natural resources: Sustainable use of natural resources to create goods and services. ✓✓

- Natural resources should be used in such a way that future generations will be able to meet their needs. ✓✓
- Land can be used for new purposes that will render better returns. ✓✓
- Labour force: the total working population must increase in relation to the total population. ✓✓
- Knowledge and skills of the labour force should be increased through education. ✓✓
- Capital investment: should be increased. ✓✓
- New capital layout must be created and existing layouts should be expanded. ✓✓
- This will increase the production capacity of a country. ✓✓
- Entrepreneurship: should be encouraged. More businesses open and more employment opportunities arise. ✓✓
- Technology: must improve. Better production techniques can be developed to increase productivity. ✓✓

  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.2 Discuss the economic significance of land? (8)**

- Agriculture, forestry, mining and fisheries form a significant part of the SA economy. ✓✓
- Natural resources form the basis of all primary economic activities ✓✓
- They are used as raw material in the production process. ✓✓
- They provide opportunities for international trade, e.g. our minerals give us the opportunity to sell to other countries that need them. ✓✓
- We earn foreign currency from those exports and then use the money to import those natural resources that we need like oil. ✓✓
- Natural resources have a direct impact on the economic development of a country. ✓✓
- Economic activity is made possible by the availability of natural resources. ✓✓

  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.3 Differentiate between *capital widening* and *capital deepening* (8)**

**Capital widening**.

- Occurs when the capital stock grows at the same rate as the labour force, resulting in the average amount of capital per worker remaining the same. ✓✓
- For example, in a team of 20 workers there are ten 10 shovels (capital goods), giving a labour – to capital ratio of 2: 1. ✓✓
- If the workers increase to 40, the employer has to invest in a further 10 shovels to maintaining the labour – to-the employer has to invest in a further 10 shovels to maintain the labour –to-capital ratio. ✓✓
- The workers can now maintain their previous production level per worker. ✓✓

- There will be no economic growth, no change in the real GDP and the real GDP per capita will remain unchanged with no change in the standard of living. ✓✓

**Capital deepening**

- Occurs when the amount of capital per worker is increased, that is, when the rate of increase in capital stock is higher than the rate of increase in the labour force. ✓✓
- For example, it would imply that when the number of workers increases from 20 to 40, the employer invests in a further 20 shovels to give a total of 30 shovels. ✓✓
- This increases the capital-to-labour ratio from 2 : 1 (or 4 : 2) to 4 : 3. ✓✓
- This will allow the team of workers to perform more work and increase its efficiency. ✓✓
- So, capital deepening results in real economic growth that will raise the standard of living of the population. ✓✓
- This is because it leads to a higher real GDP and higher GDP per capita. ✓✓
  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.4 Briefly explain any TWO factors that influence the profit of an entrepreneur. (8)**

**The skills of the entrepreneur**: ✓

- Entrepreneurs who can control costs, produce efficiently and estimate their prices and sales correctly, ✓✓ are likely to have higher profits than those who lack similar skills, they are competent. ✓✓

**Production processes and techniques** ✓

- Entrepreneurs need to decide on the production methods they are going to utilise✓✓
- Decisions have to be taken on whether they are going to produce on a large scale or produce when they receive an order. ✓✓
- The machinery used for the production of the goods will determine the production costs as well as the prices of the products. ✓✓

**The demand for the product** ✓

- A demand for the products impacts on profit. If the demand for the product is high, sales generated will increase, the profits in turn will be high and vice versa. ✓✓
  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.5 Explain uneven distribution and the fixed supply as characteristics of natural resources. (8)**

Uneven distribution of natural resources✓✓

- Natural resources such as minerals and water are not evenly distributed over the earth✓✓
- Some countries have many resources and others have very few fixed supply of natural resources✓✓
  Natural resources are scarce in relation to the demand for them. ✓✓
- Resources such as land, oil,, minerals etc. once destroyed cannot be restored in a lifetime. ✓✓
  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.6 Outline the characteristics of capital (8)**

- Capital is man-made. ✓✓
- When capital is being consumed, it depreciates. ✓✓
- In national accounts it is referred to as consumption of fixed capital. ✓✓
- Capital formation (Investment / production of capital goods) requires a sacrifice of savings. ✓✓
- For the production of capital goods to be possible, current consumption should be sacrificed. ✓✓
- Money capital can be converted into physical capital. ✓✓
- Capital investments increase production efficiency. ✓✓
- Capital stock is consumed in the process of production. ✓✓
- Capital goods do not have an unlimited life even though they last over time. ✓✓
- Machinery, plant, equipment, buildings, dams, bridges and roads are all subject to wear and tear. ✓✓
- Capital can become outdated or obsolete because of technological progress. ✓✓
- Capital is a passive factor of production. ✓✓
- Capital is not an indispensable factor of production, ✓✓ i.e. Production is possible even without capital. ✓✓
- Capital has the highest mobility. ✓✓
- Supply of capital is elastic. ✓✓
  (Accept any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**5.7 Discuss the entrepreneur as a creator of employment and ensuring competition. (8)**

Creates employment✓

- Many entrepreneurs in the informal sector start their own micro-businesses to create their own employment. ✓✓
- These businesses create employment for others. ✓✓

Ensures competition✓

- Entrepreneurs create competition✓✓.

- They challenge those that have profitable businesses. ✓✓
- The supply of entrepreneurs to the market is therefore also dependent on the level of profitability. ✓✓
- The higher the level of profitability, the more workers will change into entrepreneurs. ✓✓
- This will increase the amount and variety of goods and services available, thus consumers will be in a better position✓✓.
  (Any other correct relevant response)
  (Maximum of 4 marks for mere listing of facts)

**QUESTION 6** **Paragraph type questions – Higher cognitive**

TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**6.1 Why is capital formation important to the South African economy?** **(8)**

- Capital goods increase the efficiency of labour and increase all the economic activities✓✓
- Increases the country's ability to produce wealth ✓✓
- When the stock of fixed capital in a country grows at a rate that is greater than the growth rate of the labour force, it will lead to an increase in real GDP ✓✓
- Creates jobs/job opportunities ✓✓
- Shows how much of the new value added in the economy is invested rather than consumed ✓✓
  (Accept any other correct relevant response)

**6.2 Why is it difficult to change the real capital?** **(8)**

It is difficult to change real capital because: ✓✓

- It loses its mobility ✓✓
- Using real capital for different purposes✓✓
- Building is occupationally mobile because it can be used for different purposes ✓✓
- It is geographically immobile because it is impossible to move the building to a different place ✓✓
  (Accept any other correct relevant response)

**6.3 How do the natural resources enrich our lives. (8)**

- Land provides space for walking and the enjoyment of natural surroundings✓✓.
- Provides fish, water and is also a source of recreation and relaxation. ✓✓
- The atmosphere provides space to fly airplanes and to communicate ✓✓ electronically. ✓✓
- Also provides fresh oxygen-rich air and clean, clear skies. ✓✓
- It allows jobs to be created in tertiary industry. ✓✓

(Accept any other correct relevant response)

**6.4 How can community participation impact on the entrepreneur? (8)**

- Community forums together with local government can play an important part in the development of entrepreneurs through skills development, financial assistance and making the best use of natural resources in town or region. ✓✓
- Community participation can help to reduce unemployment, alleviate poverty and turn around a low regional growth rate. ✓✓
- Local governments need businesses to stimulate economic activities in the local community to boost economic growth. ✓✓
- The community can participate in the following ways
- Meetings called by businesses or local government✓
- Community members can take part in local elections✓
- Communication members can take part in public campaigns✓
- Community forums. ✓

(Accept any other correct relevant response)

**6.5 Analyse how the government's effort to assist the economically marginalised groups in South Africa. (8)**

- Since 1994, labour policies have been put in place to protect the rights of all employees. ✓✓
- To help this process we have the Broad-Based Black Economic Empowerment laws and the Employment Equity Act of 1998. ✓✓
- The National Skills Development Strategy has enabled 3,6 million people to take part in workplace learning and some 50 000 unemployed young people to take part in leadership programmes. ✓✓
- Sector Education and Training Authorities (SETAs) play an important role in providing the training needed for the skills demanded by industries. ✓✓
- Affirmative action plays an important part in new appointments in the workplace. ✓✓
- Land distribution and land restitution, to correct imbalances of the past. ✓✓

(Accept any other correct relevant response)

**6.6 How successful has the government been in creating opportunities for previously disadvantaged individuals through empowerment? (8)**

- Two acts in particular create opportunities for the previously disadvantaged individuals to access the mainstream economy. ✓✓
  Employment Equity Act (EEA)
- It deals with the prohibition of unfair discrimination and affirmative action. ✓✓
- The unfair discrimination part of the act requires employers to remove unfair discriminatory policies and practices. ✓✓
- Ensures that present employment policies promote the empowerment of previously disadvantaged individuals. ✓✓
- Employed workforce should mirror the economically active profile of the South African population. ✓✓
  Broad Based Black Economic Empowerment (BBBEE). ✓✓
- This act provides the foundation for the transformation of the South African economy so that the number of black people that own, manage and control the country's economy can increase significantly and thus decrease (racial) income inequalities substantially. ✓✓
- In terms of this Act, government published codes of good practice that serve as a guideline for business and other enterprises to transform. ✓✓
  (Any other correct relevant response, indicating the government creating opportunities for previously disadvantaged people through empowerment initiatives)
  (Accept any other correct relevant response)

**SECTION C**

**SECTION B: TYPICAL EXAM QUESTIONS** 

**:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

**:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|---|---|
| **Introduction**<br>The introduction is a lower-order response.<br>• A good starting point would be to the main concept related to the question topic<br>• Do not include any part of the question in your introduction.<br>• Do not repeat any part of the introduction in the body<br>• Avoid saying in the introduction what you are going to discuss in the body | Max 2 |
| **Body**:<br>**Main part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>**Additional part:** Critically discuss/ Evaluate/ Critically evaluate/Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ construct a graph | Max 26<br><br><br>Max 10 |
| **Conclusion**<br>Any Higher or conclusion include:<br>• A brief summary of what has been discussed without repeating facts already mentioned in the body<br>• Any opinion or value judgement on the facts discussed<br>• Additional support information to strengthen the discussion/analysis<br>• A contradictory viewpoint with motivation, if required<br>• Recommendations | Max 2 |
| **TOTAL** | **40** |

**QUESTION 7**

- Discuss in detail the characteristics of capital. (26)
- Examine the positive effects of capital deepening. (10)

**INTRODUCTION**

Capital includes all the goods that are needed to satisfy future wants including machinery and factory buildings. ✓✓
(Accept any other correct relevant introduction) (2)

**BODY: MAIN PART**

**Characteristics of capital**
**Capital is owned/possessed** ✓

- It belongs to or is owned by somebody, such as a business enterprise or the government. ✓✓

- Producers often decide not to buy capital goods but to lease them and pay rental instead. ✓✓
- The lessor then owns the capital. ✓✓

**Capital is consumed in the production process**. ✓
- Working capital items such as raw materials are used up during the production process. ✓✓
- During the production process of goods and services, capital goods are consumed. ✓✓
- Fixed capital items such as machines are 'consumed' over a long period – wear and tear. ✓✓
- Businesses need to set aside some of their profits to replace worn out capital. ✓✓

**Capital has a limited lifespan**. ✓
- Some capital goods such as machines and equipment are subject to wear and tear. ✓✓
- Their value depreciates over time. ✓✓
- They may also become outdated or obsolete because of technological progress. ✓✓

**The formation of capital requires a sacrifice**✓.
- The process of producing or purchasing capital goods is known as capital formation or investment. ✓✓
- Funds required for capital formation are obtained from savings. ✓✓
- Savings represent current incomes that are sacrificed by economic participants. ✓✓
- Most savings come from private business enterprises, with minor savings by households and government ✓✓

**Capital increases production efficiency**. ✓
- Capital goods make specialisation possible. ✓✓
- When more capital goods are produced in a particular period, fewer consumer goods can be produced in the same period ✓✓
- The benefit of the sacrifice is that producing capital goods will lead to a greater production capacity. ✓✓
- Modern production processes consisting of elements of human labour and machine labour are more efficient than human labour alone. ✓✓
- Efficiency results in resources being stretched much further✓✓.
- (Accept any other correct relevant response) (Max. 26)

**(Allocate a maximum of 8 marks for listing of facts, headings, sub-headings and examples.)**

**ADDITIONAL PART**
- Capital deepening has the following positive effects: ✓✓
- Productivity per worker increases as the amount of capital per worker increases. ✓✓

- Efficiency per worker increases. ✓✓
- As productivity per worker increase, real wages also increase. ✓✓
- The economy will expand leading to a sustained real economic growth even without technological process. ✓✓
- Capital deepening is also thought to be a major factor – if not a prerequisite – of economic development in emerging markets. ✓✓
- It is one of the most important sources of growth in modern economies. ✓✓

  (Accept any correct relevant response) (10)

  (Maximum of 2 marks for mere listing of facts)

**CONCLUSION**

The significance of capital lies in its relationship with economic growth and must grow at a rate which is equal or higher than the increase in the workforce.

(Accept any other higher order conclusion.) ✓✓ (2)

**[40]**

**QUESTION 8**

- Discuss the economic importance of entrepreneurship. (26)
- Critically evaluate how the South African government promotes entrepreneurship. (10)

**INTRODUCTION**

An entrepreneur is a person who takes the risk of starting and financing a new business to satisfy the needs and wants of consumers by effectively combining the other factors of production to make a profit.✓✓

(Any relevant introduction is accepted) max.2

**BODY: MAIN PART**

**Importance of an entrepreneur**

- Entrepreneur is found in small and large enterprise. ✓✓
- Because there are so many more small enterprises, however, the contribution from entrepreneurs in the smaller enterprises is significant. ✓✓
- Throughout the world, smaller business enterprises seem to form the natural habitat for entrepreneurs. ✓✓
- Smaller businesses allow them more freedom to implement their innovations. ✓✓
- In South Africa, many entrepreneurs in the informal sector start their own micro-businesses to create their own employment. ✓✓
- Many of these entrepreneurs in the informal sector are unemployed, poor people who venture into the world of business purely to survive, often without the means, skills and knowledge to make a success of their businesses. ✓✓
- They should be recommended for providing for their own needs. ✓✓
- Countries that encourage a culture of entrepreneurship, such as japan, the USA and Europe, are characterised by economic wealth that is reflected in their population's high per capita income. ✓✓

- In countries where a culture of entrepreneur is lacking, such as the former Soviet Union, countries in Eastern Europe, Africa and even South Africa, the income per capita is much lower. ✓✓
- Successful entrepreneurs make a considerable contribution in the economy of the community in which they operate and to the economy of the country. ✓✓

**Their contributions are the following:**

- They satisfy the needs and wants of consumers in a community by providing the goods and services that the community require. ✓✓
- They provide employment for the citizens of a community in doing so. ✓✓
- they place income in the hands of workers or consumers and help to raise the standard of living of working people. ✓✓
- They often help to reduce unemployment. ✓✓
- They serve as a market for the natural resources or raw materials of the community, so they provide income to the owners of these resources. ✓✓
  Responsible entrepreneurs show leadership in the responsible use of scarce resources. ✓✓
  They do not produce goods or services, or discharge waste into the earth, water or atmosphere, that would harm the environment. ✓✓
  Because of their high level of achievement and motivation as well as their drive to make good profits, entrepreneurs make production a reality. ✓✓
  As they strive to carry out their tasks more efficiently; they help to increase productivity. ✓✓
- Through all these activities, entrepreneurs make a positive contribution to the economic growth of the community in which they operate and to the economic growth of the country. ✓✓
  (Accept any other correct relevant response) Max.26

**(Allocate a maximum of 8 marks for listing of facts, headings, sub-headings and examples.)**

**BODY: ADDITIONAL PART**

- Because of the importance of entrepreneurship in South Africa, the government launched key institutions to support and empower South Africa's historically disadvantaged entrepreneurs (woman and youth in particular) to establish new enterprises. Some of these institutions are the following:✓✓
- The small enterprise development agency (SEDA) that provides non-financial support, such as mentoring programmes, business advice,✓✓help with government tenders and technology support to small enterprises. ✓✓
- Khula credit indemnity scheme provides access to finance through various schemes and micro-credit in rural areas to support small businesses for the benefit of new black entrepreneurs. ✓✓
- Business partners ltd is a specialist investment group, providing customised investment, mentoring and property-management services to SMES in South Africa. ✓✓
  (Accept any other correct relevant response) (10)
  (Maximum of 2 marks for mere listing of facts)

**CONCLUSION**

Entrepreneurs are necessary for the economic growth of a country. Governments appreciate and acknowledge their importance. ✓✓

(Accept any other correct relevant conclusion of higher order). (2)

**[40]**

**QUESTION 9**

- Discuss the characteristics of labour. (26)
- Draw a graph that shows a fixed supply of land and briefly explain how an increase in demand will have an effect on rent. (10)

**[40]**

**INTRODUCTION**

Labour is the use of human mental and physical effort to produce goods and services to get a reward in the form of income. ✓✓

(Any other correct relevant introduction) Max. 2

**BODY: MAIN PART**

**Characteristics of labour**

**Labour cannot be separated from worker** ✓

- Labour is provided by people and cannot be separated from their humanity ✓✓
- The quality of people's work is affected by their feelings. ✓✓
- General Job satisfaction, which includes fair remuneration and pleasant working conditions, contributes to the quality and quantity of work done. ✓✓

**Labour cannot be stored and hoarded** ✓

- People cannot lock away their labour, for instance when they are young and healthy and sell it when they are old and unproductive✓✓
- Labour ability, whether it is used or not, disappears with time ✓✓
- The labour that is lost during a strike can never be regained ✓✓
- The labour effort that you failed to put into your learning when you went to a party the night before an exam is lost forever ✓✓

**Labour varies in quality** ✓

- The quality of the work done by identically trained people, or even the same person at different times, can/is likely to differ ✓✓
- The more comprehensive and complicated a task, the greater the difference in the quality of the work will be ✓✓
- The simpler and shorter a task, the less the difference will be ✓✓
- For the reason, specialisation of labour is imperative ✓✓
- Tasks are made short and simple ✓✓
- This ensures that the quality of work is consistent ✓✓

**The demand for labour is a derived demand ✓**

- The demand for labour is a derived demand because the demand depends on the demand for thee goods and services produced with the assistance of labour inputs.✓✓
- The demand for labour also depends on the productivity of the workers as well as the availability of the other factors of production.✓✓

**The supply of labour depends on the size and composition of the population as well as on migration ✓**

- The quality of labour supplied in any country depends on the size and growth rate of the population, the composition of the population and proportion of the population that is able and willing to work ✓✓

**Labour is fairly immovable ✓**

- Working people are normally reluctant to move, so labour is considered to be fairly immovable ✓✓

**The supply of labour cannot be increased over a short period of time ✓**

- The supply of labour is dependent on the given labour force of a country ✓✓
- If more workers are required in an industry, the supply of labour cannot be increased immediately because available unemployed workers first have to be trained✓✓

**Labour is linked to human rights ✓**

- Workers performance and employers treatment of workers in the work place are linked to the human rights of individual workers ✓✓
- All employees have to respect these rights ✓✓

(Accept any other correct relevant response)

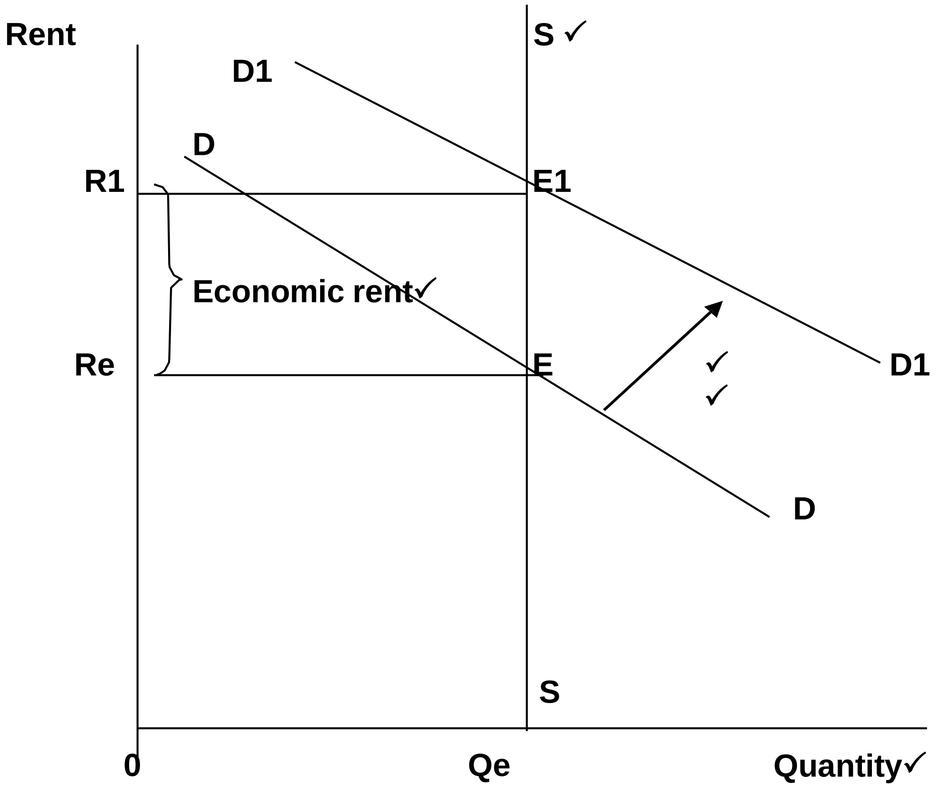
Max.26

**(Allocate a maximum of 8 marks for listing of facts, headings, sub-headings and examples.)**

**BODY: ADDITIONAL PART**

**Draw a graph that shows a fixed supply of land and briefly explain how an increase in demand will have an effect on rent.**

**Rent for land that is fixed supply**




**1 mark for axes 1 mark for S**
**2 mark for shift of DD to D1D1 1 mark for Economic rent**

**[Max 4 marks]**

- The supply of land is fixed (SS) and the original demand curve for land is (DD) ✓✓
- Where DD is equals SS at point E, we get the equilibrium point E and the equilibrium price or the rental price Re,✓✓ and the equilibrium quantity Qe ✓
- If the demand for land increases, the demand curve will shift to the right at D1D1.✓✓
- Where D1D1 is equal to S1S1 at point E1 at the equilibrium price R1✓✓ and equilibrium quantity Qe ✓
- The difference between Re and R1 is the economic rent ✓✓
  (Accept any other correct relevant response) Max.6 marks

**CONCLUSION**

A trained, well educated workforce is essential for a country's economic well-being because these workers are responsible for most of the country's production ✓✓
(Accept any other correct relevant conclusion of higher order). (2)

**[40]**

## QUESTION 10

- Discuss land as one of the four factors of production with special reference to:
- Characteristics,
- Economic significance
- Remuneration.

(26)

- Examine how government can use empowerment as a strategy that the government implement to address socio-economic inequality and alleviate the difficulties of economically marginalised groups. (10)

**[40]**

**INTRODUCTION**

Land comprises all naturally occurring resources whose supply is inherently fixed. Examples are any and all particular geographical locations, mineral deposits, forests, water, arable land, sunshine, fish stocks, atmospheric quality etc.✓✓
(Any relevant introduction is accepted) (2)

**BODY: MAIN PART**

**Characteristics of land**

**The supply of natural resources is limited or fixed (scarce).**✓

- That means their availability cannot be increased if we want more of them.✓✓
- For example, if we mine all the gold there is, we cannot restore the gold ever again.✓✓
- Land can either be renewable or non-renewable (exhaustible and destructible) ✓✓

**Land is unevenly distributed**.✓

- Some places have diamond deposits, and some have oil deposits and so on.✓✓
- Land needs to be processed or transformed before it can have utility,✓✓ e.g. raw diamonds have no utility, but a diamond ring has.✓✓

**Natural resources are different in quality and quantity**.✓

- Some countries have a relatively vast area but the land is of limited value.✓✓
- A desert, for example, has little or no agricultural value. ✓✓
- Some countries have a relatively small geographical area but plentiful supply of arable
  land and minerals✓✓
  Land is imperishable✓✓

**Land is immobile**✓

- Land is a passive factor of production✓✓
- As a gift of nature, the initial supply price of land is zero.✓✓
- However, when used in production, it becomes scarce. ✓✓
- Therefore, it fetches a price, accordingly. ✓✓

**Economic significance of land** ✓

- Agriculture, forestry, mining and fisheries form a significant part of the SA economy✓✓
- Natural resources form the basis of all primary economic activities.✓✓
- They are used as raw material in the production process✓✓
- They provide opportunities for international trade, e.g. our minerals give us the opportunity to sell to other countries that need them.✓✓
- We earn foreign currency from those exports and then use the money to import those natural resources that we need like oil.✓✓
- Natural resources have a direct impact on the economic development of a country.✓✓
- Economic activity is made possible by the availability of natural resources ✓✓

**Remuneration received for land**

- The remuneration for land is economic rent.✓✓
- It should be noted that economic rent is different from commercial rent.✓✓
- Commercial rent is rent paid for buildings, houses; land etc. whereas economic rent is the remuneration received from the sale of a factor of production which is scarce.✓✓

(Accept any other correct relevant response) Max.26

**(Allocate a maximum of 8 marks for listing of facts, headings, sub-headings and examples.)**

**BODY: ADDITIONAL PART**

**Empowerment**

- Empowerment is a management practice of sharing information, rewards, and power with people so that they can take initiative and make decisions to solve problems and improve service and performance.✓✓
- Empowerment is based on the idea that giving people skills, resources, authority, opportunity, motivation, as well holding them responsible and accountable for
  outcomes of their actions, will contribute to their competence and satisfaction.✓✓
- The following are some of the strategies that the government implement to address socio-economic inequality and alleviate the difficulties of economically
  marginalised groups;
- The Expanded Public Works Programme is the largest job-creating initiative undertaken.✓✓

- The National Youth Agency aims to help people between the ages of 16 and 25 who want to continue their education by providing them with part-time jobs.✓✓
- Entrepreneurship grants and skills development through 22 SETA's.✓✓
- The Broad Based Black Empowerment Policy provides a basis for transforming the South African economy to eradicate inequality.✓✓
- The Human Resource Development Strategy was implemented to reduce the levels of poverty, unemployment and inequality.✓✓
- The Integrated and Sustainable Rural Development Strategy.✓✓
- Anti-poverty initiates and programmes such as a well-developed social grants system and better service delivery to the poor.✓✓

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

**CONCLUSION**
Factors of production are the corner stone of production. Natural resources are the natural raw materials needed to produce almost anything, e.g. trees for furniture, paper.✓✓
(Accept any other correct relevant conclusion of higher order). (2)
**[40]**

# MACROECONOMICS

## TOPIC 2: CIRCULAR FLOW AND QUANTITATIVE ELEMENTS ECONOMIC GOODS AND SERVICES (WEEK 3-5)

**QUESTIONS**

**SECTION A: TYPICAL EXAM QUESTIONS**

**QUESTION 1:** **Section A – Short Questions**


**:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 B GNI ✓✓
1.1.2 A production ✓✓
1.1.3 A depreciation✓✓
1.1.4 C residual items✓✓
1.1.5 B domestic product✓✓
1.1.6 A functional✓✓
1.1.7 A production✓✓
1.1.8 C added✓✓
1.1.10 B households✓✓

(10 x 2) (20)

**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 – 1.2.10) in the ANSWER BOOK.**

1.2.1 J ✓GDP at basic prices, plus taxes on products, minus subsidies on products.
1.2.2 I ✓Increases at a rate of increase of the work force.
1.2.3 A ✓Takes the form of social security such as pensions and disability grants.
1.2.4 G ✓Goods that derive their name from the fact that they last in value for a relatively long
1.2.5 C ✓Expenditure which is not affected by level of income
1.2.6 B ✓Takes place when firms build up their stock of finished products
1.2.7 D ✓Goods and services whose provision has benefits for the user and society
1.2.8 F ✓ The total market value of all final goods and services produce between the borders of a country over a specific period of time.
1.2.9 H ✓ Transfer payments by the state to support the elderly
1.2.10 E ✓ The flow of goods and services between the participants in the circular flow (10 x 1) (10)

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations will be accepted.**

1.3.1 Double counting✓
1.3.2 Gross National Product ✓
1.3.3 Expenditure method✓
1.3.4 Real GDP/GDP at constant prices✓
1.3.5 Non-durable goods✓
1.3.6 GDP at current prices/nominal GDP✓
1.3.7 Subsidies on products ✓
1.3.8 Gross Domestic Product✓
1.3.9 Tertiary sector✓
1.3.10 Semi-durable goods✓
1.3.11 Inventory investment✓
1.3.12 Taxation/taxes✓
1.3.13 Subsidies on production✓
1.3.14 Taxes on products✓

(14 x 1) (14)

**SECTION B**

**QUESTION 2:**

**:** When the question requires you to “list” or “name”, you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

**2.1 Name TWO economic participants that are responsible for gross fixed capital formation**

- Government✓
- Public corporations✓
- Business enterprises✓ **(2 x 1) (2)**

**2.2 List TWO main economic sectors when calculating GDP(P).**

- Primary sector ✓
- Secondary sector ✓
- Tertiary sector ✓ **(2 x 1) (2)**

**2.3 Name any TWO participants in a closed economy.**

- Households/consumers ✓
- Business enterprises/firms ✓
- Government/state ✓ **(2 x 1) (2)**

**2.4 Name any TWO examples of taxes on products.**

- VAT ✓
- Excise duties. ✓
- Fuel levy✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.5 Name any TWO main categories of final consumption expenditure by government.**

- The remuneration of public sector employees. ✓
- Current spending on goods and services.✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**2.6 List any TWO main economic activities in modern society**

- Production✓
- Consumption ✓
- Expenditure✓ **(2 x 1) (2)**
-

(Accept any other relevant correct response)

**2.7 Name any TWO methods of calculating GDP.**

- Income✓
- Production✓
- expenditure✓✓ **(2 x 1) (2)**

**2.8 List TWO economic leakages**

- Savings✓
- Imports✓
- Taxes✓ **(2 x 1) (2)**

**2.9 Name TWO types of assets into which Gross fixed capital investment is broken into.**

- Residential buildings✓
- Non-residential buildings
- Construction work✓
- Transport equipment✓
- Machinery and other equipment✓ **(2 x 1) (2)**

(Accept any other relevant correct response)

**QUESTION 3**


**:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences

3.1 **Why do national accountants use the value added method to calculate GDP?**

- To avoid double counting✓✓ (1 x 2) (2)

(Accept any other relevant correct response)

3.2 **Why is the households the ones who get paid for land, labour, capital and entrepreneurship and not government or firms?**

- Because households are the owners of the factors of production✓✓(1 x 2) (2)

(Accept any other relevant correct response)

3.2 **What happens to household spending on final goods and services during an economic recession?**

- During a recession, spending by households declines since their income declines✓✓ (1 x 2) (2)

(Accept any other relevant correct response)

3.3 **Why is the gross domestic product of South Africa always greater than the gross national product?**

- Foreigners' contributions to our economy are more than our contribution to theirs ✓✓
- Only a few SA companies operate globally✓✓

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

3.4 **Why do National Accountants convert Nominal GDP to GDP at constant prices?**

- To determine Real GDP✓✓ (1 x 2) (2)

(Accept any other relevant correct response)

3.6 **Why is the spending of households on final goods and services important?**

- The higher the consumption spending by households, the more needs and wants are being satisfied and the higher the economic welfare of the household.✓✓
The higher the consumption spending by households the higher the demand for goods and services and more will be produced✓✓. (1 x 2) (2)
(Accept any other relevant correct response)

3.7 **Why are capital goods regarded as final goods?**

- Because they cannot be processed further for resale? ✓✓ (1 x 2) (2)
(Accept any other relevant correct response)

3.8 **Why are imports not included in domestic expenditure?**

- Because they do not form part of our production and the income from purchases of them goes overseas. ✓✓ (1 x 2) (2)
(Accept any other relevant correct response)

3.9 **Why is fixed capital formation important?**

- Increases in capital stock allow production to increase. ✓✓
- Increased production leads to more employment. ✓✓
- Capital formation promotes the growth of GDP.✓✓ (1 x 2) (2)

(Accept any other relevant correct response)

3.10 **Explain how consumption stimulates employment.**

If consumption increases firms have to increase production and to do this more people are needed to work in the factories.✓✓ (1 x 2) (2)
(Accept any other relevant correct response)

## DATA RESPONSE

: All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

**4.1 DATA RESPONSE**

**4.1.1 Give an example of a primary income from the rest of the world. (1)**

- RSA citizen working and earning money in the UK.✓
  (Accept any other correct relevant response)

**4.1.2 Do we add a subsidy to the basic prices or subtract it? (1)**

- Subtract✓

**4.1.3 Describe the term *Gross Domestic Product*. (2)**

- The total value of final goods and services produced within the borders of a country in one year.✓✓
  (Accept any other relevant correct response)

**4.1.4 Explain the difference between current prices and constant prices. (2)**

- Current prices (Nominal prices) does not take into account changes in the general price level/no inflationary effect, whereas constant prices (real prices) take into consideration the change in the general price levels (inflation added)✓✓
  (Accept any other relevant correct response)

**4.1.5 Calculate the value of A in the table. (Show all calculations) (4)**

| | |
|---|---|
| • Gross domestic product at market prices | R 2 964 805✓ |
| • Plus: Primary income from the rest of the world. | 48 501✓ |
| • Minus GNI at market prices | 2 978 806✓ |
| • Primary income to the rest of the world **(A)** | 34 500✓ |

**4.2 DATA RESPONSE**

**4.2.1 What method of calculating the GDP is depicted by the table above?**

- Expenditure method/GDP(E) ✓ **(1)**

**4.2.2 Name any other method that can be used to calculate the GDP at market prices?**

- Production/GDP (P) ✓
- Income/GDP(I) ✓ (1)

**4.2.3 Briefly describe the term *Gross domestic expenditure.***

- GDE indicates the total value of spending originating within the borders of the country ✓✓ **(2)**

(Accept any other correct relevant response)

**4.2.4 Explain the following components: GDE = C+ G+ I**

- Gross domestic expenditure = Consumption expenditure by household + Government expenditure + Investment by South African businesses )✓✓ **(2)**

**4.2.5 Calculate the GDP at market prices. Show all calculations**

- 360 000 ✓+ 45 000✓ – 65 000 ✓= 340 000✓
- OR 340 000 ✓✓ [if only the answer given is 2 marks] **(4)**

**4.3 DATA RESPONSE**

**4.3.1 Identify ONE major participant in the circular flow.**

- Household✓ **(1)**

**4.3.2 Give ONE examples of non-durable goods.**

- Food✓
- beverages and tobacco✓
- Household fuel✓
- power and water ✓
- Household consumer goods✓
- Medical and pharmaceutical products ✓
- Petroleum products✓
- Recreational and entertainment goods✓ **(1)**

(Accept any other relevant correct response)

**4.3.3 Describe the term *consumption expenditure by households*.**

- Consumption expenditure is the amount of money spent by households in an economy✓✓ **(2)**

(Accept any other relevant correct response)

**4.3.4 What do you think determines the final consumption expenditure of households?**

- The income they receive, the higher the income of households the more they will be able to buy and the higher will be their consumption expenditure.✓✓ **(2)**

(Accept any other relevant correct response)

**4.3.5 With reference to the table above, analyse South African households spending from 2014 to 2015?)**

- South African households spent more of their income on non-durable goods and services than on semi-durable and durable goods in 2014 and 2015.✓✓
- Spending on non-durable goods increased from 924 294 in 2014 to 971 782 in 2015.✓✓
- Spending on services increased from 992 676 in 2014 to 1 055 753 in 2015.✓✓ **(2 x 2) (4**

(Accept any other relevant correct response)

**4.4 DATA RESPONSE**

**4.4.1 Which publication would carry this information?**

- SARB Bulletin✓ **(1)**

**4.4.2 Complete the item represented by A in the table.**

- Household✓ **(1)**

**4.4.3 Describe the term *Gross Domestic Product*.**

- Total value of final goods and services produced within the boundaries of the country for a given period of time.✓✓ **(2)**

(Accept any other relevant correct response)

**4.4.4 What is the purpose of the residual item?**

- It is a balancing item such that GDP calculation is the same as the production and income method✓✓ **(2)**

(Accept any other relevant correct response)

**4.4.5 Calculate expenditure on GDP at market prices (B).**

- 3 571 ✓ + 854 ✓ - 872 ✓= 3 553 ✓ **(4)**

**4.5 DATA RESPONSE**

**4.5.1 What economic message is conveyed in the above cartoon?**

- The people are suffering due to corruption in the government.✓
- Government is abusing state funds.✓ **(1)**

(Accept any other relevant correct response)

**4.5.2 What would indicate that social services are not delivered efficiently?**

- Decreased standard of living (condition of welfare not good e.g. more poverty and malnutrition)
- High crime levels / more corruption✓✓
- Increased number of people without houses✓✓
- Deterioration in health conditions/no medication for sick people at clinics and government hospitals.✓✓
- Deterioration in literacy and numeracy levels/more people are illiterate and have no skills.✓✓
- Social unrest increased/looting of personal property / business.✓✓ **(1)**

(Accept any other correct relevant response)

**4.5.3 Briefly describe the term *national budget.***

- The government's planned income and expenditure for the financial year. ✓✓ **(2)**

(Accept any other relevant correct response)

**4.5.4 Explain how consumers spend their income in the national economy?**

They spend income on the following categories of goods and services:

- Non – durable goods✓ are goods that can be used only once e.g. petrol, matches and food.✓✓
- Semi – durable goods✓ are those that last for relatively short periods of time, e.g. clothing✓✓
- Durable✓ goods are those that can last for relatively long periods of time and can be used as they are produced, e.g. a haircut.✓✓ **(2)**

(Accept any other relevant correct response)

**4.5.5 How can corruption be eliminated?**

- By eliminating corrupt officials from parliament/public office.✓✓
- By controlling the abuse of state funds and make government officials and ministers to be held accountable.✓✓
- By monitoring the allocation of state tenders.✓✓
- By punishing officials involved in nepotism, fraud and bribery in the public sectors.✓✓ **(2 x 2) (4)**

(Accept any other correct relevant response)

**4.6 DATA RESPONSE**

**4.6.1 Name the other classification of consumption expenditure by government.**

- Functional classification.✓

**4.6.2 What does compensation of employees consist of?**

- Salaries and wages.✓ **(1)**

**4.6.3 Briefly describe the term *final consumption expenditure by government.***

- Indicates how government uses its income to finance goods and services needed by the public sector. ✓✓ **(2)**

  (Accept any other correct relevant response)

**4.6.4 Explain the importance of final consumption expenditure by households.** **(2)**

- Assess households stock on durable goods which reveals the level of economic development of the country.✓✓

  (Accept any other correct relevant response)

**4.6.5 How can the South African government achieve the reductions estimated in the table above?**

The government can achieve the reductions by:

- scaling down non-priority programmes and projects. .✓✓
- changing service delivery models.✓✓
- using measures such as reducing costs, improving efficiency.✓✓
- using technology more effectively. .✓✓
- dealing with and correcting corruption.✓✓
- reducing government departments.✓✓ **(2 x 2) (4)**

  (Accept any other relevant correct response)

4.7 **DATA-RESPONSE**

4.7.1 **Identify the base year used by SARB above.**

- 2010 ✓ **(1)**

4.7.2 **Which sector above contributed the most towards the GDP of South Africa?**

- Tertiary sector ✓ **(1)**

4.7.3 Briefly explain the term *gross value added at basic prices*.

- Gross value added at basic prices is used when GDP is calculated according to the production method and represents the production costs of firms. ✓✓
- (Accept any other correct relevant response) **(2)**

4.7.4 **Why are GVA figures at constant prices lower than GVA figures at current prices?**

- GVA at current prices doesn't remove the pace of rising prices (inflation) when comparing one period to another, it inflates the growth figure. ✓✓
- GVA figures at constant prices are adjusted for the effects of inflation. ✓✓
- GVA figures at constant prices use the actual prices without taking into consideration the changes in the general price levels (inflation). ✓✓

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

4.7.5 **How will an increase in taxes on products affect the economy?**

- It will lead to an increase in the price of goods and services, making them to be expensive✓✓
- The poor will not be able to satisfy basic needs ✓✓
- It will lead to a reduction in consumption which can combat demand-pull inflation.
- Spending will be reduced and the multiplier will be smaller. ✓✓
- A decrease in spending will lower business profits and can lead to job losses. ✓✓
- It will increase government revenue.✓✓
  (Accept any other correct relevant response). **(2 x 2) (4)**

**4.8 DATA-RESPONSE**

**4.8.1 Name the government expenditure classification used in the above table**
Functional classification✓**.** **(1)**

**4.8.2 Indicate the service in which the government allocates most of the resources.**
Learning and culture✓ **(1)**

**4.8.3 Briefly describe the concept *final consumption expenditure by the government.***
Indicates how government uses its income to finance goods and services needed by the public sector✓✓
(Accept any other relevant correct response) **(2)**

**4.8.4 Why does government spend more on education?**

- For skills development✓✓
- Large skilled labour force✓✓
- Investing in education and lead to an economic boom✓✓
  (Accept any relevant, correct answer) **(2)**

**4.8.5 Calculate the total health expenditure in the above table. Show all calculations.** **(4)**

| | | |
|---|---|---|
| District health services | R90.2bn | |
| + Central health services | R38.6BN | |
| + Provincial health services | R34.3bn | ✓✓ |
| + Other health services | R33.8bn | |
| + Facilities management and Maintenance | R 8.5bn | |
| Total health expenditure | R205.4bn✓✓ | |

4.9 **DATA-RESPONSE**

4.9.1 **Provide the missing term for A**.

- Gross value at basic prices. ✓ **(1)**

4.9.2 **Name ONE example of taxes on production.**

- payroll tax ✓

- taxes on land and buildings ✓ **(1)**

**4.9.3 What does the term *gross domestic product* entail?**

- Gross domestic product refers total market value of all final goods and services produced within the borders of a country for a specific period. ✓✓
  (Accept any other correct relevant response). (2)

**4.9.4 What is the advantage of subsidies on production to the businesses?**

- Subsidies on production lowers the cost of production of the businesses. ✓✓
  (Accept any other correct relevant response). **(2)**

**4.9.5 Calculate net operating surplus as a percentage of GDP. Show ALL calculations.**

$\frac{1\ 296\ 696}{5\ 077\ 625}$ ✓ x 100 ✓

= 25.53% or 25.5% ✓✓ **(4)**

**QUESTION 5 Paragraph type questions – Middle Cognitive**

**:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document.

**5.1. Briefly discuss classification of final consumption expenditure by households.**

- Durable goods are goods that can last for relatively long periods of time and can be used many times.✓✓e.g. cars, ✓ furniture etc. ✓
- Semi-durable goods are goods which last for a short period of time but can be used more than once.✓✓ e.g. clothes,✓ car tyres,✓ glassware.✓etc.
- Non-durable goods are goods which can be used only once.✓✓ e.g. petrol.✓, food.✓, matches.✓ etc.
- Services are non-material and are used as they are produced.✓✓e.g. education.✓, health services,✓ transportation.✓etc.
  (Accept any other relevant correct response) **(8)**
  (Maximum of 4 marks for mere listing of facts)

**5.2 Differentiate between durable and non-durable goods.**

**Durable goods**

- Have an expected life span of more than one year. .✓✓
- Produce steady stream of satisfaction.✓✓
- Examples include land, cars, and appliances.✓✓ (Any 2 x 2) (4)

**Non-durable goods**

- Are consumed and destroyed in the process of being used. .✓✓
- Can only be used once. .✓✓
- Examples include, light bulbs, paper products, food products. .✓✓

(Any 2 x 2) (4)

(Accept any other correct relevant response)
(Maximum of 4 marks for mere listing of facts)

**5.3 Distinguish between taxes on products from taxes on production**

**Taxes on products**:

- Taxes on products are taxes that are payable per unit of some good or service produced, sold or imported by residents.✓✓
- Typical examples include value added tax (VAT), excise duties, taxes on sales, purchases and so forth, taxes on specific services, taxes on exports and
imports etc. ✓✓

**Taxes on production**:

- This includes taxes on the production process✓✓
- Typical examples include tax on employment, rates and taxes on property, payroll taxes✓✓
- (Accept any other relevant correct response)

(Maximum of 4 marks for mere listing of facts) **(8)**

**5.4 Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP) as main aggregates in the economy.**

**Gross Domestic Product**

- Is the total value of final goods and services produced within the borders of the country within a particular time period usually a year.✓✓
- It is also called Gross Value Added and it includes foreigners operating businesses in South Africa.✓✓ (Any 2 x 2) (4)

**Gross National Product**

- Is the total value of all final goods and services produced by the permanent residents of a country within a particular time period usually a year.✓✓
- Only includes the production/income of South Africans.✓✓ (Any 2 x 2) (4)

(Accept any other relevant correct response)

**(8)**

(Maximum of 4 marks for mere listing of facts)

**5.5.1 Briefly explain final consumption expenditure by government.**

- Indicates how government uses its income.✓✓

- Financing of goods and services needed by the public sector.✓✓
- Spending of all departments of central, provincial and local authorities.✓✓
- Consumption expenditure on services rendered to the communities.✓✓
- Consists of:
- Wages and salaries to workers,✓✓
- Purchases of goods and services of a non-capital nature and ✓✓
- The added value of capital consumption (depreciation) ✓✓
- Minus net receipts from sales✓✓
- Government expenditure is classified as functional, administrative and financial.✓✓
  (Accept any other relevant correct response)
  (Maximum of 4 marks for mere listing of facts)

**(8)**

5.6 **Explain the difference between final goods and intermediate goods.**

**Final Goods**

- Are goods and services that are bought by the ultimate user to satisfy a need or want.✓✓
- The buyers of these goods and services have no intention to further transform these goods and services to resell them.✓✓
- The final goods and services can be either consumer goods and services or capital goods, such as machines.✓✓
- Capital goods are regarded as final goods, since they are not going to be processed further for resale.✓✓
- Final goods and services are bought on the product markets by the four participants in the economy.✓✓
- Have reached the final stage in the production process and have the characteristics of form utility.✓✓
- Final goods and services can be divided into durable goods, semi-durable and nondurable goods.✓✓
  (Accept any other relevant correct response) (Max 4 marks)

**Intermediate goods and services**

- Intermediate goods and services are those goods and services that are used in the production of other goods and services.✓✓
- In order to produce final goods and services, intermediate goods are combined and processed.✓✓
- Include all goods and services that are not directly consumed which are usually bought by manufacturers.✓✓
  (Accept any other relevant correct response) (Max 4 marks)

(Maximum of 4 marks for mere listing of facts) **(8)**

**5.7 Tabulate the differences between capital (intermediate) and consumer goods.**

| Capital (intermediate) goods | Consumer goods |
|---|---|
| Includes all goods and services that are no directly consumed✓ | Includes all manufactured goods and services that are able to satisfy the consumer's needs and wants✓ |
| Help to manufacture other goods✓ | They have reached the final stage in the production process✓ |
| These includes machines and tools that are used by producers in production process✓ | Have the characteristic of form utility✓ |
| Are usually bought by manufacturers✓ | Are ready to be consumed✓ |
| Max (4) | Max (4) |

## QUESTION 6 Paragraph type questions – Higher cognitive

**TYPICAL EXAM QUESTIONS**

TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**6.1 Why are capital goods and services important for producers of goods and services?**

- These goods help to manufacture other goods and are not directly used up.✓✓
- Examples are machinery and tools that help to produce.✓✓
- These goods are bought by manufacturers of goods and services.✓✓
- Capital goods are also called intermediate goods.✓✓
- It also includes goods and services that are not fully finished or have to reach the final stage for it to be consumed.✓✓
- Still requires other processing to make it a final product.✓✓
  (Accept any other correct relevant answer) **(8)**

**6.2 How can the final consumption expenditure by government improve the standard of living?**

- Issuing of social grants closes the gap between the rich and the poor.✓✓
- Construction of infrastructure leads to employment opportunities.✓✓
- Provision of free education improves literacy and numeracy rate.✓✓
- Provision of quality health services increases life expectancy and reduced dearth rates.✓✓
- (Accept any other correct relevant answer) **(8)**

**6.3 How will an increase in investment spending influence the economy?**

- It will lead to expansion of infrastructure development.✓✓
- There will be increased employment and unemployment will decrease.✓✓
- It will improve the standard of living of many people.✓✓
- Increased economic growth which will positively impact on the economy.✓✓
  (Accept any other correct relevant answer) **(8)**

**6.4 Why does the government charge taxes?**

- To increase government revenue to finance state expenditure such as payment of salaries of public servants.✓✓
- To provide public goods and services such as health services.✓✓
- To discourage consumption of certain products such as cigarettes.✓✓
- To reduce production of harmful products and the release of green-house gases into the atmosphere/to protect the environment by levying green taxes to reduce pollution.✓✓
- To deliver social services at municipality level.✓✓
- To recover external costs for the use of a public tourist site e.g. Robben island.✓✓
  (Accept any other correct relevant answer) **(8)**

**6.5 How does the South African government use progressive taxes to address economic equity through its national budget?**

- provision of running water and electricity in rural areas that lack access to basic services.✓✓
- improving quality of education and health care through public health and education improvements/Improving education by making electronic resources available as well as radio or TV lessons.✓✓
  provision of housing for the marginalised or poor through RDP projects or housing subsidies.✓✓
- provision of social security such as transfer payments or grants in the form of state pensions, child grants, Covid-19 grants etc.✓✓
- provision and maintenance of infrastructure such as roads in townships and rural areas such.✓✓
- provision of food parcels for the needy and destitute or poor.✓✓
- Payment of Unemployment Insurance Fund (UIF) to those who lost their jobs.✓✓
- Expanded Public Works Programmes to reduce unemployment and poverty.✓✓
  (Accept any correct relevant response) **(8)**

**6.6 Analyse consumption expenditure by the South African households during the 2020 lockdown.**

- During the second quarter of 2020 real final consumption expenditure by households decreased significantly in all categories.✓✓
- Spending on durable and semi-durable goods contracted the most, as these were mostly classified as non-essential during lockdown with sales prohibited.✓✓
- Spending on alcohol and cigarettes also decreased since buying of these products was prohibited during lock down.✓✓

- Spending on transport and fuel also decreased because only essential workers and a certain number of workers were permitted to work during lockdown/Numerous workers worked from home during lockdown.✓✓
- The real disposable income of households also contracted in the second quarter of 2020 as the compensation of employees declined amid job losses and reduced salary payments during lockdown.✓✓
  (Accept other correct relevant responses) **(8)**

# MACROECONOMICS

## TOPIC 3:
## ECONOMIC SYSTEMS (WEEK 6-7)

- ECONOMIC SYSTEMS
- FREE MARKET ECONOMY
- CENTRALLY PLANNED ECONOMY
- MIXED ECONOMY
- EFFICIENCY IN DELIVERING SOCIO-ECONOMIC SERVICES

**QUESTIONS**

**SECTION A: TYPICAL EXAM QUESTIONS**

**ECONOMIC SYSTEMS**

**QUESTION 1:** **Section A – Short Questions**


**:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 B✓✓ what, how and for whom?
1.1.2 A✓✓ market economy
1.1.3 B✓✓ decentralized
1.1.4 B✓✓ progressive
1.1.5 D✓✓ full employment
1.1.6 C✓✓ parastatals
1.1.7 B✓✓ there is full employment
1.1.8 D✓✓ public and a private sector
1.1.9 B✓✓ market economy
1.1.10 A✓✓ there was a lack of incentive to work hard

(10 x 2) (20)

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

1.2.1 H✓ Means of production are controlled by private owners
1.2.2 G✓ It includes education, health, social security and welfare, housing and community services include protection, sanitation and water
1.2.3 F✓ The government owns all the factors of productions
1.2.4 E✓ Methods used by countries to allocate their resources
1.2.5 I✓ Resolves basic economic problems through market forces
1.2.6 K✓ An economic system that features characteristics of both market economy and centrally planned economy
1.2.7 J✓ The existence of two different economic sectors within one country, divided by different levels of development, technology and different patterns of demand
1.2.8 C✓ Excessive bureaucracy or adherence to official rules and formalities
1.2.9 A✓ The process of creating new technologies and using them in the economy.
1.2.10 D✓ The flagship of the South African government to relief poverty
1.2.11 B✓ Individuals are free to perform their professions, trade without state intervention
1.2.12 M✓ Systems and procedures which are designed to maintain uniformity and control within an organization. (12 x 1) (12)

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations, acronyms and examples will be accepted.**

1.3.1 Bureaucracy✓
1.3.2 Market economies✓
1.3.3 state-owned enterprise/government-owned enterprise/parastatals✓
1.3.4 Economic system✓

1.3.5 Social protection✓
1.3.6 Growth, Employment and Redistribution✓
1.3.7 Mixed economy✓
1.3.8 Incentives✓
1.3.9 Centrally planned economy/Communism✓
1.1.10 Self-interest✓ (10 x 1) (10)

**SECTION B**

**QUESTION 2:**

**:** When the question requires you to “list” or “name”, you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

**2.1 Name any TWO characteristics of a command (centrally planned) economic system.**

- All factors of production are owned by the state, except labour/no private ownership of resources/businesses owned by the state/no private businesses✓
- Consumers, enterprises and government work for the common good.✓
- Resources are allocated through a planning process/central planning/lack of private initiatives✓
- Economic and political power of individuals is reduced.✓
- A limited number of goods and services/No freedom of choice.✓
- Business fluctuations are controlled by the state.✓
- Coercion/force is used to achieve goals.✓ **(2 x 1) (2)**
(Accept other correct relevant responses)

**2.2 List any TWO state owned enterprises in South Africa.**

- Eskom✓
- South African Post Office (SAPO) ✓
- SABC✓
- Transnet✓
- SAA✓
- Denel✓ **(2 x 1) (2)**

(Accept other correct relevant responses)

**2.3 Mention any TWO levels of government.**

- Central government/national government✓
- Provincial government✓
- Local government/local municipalities✓
- SOEs✓ (Accept other correct relevant responses) **(2 x 1) (2)**

**2.4 Name any TWO examples of social services which are provided by the South African government.**

- Education and training/schools✓
- Health care/hospitals and clinics✓
- Housing and community amenities✓
- Social protection (welfare services & social grants)✓
- Public order and safety/SAPS/defence force/the navy/courts of law✓

(Accept other correct relevant responses) **(2 x 1) (2)**

**2.5 List any TWO disadvantages of market economy**.

- Freedom of choice✓
- No central plan✓
- Profit motive✓
- Private ownership of resources✓
- Price mechanism coordinates economic activities✓
- No central plan✓
- There are business fluctuations✓
- There is competition✓ **(2 x 1) (2)**

(Accept other correct relevant responses)

**2.6 List TWO types of economic systems.**

- Market economy/capitalism✓
- Centrally planned economy✓
- Mixed economy✓ **(2 x 1) (2)**

**QUESTION 3**

Useful Tips **:** These types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences

**3.1 Why is South Africa regarded as a mixed economy?**

- South Africa contains features of both a market and a centrally planned economy✓✓
- It allows the market to operate but with some state intervention.✓✓

(Accept other correct relevant responses) **(1 x 2) (2)**

**3.2 How is the South African government funding its expenditure?**

- The government uses income that it receives from taxation✓✓
- Profits from state-owned enterprises✓✓
- Borrowing of money from the IMF and other countries✓✓
- Donations from other countries✓✓
- Renewal of vehicle licenses/renewal of television (SABC) licences✓✓

(Accept other correct relevant responses) **(1 x 2) (2)**

**3.3 Why do you think the RDP policy was not successful?**
Because it failed to eradicate poverty and inequality.✓✓
(Accept other correct relevant responses) **(1 x 2) (2)**

**3.4 Why might the businessman or woman be happier in a free market system?**

- A businessman or woman would be happier in a free market system where they would have the freedom to produce only the goods that generate the greatest profit. ✓✓
(Accept other correct relevant responses) **(1 x 2) (2)**

**3.5 Why might the poor be happier in a command system?**

- A poor person might be happier in a command economy as they could experience a more equal distribution of income, full employment and full access to social services.✓✓
(Accept other correct relevant responses) **(1 x 2) (2)**

**3.6 How does the market economy solve the central problem in an economy?**

- It uses the market forces of supply and demand to solve the central problem in a market economy.✓✓
(Accept other correct relevant responses) **(1 x 2) (2)**

**3.7 What ensures flexibility in a market economy?**
The market forces of supply and demand✓✓
(Accept other correct relevant responses) **(1 x 2) (2)**

## SECTION B

## QUESTION 4

**:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

## DATA RESPONSE

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

**4.1.1 Which economic system is based on the principle of 'invisible hand'?**

- Free market economy/capitalism✓ **(1)**

**4.1.2 Who allocates the resources in the system above?**

- Businesses/producers✓ **(1)**

**4.1.3 Briefly describe the term *economic system.***

- It is a means by which countries and governments distribute resources and trade goods and services.✓✓
  (Accept any other correct relevant response) **(2)**

**4.1.4 Explain ONE advantage of the economic system depicted in the data above.**

- Efficient use of resources: It encourages individuals to be creative in the way in which they utilise their resources.✓✓
- Improvement in personal welfare: Resources are used efficiently in order to achieve maximum productivity and minimum wastage.✓✓
- Competition: New businesses will enter the market because of profits✓ Individuals are free to accumulate wealth and are able to use them to enhance their welfare. ✓✓
- High level of choice ✓ Consumers are put to a wide variety of choices of goods and services. ✓
- It works automatically the who, what and for whom problems are automatically solved through the driving force of self-interest. ✓✓
- Innovation: Strong incentives to produce new and quality goods✓✓
- Economic growth: Very dynamic because of driving force of profit and controlling forces of competition✓✓
- Distribution of income and wealth: Resources are allocated to those with buying power. ✓✓
- Risk: individuals take out insurance to decrease risks.✓✓

(Accept any other correct, relevant responses) **(2)**

**4.1.5 How is self- interest beneficial for an economy?**

Self-interest is one of the main driving forces in a market economy as:

- Businesses are driven to produce goods and services at a minimum cost to achieve maximum profits and consumers buy goods at lower prices.✓✓
- They are also driven to use scarce resources to produce only the goods and services that society wants most, to achieve allocative efficiency.✓✓
- Businesses try to maximise profits or minimise losses and this leads to economic growth
  (Accept any other correct relevant response) **(2 x 2) (4)**

## 4.2 DATA-RESPONSE

4.2.1 **What type of economic system is referred to in the above extract?**

- Centrally planned economy✓ **(1)**

4.2.2 **Who allocates the resources in the above extract?**

- Government/State/Public sector✓ **(1)**

4.2.3 **Briefly describe the term *economic system.***

- It is the method used by countries to allocate their resources.✓✓
  (Accept any other correct, relevant response) **(2)**

4.2.4 **Explain how service delivery can be improved in South Africa**.
- By dealing with corruption, fraud and bribery✓✓
- By making government officials and employees accountable for the use of state funds.✓✓
- By appointing competent leaders and managers in government departments and businesses.✓✓

(Accept any other correct, relevant response) **(2)**

4.2.5 **Why is South Africa regarded as a mixed economy?**
- The government plays a role in providing collective goods and services and in regulating the market.✓✓
- South Africa has a dual economy with a highly developed financial and industrial economy.✓✓
- Consumers have the freedom to decide how to spend their income and what to consume.✓✓
- The Government uses sufficient monetary and fiscal policy to ensure maximum economic growth and continuous stability of prices.✓✓
- The government's involvement in the markets entails intervention to control prices to protect consumers and workers.✓✓

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

**4.3 DATA-RESPONSE**

4.3.1 **Who is being burdened the cartoon above?**
- Taxpayer, they pay high tax under capitalism **/** taxpayers carry the capitalist system✓

(Accept other correct and relevant responses) **(1)**

4.3.2 **What motivates consumers and producers in a pure market economy?**
- Self-interest or private gain.✓

4.3.3 **Briefly describe the term *free market economy***.
- Free market economy is an economy with no government intervention or control.✓✓

(Accept other correct and relevant responses) **(2)**

4.3.4 **How does the market economy benefit the society?**
- Resources are allocated automatically without government intervention
- Economic growth will be stimulated by businesses striving to make profits.
- Innovation occurs because producers strive to produce new goods and services that consumers will want to purchase.
- Consumers get exactly what they want to purchase.
- Increased freedom of choice due to competition.
- Hard work is encouraged which stimulates production.

(Accept other correct and relevant responses) **(2)**

4.3.5 **Why would you not recommend capitalism as an economic system?**
There is tendency of market failure, inequality and instability because of competition.✓✓
- Businesses are interested in making profits than preserving the environment.

- Imbalance of income and wealth exists/Uneven distribution of income exist.✓✓
- Business cycles lead to fluctuations which can result in high inflation and Unemployment.✓✓
- Negative externalities may occur, such as pollution✓✓
  (Accept other correct and relevant responses) **(2 x 2) (4)**

**4.4 DATA-RESPONSE**

**4.4.1 Which type of economic system is depicted above?**
- Mixed economic system✓ **(1)**

**4.4.2 Who allocates the resources in the above economic system?**
- Government and private individuals✓ **(1)**

**4.4.3 Briefly explain the term *mixed economic system.***
- A blend of market and planned economies in which resources are allocated on the decisions of the private sector and the government.✓✓
  (Accept any other correct relevant response). **(2)**

**4.4.4 What role is played by the government in this mixed economic system?**
- Government uses policies and regulations to create and preserve the environment. ✓✓
- Government curb monopolistic behaviour. ✓✓
- Government protects the citizens of the country✓✓
- The government produces the goods and services which are undersupplied by the private sector such as schools, health services✓✓
- The government provide social services for the poor. ✓✓
  (Accept any other correct relevant response) **(2)**

**4.4.5 How efficient is the South African government at delivering social services?**
- Progress has been made in bringing better education, healthcare, housing and other social amenities to the economically marginalised groups✓✓
- Poverty is increasing and income disparities remain enormous✓✓
- There are poor communities which still do not have electricity and access to clean water✓✓
- Social services delivery is in crisis in South Africa✓✓
- There have recently been many protests about poor service delivery✓✓
  (Accept any other correct relevant response)
  [Accept both negative and positive responses] **(2 x 2) (4)**

**4.5 DATA-RESPONSE**

**4.5.1 Identify a country using the mentioned economic system.**
USA/America✓ **(1)**

**4.5.2 List ONE advantage of a free market economy.**
- Individuals make their own decisions✓

- The freedom of choice✓
- No government intervention✓
- Factors of production are controlled and owned privately✓
  (Accept any other correct relevant response) **(1)**

**4.5.3 Briefly explain the term *capitalism*.**

- Capitalism resolves the basic economic problems of “what”, “how” and “for whom” to produce through the market mechanism. ✓✓
- An economic system in which the interactions of consumers and business enterprises determine the prices of goods and services freely with limited state intervention. ✓✓
  (Accept any other correct relevant response) **(2)**

**4.5.4 How is the market economy “self-regulating”? Motivate.**

- The price mechanism co-ordinates the economic activities. ✓✓
- Consumers and producers come together to respond to each other’s needs. ✓✓
- Consumer’s freedom of choice directs the types and quantities of goods.✓✓
  (Accept any other correct relevant response) **(2)**

**4.5.5 Why is capitalism not beneficial to all countries and consumers?**

- Resources are under-utilized or not used efficiently✓✓
- A duplication of economic activities often occurs, which could result in market failures ✓✓
- Unequal distribution of income: The creation of wealth involves those people with capital, while the sick and homeless suffer. ✓✓
- Economic instability: The fluctuations in business cycles result in inflation and unemployment. ✓✓
- The poor are excluded from markets.✓✓
- The freedom of choice is often not suitable for the poor, such as the benefits obtained from advertising✓✓
- The formation of pressure groups: the freedom of enterprises can create monopolies and cartels, which influence the economy negatively. ✓✓

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

## QUESTION 5 — Paragraph type questions – Middle Cognitive

Useful Tips **:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document.

5.1 **Outline arguments for privatisation.**

- Government has no incentive to make sure that the companies they own are successful. ✓✓
- Goods and services will be delivered more efficiently, due to free market competition. ✓✓

- State- owned enterprises are more prone to corruption. ✓✓
- Government – run industries cost more, because they have larger bureaucracies. ✓✓
- Government – run industries leave people with little choice in the market-place e.g. Eskom✓✓
- Privatising an industry fosters competition in the market-place, which transfers to lower prices and greater choice for the consumer✓✓
  (Accept any other correct relevant response) **(8)**
  (Maximum of 4 marks for mere listing of facts)

5.2 **Discuss arguments for nationalisation**

- A privatised industry is concerned with making a profit, so there is no reason to keep prices low, unless government controls are exerted. ✓✓
- Privatisation may limit access to certain industries and services for people who cannot afford them, e.g. water, healthcare, and electricity. ✓✓
- The public has little control over a private industry and decisions in that industry may adversely affect those in the public sector. ✓✓
- The profits from industries using natural resources, such as gold should belong to all the people, these industries should therefore run by the state.✓✓
- Many argue that privatisation lead to higher prices for basic services, as well as loss of jobs. ✓✓
- South Africa's poor are generally the hardest hit by privatisation. ✓✓
  (Accept any other correct relevant response) **(8)**
  (Maximum of 4 marks for mere listing of facts)

5.3 **Briefly explain the advantages of a market economy.**

- Efficient use of resources: It encourages individuals to be creative in the way in which they utilise their resources. ✓✓
- Improvement in personal welfare: Resources are used efficiently in order to achieve maximum productivity and minimum wastage. ✓✓
- Competition: New businesses will enter the market because of profits✓✓
  Individuals are free to accumulate wealth and are able to use them to enhance their welfare. ✓✓
- High level of choice: Consumers are put to a wide variety of choices of goods and services. ✓✓
- It works automatically: the who, what and for whom problems are automatically solved through the driving force of self-interest. ✓✓
- Innovation:  Strong incentives to produce quality goods✓✓
- Economic growth: Very dynamic because of driving force of profit and controlling forces of competition✓✓
- Distribution of income and wealth: Resources are allocated to those with buying power. ✓✓
- Risk: Individuals take out insurance to decrease risks. ✓✓
  (Accept any other correct relevant response) **(8)**
  (Maximum of 4 marks for mere listing of facts)

5.4 **Discuss the disadvantages of a mixed economy.**

- Income distribution is still not equitable as workers are still exploited in the private sector✓✓
- There are problems of unemployment, inflation and business cycles✓✓
- When a government dominates in a mixed economy, there is risk of bureaucracy, corruption. ✓✓
- Mixed economies do not achieve the high levels of efficiency that market economies achieve. ✓✓
- The environment and human rights are abused and poverty grows.✓✓

(Accept any other correct relevant response) **(8)**
(Maximum of 4 marks for mere listing of facts)

5.5 **Compare the ownership and motivation of centrally planned and mixed as economic characteristic in a tabular form.**

| **Centrally planned** | **Mixed economy** |
|---|---|
| **Ownership**<br>• Factors of production, except labour are owned by the state. ✓✓<br>• Labour services are, however, directed by the state ✓✓<br>• There is no private ownership of property, land or business.<br>• All private property has been nationalised. ✓✓<br>• Nationalisation is a practice to strengthen this characteristic. ✓✓ | **Ownership**<br>• Consumers, producers and organisation own most of the factors of production. ✓✓<br>• The state may own a significant proportion. ✓✓<br>• In SA, the state owns land and capital directly, through its enterprises, such as Transnet, Telkom, Post Office, Eskom, the SABC and Water Board. ✓✓ |
| **Motivation**<br>• Consumers, enterprises and government are all assumed to be selfless, cooperating together to benefit the community. ✓✓<br>• This is in contrast with most economic agents in market economies who are assumed to be motivated only by their self-interest. ✓✓ (4) | **Motivation**<br>• In the private sector of the mixed economy, consumers and producers are assumed to be motivated by self-interest. ✓✓<br>• The public sector, however, is assumed to be motivated by the necessity to satisfy the social needs of the community. ✓✓ (4) |

**5.6 Tabulate the advantages of a market economy and a centrally planned economy.**

| Market economy | Centrally planned economy |
|---|---|
| • Private ownership and initiative is allowed ✓✓<br>• Consumer needs are best satisfied as they determine what will be produced. ✓✓<br>• High levels of economic growth occur through the system. ✓✓<br>• Consumers are protected from exploitation as there is competition between suppliers. ✓✓<br>• Producers specialise in the goods and services they can produce best. ✓✓<br>(Any relevant answer)<br>(Max 4 marks) | • Private individuals have to be concerned only with performing their daily tasks as resources are utilised and managed by the state. ✓✓<br>• The needs of the community are satisfied collectively. ✓✓<br>• Workers are not exploited by the state and unemployment is rare. ✓✓<br>• The distribution of income among the community is fairer to all. ✓✓<br>(Any relevant answer)<br>(Max 4 marks) |

**(2x4) (8)**

**5.7 Discuss social welfare and resource utilisation as advantages of a mixed economy.**

**Social welfare:**

- In mixed economy, planning is centralises and there is overall welfare✓✓
- There is social security provided to the workers✓✓
- Inequalities in income and wealth are reduced when the government provides various social grants to the poor such as disability grants, war veteran grants, child support grants etc.✓✓

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

**Resource utilisation:**

- The resources are organised efficiently as good features of both capitalism and socialism coexists✓✓
- If there is a misallocation of resources the state controls and regulates it✓✓

(Accept any other correct relevant response) (2 x 2) (4)
(Maximum of 4 marks for mere listing of facts)

**(8)**

5.8 **Discuss the characteristics of a mixed economic system.**

- Goods and services are produced by the public and private sector. ✓✓
- In a mixed economy, the state owns and runs several businesses that produce mainly infrastructure services. ✓✓ such as Eskom, SAA, Transnet etc. ✓
- Means of production are mostly privately owned/Businesses that are owned by individuals (or groups of individual shareholders) own most of the natural resources. ✓✓
- Profit motive is controlled by state actions. ✓✓Profit dominates in a mixed economy; even state-owned enterprises are supposed to make a profit. ✓✓
- The state protects the workers by setting minimum wages, legalising trade unions and laying down conditions for employment. ✓✓

- Government influences the running of the economy/The state passes laws to regulate the way businesses function in the market economy✓✓Examples: Labour Relations Act 66 of 1995, Companies Act 11 of 2008, etc. ✓
- The state also designs fiscal and monetary policies that promote a more even distribution of income. ✓✓ for example, the progressive tax system, provision of merit goods, social grants etc. ✓
- Competition in business is promoted/Businesses compete to produce and sell a wide variety of goods and services and this ensures better products and cheaper prices✓✓
- Consumer freedom: Consumers are free to decide what to consume and they can choose the type of ownership they prefer. ✓✓
- Privatisation and nationalisation: Both privatisation and nationalisation could be practiced in a mixed economy. ✓✓
  (Accept other correct and relevant responses) **(8)**
  (Maximum of 4 marks for mere listing of facts)

**QUESTION 6** **Paragraph type questions – Higher cognitive**

**TYPICAL EXAM QUESTIONS**

**TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.**

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

6.1 **Why is South Africa regarded as a mixed economy?**

- The government plays a role in providing collective goods and services and in regulating the market ✓✓
- South Africa has a dual economy with a highly developed financial and industrial economy✓✓
- Consumers have freedom to decide how to spend their income and what to consume ✓✓
- The government uses sufficient monetary and fiscal policy to ensure maximum economic growth and continuous stability of prices ✓✓
- The government's involvement in the markets entails intervention to control prices to protect consumers and workers. ✓✓
  (Accept any other correct relevant responses) **(8)**

6.2 **How can the South African economy benefit from a mixed economic system?**

- Freedom of choice: In South Africa's mixed economy, a wide range of goods and services are produced. ✓✓
- Control of the economy: There is private ownership of land and business; individuals have control of the economy. ✓✓
- Improved social welfare: The state provides goods and services, which might have been underprovided for if left to the market. ✓✓
- Economic growth is encouraged: Booms and slumps in the business cycle can be levelled and the government works towards creating a stable economy✓✓
- The state can also work towards providing a well-developed infrastructure and encouraging the development of trade. ✓✓
- Monopoly power can be monitored and controlled. ✓✓
- Inequality in income and wealth can be corrected through the taxation system✓✓
- Negative externalities such as pollution, can be controlled. ✓✓
- The environment can be protected. ✓✓
- Foreign investment is encouraged. ✓✓

  (Accept any other correct relevant responses) **(8)**

**6.3 How effective is the South African government in delivering socio-economic services in South Africa?**

- Government provides social services to promote individual welfare and enhance the economic prospects of the country. ✓✓
- These include welfare functions, as well as public and merit goods such as education and healthcare. ✓✓
- The state spent more than 50 % of the total budget on social services. ✓✓
- The education and training function, to increase literacy e.g. institutions are schools, universities, technical colleges and Technicon's. A government objective is to further increase the number of young adults who have a formal education. ✓✓
- The housing function, which includes the provision of housing for the needy ✓✓
- The social security function tries to meet the basic needs of some individuals. e.g. state pensions and disability allowances. ✓✓
- Too many claimants are putting too much pressure on too few taxpayers. The state cannot afford to further increase the tax rates being paid by individuals and firms. ✓✓
- The health function, to provide basic health services to the community as a whole e.g. HIV / Aids programmes and ARV treatment free of charge. ✓✓

  (Accept the negative and the positive.) **(8)**

6.4 **Evaluate government's involvement in increasing access to economic opportunities.**

The government has succeeded in increasing access to economic opportunities by:

- removing of legal restrictions that blocked the entry of blacks into the mainstream economy. ✓✓
- introducing policies to promote new opportunities for and increase the levels of participation of black people in the ownership, management and control of economic activities – BEE✓✓
- improving the provision of infrastructure (communication, transport and electricity) to poor areas. ✓✓

- decentralising economic activities to previously disadvantaged areas through regional development programmes✓✓
- Providing free education to increase qualification of previously disadvantaged individuals. ✓✓

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

6.5 **How efficient is the state in addressing the disadvantages of the market system?**

The state is efficient in addressing the disadvantages of the market system by:

- Distributing the income. All decisions regarding production and distribution of income are made by the state✓✓
- Dispersing the gains of the industry among the workers as a whole✓✓
- Therefore there could be a much more equal distribution of income and wealth✓✓
- Limiting externalities, conservation and sustainability/Goods that are not good for the community, or goods where there is exploitation of the environment are not produced ✓✓
- Eliminating the business cycle for income, spending and production can be controlled through central planning✓✓
- Limiting business cycle fluctuations so that the state is in full control of economic activities✓✓
- Deciding in which sectors capital formation must take place✓✓
- Limiting wastage so that there is no duplication of goods and services✓✓

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

## SECTION C

**TYPICAL EXAM QUESTIONS**

## ESSAY STRUCTURE


**:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

**HINT: Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:**

| **STRUCTURE OF ESSAY:** | **MARK ALLOCATION:** |
|---|---|
| **Introduction**<br>**The introduction is a lower-order response.** | **Max 2** |

| | |
|---|---|
| • **A good starting point would be to the main concept related to the question topic**<br>• **Do not include any part of the question in your introduction.**<br>• **Do not repeat any part of the introduction in the body**<br>• **Avoid saying in the introduction what you are going to discuss in the body** | |
| **Body:**<br>**Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate**<br>**Additional part: / Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest / Construct a Graph** | **Max 26**<br><br>**Max 10** |
| **Conclusion**<br>**Any Higher or conclusion include:**<br>• **A brief summary of what has been discussed without repeating facts already mentioned in the body**<br>• **Any opinion or value judgement on the facts discussed**<br>• **Additional support information to strengthen the discussion/analysis**<br>• **A contradictory viewpoint with motivation, if required**<br>**Recommendations** | **Max 2** |
| **TOTAL** | **40** |

**QUESTION 7**

- Discuss South Africa's mixed economic system in terms of:
- Characteristics
- advantages and
- disadvantages. (26 marks)
- Evaluate the government's efficiency in delivery social services to local communities. (10 marks)

**[40]**

**INTRODUCTION**

A mixed economic system is an economic system that combines the advantages of both free market and centrally planned systems. Since 1994, South Africa has chosen a mixed economic system. ✓✓
Any other relevant definition. **(Max. 2)**

**BODY: MAIN PART**

**Economic characteristics of a mixed-market economy:**

- Most of the factors of production are privately owned and the state limits its role to regulating, stabilising, redistributing and allocating.✓✓
- People use their own initiative to manufacture and sell products.✓✓
- The profit motive plays an important role in the economy.✓✓

- In South Africa, the state intervenes in the production process as an entrepreneur, organiser and lawmaker.✓✓
- Majority economic activities are market orientated depending on the level of government involvement.✓✓
- The public sector provides infrastructure and public services as there is little profit motive for them to be provided by the free market.✓✓

### Advantages of a mixed-market economy

- Private ownership. Individual creativity and entrepreneurial endeavours drive the economy. ✓✓
- Ownership of possessions, e.g. house, car, etc. is transferable.✓✓
- Individual has freedom of choice to buy whatever he/she wants.
- The entrepreneur is entitled to a profit.✓✓
- Encourages competition and growth.✓✓
- The size of the government does not have to be bigger than what is necessary i.e. less bureaucracy and a more efficient allocation of resources.✓✓
- The state is still on hand to provide essential public goods and services.✓✓

### Disadvantages of a mixed-market economy

- Scarce resources (especially labour, natural resources) could be wasted, exploited or depleted because of market failures (incorrect production decisions, private business greed).✓✓
- Because most of the factors of production are privately owned, the individual faces the risk of possible losses or bankruptcy.✓✓
- The quality of goods can be inferior because of lack of control by the state.
- Socialists would argue that some mixed economies are too free (not enough state regulation and intervention) and the mix is not always right.✓✓
- Taxes may be high to fund public goods and services. If taxes are too low there will be insufficient revenue to fund social welfare.✓✓

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

Max. 26

### BODY: ADDITIONAL PART

### EVALUATION OF SOCIAL SERVICE DELIVERY

- The state tries to uplift previously disadvantaged communities by providing social services (such as housing, education, medical services, basic services like water and electricity) to the poor. ✓✓
- Increase in education and training to increase literacy and improve adult literacy, e.g. building of schools, colleges, universities and Technikons. ✓✓
- Security provision is challenging as violent crime is on the increase.
- Provision of housing for the needy✓✓State is falling short of its targets with regards to state pensions, disability grants, etc. The state is currently facing the reality of too many claimants and too few taxpayers.✓✓
- Increased provision of basic health services to communities. Health care now includes free health care services to women and to children under 6.✓✓
- Government spending on HIV/Aids has increased from R30 million in 1994 to more than R3,6 billion in 2003.✓✓ **(Max. 10)**

  (Accept any other relevant answer)

(Maximum 2 marks for mere listing of facts)

**CONCLUSION**
A mixed economy is the preferred economic system in most countries because government intervention is necessary when the market fails. However, governments face many challenges in the delivery of goods and services through corruption and inefficiency. In addition the tax base in many mixed economies is small hence less money to function efficiently. PP
(Accept any other correct relevant conclusion of higher order). (2)

**QUESTION 8**

- Discuss a centrally planned economic system, with special reference to:
  - economic characteristics
  - advantages and disadvantages (26 marks)
- Analyse how South Africa's dual economy and corruption are contributing factors to the non-attainment of the state goals. (10 marks)

**INTRODUCTION**

A centrally planned economy is an economic system in which economic decisions are made by the state or government rather than by the interaction between consumers and businesses. Unlike a market economy in which production decisions are made by private citizens and business owners, a centrally planned economy seeks to control what is produced and how resources are distributed and used. The production of goods and services is undertaken by state-owned enterprises.✓✓

Max. 2

**BODY: MAIN PART**

**Economic characteristics**

**Social Welfare Motive**✓
- Economies, social or collective welfare will be the prime motive. ✓✓
- Unlike capitalism, profit will not be the aim of policy making. ✓✓
- The decisions will be taken keeping the maximum welfare of the people in mind.✓✓
- Thus social well-being of people will be the purpose of development. ✓✓

**Limited Right to Private Property**✓

- The right to private property is limited.✓✓
- All properties of the country will be owned by the State.✓✓
- That is, the ownership is collective in nature.✓✓
- Hence no individual can accumulate too much property as in the case of capitalism.✓✓

**Central Planning**✓

- Most of the economic policy decisions will be taken by a centralized planning authority.✓✓
- Each and every sector of the economy will be directed by well-designed planning.✓✓

**No Market Forces**✓
- In a centralized planned system of development, market forces have only a limited role to play.✓✓
- Production, commodity and factor prices, consumption and distribution will be governed by development planning with welfare motive.✓✓

**Advantages of the centrally planned economy:**

**Efficient use of resources**✓
- The resources are utilized efficiently to produce socially useful goods without taking the profit margin into account.✓✓
- Production is increased by avoiding wastes of competition.✓✓

**Economic Stability**✓
- Economy is free from business fluctuations.✓✓
- Government plans well and everything is well coordinated to avoid over-production or unemployment.✓✓
- There is stability because the production and consumption of goods and services are well regulated.✓✓

**Maximisation of Social Welfare**✓
- All citizens work for the welfare of the State.✓✓
- Everybody receives his or her remuneration.✓✓
- The State concentrates on the production of basic necessaries instead of luxury goods.✓✓
- The State provides free education, cheap and congenial housing, public health amenities and social security for the people.✓✓

**Absence of Monopoly**✓
- The elements of corporation and monopoly are eliminated since there is absence of private ownership.✓✓
- The state is a monopoly but produces quality goods at reasonable price.✓✓

**Basic needs are met**✓
- In socialist economies, basic human needs like water, education, health, social security, etc., are provided.✓✓
- Human development is more in socialist countries.✓✓

**No extreme inequality**✓
- As social welfare is the ultimate goal, there is no concentration of wealth.✓✓
- Extreme inequality is prevented in socialist system.✓✓

**Disadvantages of the centrally planned economy:**

**Bureaucratic expansion**✓

- A socialist economy is operated under a centralized command and control system.
- People here work out of fear of higher authorities.✓✓
- It does not give any initiative for the people to work hard.✓✓

**No Freedom**✓

- There is no freedom of occupation.✓✓
- Allocation of factors of production is not done rationally.
- Jobs are provided by the State.✓✓
- Place of work is also provided by the State.✓✓
- The consumer's choice is very limited.✓✓

**Absence of technology**✓

- Work is monotonous and no freedom is given. ✓✓
- Any change in the production process will alter the entire plan.✓✓
- Hence any innovation cannot be easily enforced.✓✓
- Everything is rigid and technological changes are limited.✓✓
- Absence of competition makes the system inefficient.✓✓
- (Accept any other correct relevant explanations.) Max.26
  (A maximum of 8 marks may be allocated for the mere listing of facts / examples.)

**BODY: ADDITIONAL PART**

Dual economy:

- South Africa remains a dual economy with one of the highest inequality rates in the world, perpetuating inequality and exclusion.✓✓
- With an income Gini of around 0.70 in 2008 and consumption Gini of 0.63 in 2009, the top decile of the population accounts for 58% of the country's income, while the bottom decile accounts for 0.5% and the bottom half less than 8%.✓✓

Corruption:

- South Africa has been hit by several corruption scandals in the past 20 years.✓✓
- A typical example is the procurement of weapons in a 1999 arms deal.✓✓
- A variety of inquiries have been made into the multi-billion-dollar deal, but there are still no clear answers as to who benefited from any alleged kickbacks.✓✓ Max. 10
  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**

Centrally planned economies assume that the market does not work in the best interest of the people, and that in order for social and national objectives to be met, a central authority needs to make decisions. The state can set prices for goods and determine how much is produced and can focus labour and resources on industries and projects without having to wait for private investment capital. Most modern

economies are a mixture of centrally planned economies and market economies, with governments controlling some aspects of the economy and the private sector controlling others. Some of the most successful socialist economies are China, Cuba, Vietnam and North Korea. ✓✓
(Accept any other correct relevant conclusion of higher order). (2)

**[40]**

**QUESTION 9**

- Discuss the market economy with special reference to:
- Characteristics
- Advantages
- Disadvantages

(26)

- Evaluate the efficiency of the state in addressing the disadvantages of the market system. (10)

**INTRODUCTION**

The free-market economy, also known as capitalism, uses supply and demand to respond to the questions of what, how and for whom to produce goods and services.✓✓
(Any other relevant, correct introduction) Max 2

**BODY: MAIN PART**

**Economic characteristics of a market economy:**

- The market forces of demand and supply determine what, how and for whom to produce.✓✓
- Prices act as signals in the free market. This helps to prevent shortages and surpluses. ✓✓
- The individual can act on his or her own initiative and has the freedom of choice with regard to all economic choices.✓✓
- Individuals can choose their occupation, buy property and start up a business of their choice without being dictated to by government. ✓✓
- Most of the factors of production are privately owned and controlled.✓✓
- Profit, private ownership and freedom are at the heart of the system.✓✓
- Business cycle movements, namely upswing phases and downswing phases are characteristics of free market systems. ✓✓
- Under pure capitalism, there is zero government intervention in the market.✓✓

**Advantages of the market economy:**

- Private ownership of land and other factors of production is the backbone of free markets.✓✓
- The factors of production are managed and organised by the individual as he or she sees fit.✓✓
- Individuals can use the profits they make to enhance their own personal welfare.✓✓

- Freedom of entry into markets by new businesses who are attracted to profits results in competition.✓✓
- Businesses are not able to dominate markets and exploit consumers.✓✓
- Huge profits and economic progress are often features of upswing phases in the economy.✓✓

**Disadvantages of a market economy:**

- The system can lead to high levels of inequality.✓✓
- The fact that the factors of production are in the hands of individuals gives rise to large class differences, as those that can generate wealth rise above those who cannot.✓✓
- Everyone within the free market system pursues the greatest possible satisfaction of his or her needs, often to the detriment of others. ✓✓
- Own self-interest weighs more heavily than does the interest of the community.✓✓
- Enterprises produce only those goods and services for which there is a demand.✓✓
- Alternatively, goods that are harmful to individuals and society in general may be overprovided if they can generate sufficient profit for example, cigarettes and alcohol.✓✓
- Downswing phases in the economic growth rate often result in unemployment and poverty.✓✓
  (Accept any other correct relevant explanations.)
  (A maximum of 8 marks may be allocated for the mere listing of facts / examples.)

Max. 26

**BODY: ADDITIONAL PART**

The state is efficient in addressing the disadvantages of the market system by:

- Distributing the income. The state tries to redistribute income through its programmes such as social grants and old-age pensions.✓✓
- Therefore, there could be a much more equal distribution of income and wealth.✓✓
- The state takes care of the vulnerable citizens such as orphans, abused women and the elderly.✓✓
- Limiting externalities, conservation and sustainability. Goods that are not good for the community, or goods where there is exploitation of the environment are not produced/ or are heavily taxed to discourage less use by the community such as alcohol and cigarettes.✓✓
- Eliminating the business cycle for income, spending and full control of economic activities.✓✓
- Deciding in which sectors capital formation must take place.✓✓
- Limiting wastage so that there is no duplication of goods and services.✓✓
  (Accept any other correct, relevant response where government tries to address the disadvantages of the market system.)
  Max.10
  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**
Any economic system used by countries should impact positively on the country's economic growth and economic development.✓✓
(Accept any other correct, relevant, higher order conclusion) Max.2

# MACROECONOMICS

# TOPIC 4 ECONOMIC STRUCTURE (WEEK 8 – 9)

BASIC ECONOMIC PROBLEM, BUSINESS CYCLES AND PUBLIC SECTOR; ECONOMIC STRUCTURE

THE PRIMARY SECTOR

THE SECONDARY SECTOR

THE TERTIARY SECTOR

SOUTH AFRICAS'S INFRASTRUCTURE

COMMUNICATION

TRANSPORT

ENERGY

EXCLUSION AND DISCRIMINATION IN SERVICE PROVISION

## QUESTIONS

**SECTION A: TYPICAL EXAM QUESTIONS**

## ECONOMIC STRUCTURES

**QUESTION 1:** **Section A – Short Questions**

> **:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 A✓✓ agriculture
1.1.2 A✓✓ Manufacturing
1.1.3 C✓✓ Parastatals
1.1.4 A✓✓ Primary sector
1.1.5 C✓✓ Coal generated energy
1.1.6 D✓✓ Manufacturing
1.1.7 B✓✓ Primary
1.1.8 C✓✓ Mineral Resources.
1.1.9 C✓✓ Coal
1.1.10 D✓✓ national roads (10 x 2) (20)

### 1.2 MATCHING ITEMS

1.2.1 H ✓ are involved in the extraction of raw materials from nature.
1.2.2 I ✓ are provided by the state e.g. education, health and welfare.
1.2.3 A ✓ provides services such as transport and communication
1.2.4 F ✓ South African electricity public utility
1.2.5 G ✓ those who sell products to businesses or other outlets who are not the end-user.
1.2.6 C✓ issues broadcasting licenses.
1.2.7 E✓ aims to unify critical Infrastructure and key resource protection efforts across the country.
1.2.8 D✓ regulate the energy industry in accordance with government laws, policies, standards and international best practices in support of sustainable development. (8 x 1) (8)

### 1.3 GIVE THE TERM

1.3.1 Telecommunication✓

1.3.2 Pipeline✓
1.3.3 Secondary sector/manufacturing✓
1.3.4 Infrastructure✓
1.3.5 The National Broadband Policy✓
1.3.6 Tertiary✓ (6 x 1) (6)

**SECTION B**

**SECTION B: TYPICAL EXAM QUESTIONS**

**QUESTION 2**


**:** When the question requires you to “list” or “name”, you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

2.1 **Name TWO kinds of primary sector activities**

- Agriculture/farming✓
- Fishing✓
- Mining✓
- Forestry✓
- Oil extraction ✓

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

**2.2 Name any TWO component of communication infrastructure.**

- Postal services ✓
- The media ✓
- Fixed-line telephones ✓
- Cellular phones✓
- Undersea cables✓
- Broadband ✓
- Internet ✓
- Local connectivity✓

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

**2.3 Name any TWO components of the secondary sector.**

- manufacturing✓
- electricity, gas and water✓
- construction✓
- food processing✓

- oil refining✓
- energy production✓

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

2.4 **Name any TWO of South Africa's four licensed mobile operators.**

- MTN✓
- Cell C✓
- Vodacom✓
- 8ta✓
- Telkom✓
- Rain✓

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

2.5 **List any TWO components of the secondary sector**

- Manufacturing✓
- Electricity✓
- Gas ✓
- Water✓
- Construction (contractors)✓

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

2.6 **Name TWO types of workers found in the secondary sector.**

- Builders✓
- factory workers✓
- craftsmen✓

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

2.7 **Name any TWO commercial ports in South Africa.**

- Richard's bay✓
- Durban✓
- East London✓
- Port Elizabeth✓
- Mossel Bay✓
- Cape Town ✓
- Saldanha✓
- Port of Ngqura✓

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

2.8 **List TWO types of transport modes found in South Africa**

- Road transport✓
- Rail transport✓
- Ports and Marine transport✓
- Air transport✓
- Pipelines✓

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

**QUESTION 3**

**:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences

3.1 **Why is the primary sector important to the South African economy?**
It is important because of its contribution to exports, creating employment and increasing economic growth.✓✓
(Accept any other correct relevant response) (1 x 2) (2)

3.2 **How important is an efficient infrastructure for the economy?**
- The economy needs reliable infrastructure to connect supply chains✓✓
- efficiently move goods and services across borders✓✓
- Infrastructure connects households across metropolitan areas to higher quality opportunities for employment, healthcare and education. ✓✓

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

3.3 **Why is Eskom working on a renewable energy programme that involves independent power producers?**
Because coal is non-renewable and once it is used up, it cannot be replaced.✓✓
(Accept any other correct relevant response) (1 x 2) (2)

3.4 **How can the primary sector contribute to the country's economic growth?**
- Improved labour productivity✓✓
- Technical improvements in machinery ✓✓
- Investment in training and skills development.✓✓

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

3.5 **How does construction differ from manufacturing?**
- Construction differs from manufacturing in that manufacturing typically involves mass production of similar items without a designated purchaser, while construction typically takes place on location for a known client.✓✓

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

3.6 **How would poor infrastructure at sea ports affect the South African economy?**

- The South African economy would be affected negatively because the country's exports are conveyed by sea and with poor infrastructure, trade will be negatively affected.✓✓

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

**QUESTION 4**

Useful Tips **:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

**4.1 DATA-RESPONSE**

4.1.1 **Name any transport system used in South Africa in the above diagram.**

- Bus system/road transport ✓
- Air plane/air transport ✓
- Train\Gautrain/rail transport✓ (1)

(Accept any other relevant correct response)

4.1.2 **Which Agency maintains national and toll roads in South Africa?**

- South African National Road Agency (SANRAL)✓ (1)

4.1.3 **Why did the government introduce the Bus Rapid Transport (BRT) in South Africa?**

- Addresses congestion on roads ✓✓
- Contributes to economic growth ✓✓
- Provides an innovative way for implementing high quality public transport network

World class and affordable ✓✓

(Accept any other correct relevant response) (2)

4.1.4 **Explain the reason for government investing money in public transport**

- To improve transport system for both rural and urban areas ✓✓
- To make transport system more affordable for commuters✓✓

(Accept any other correct relevant response) (2)

4.2.5 **What is the positive impact of the Taxi Recapitalisation programme?**

- To have a taxi industry that supports a strong economy ✓✓
- Put passengers first and meet the country's socio- economic objectives. ✓✓

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

4.2 **DATA-RESPONSE**

**4.2.1 Name any ONE component of communication infrastructure.**

- Postal services ✓
- The media✓
- Fixed-line telephones ✓
- Cellular phones ✓
- Undersea cables
- Broadband ✓
- Internet✓

- Local connectivity✓
  (Accept any other relevant correct response) (1)

**4.2.2 When does the South African fiscal year start?**
1 April ✓ (1)

**4.2.3 Briefly describe the term *infrastructure.***
- Infrastructure is the basic facilities, services and installations needed for the functioning of an economy such as buildings, roads and power supply that enable productivity. ✓✓
  (Accept any other relevant correct response) (2)

**4.2.4 Explain the importance of communication infrastructure to businesses.**
Communication infrastructure helps businesses to:
- monitor prices. ✓✓
- check availability of raw materials and services✓✓
- follow financial changes such as interest rates✓✓
- keep them informed ✓✓
- compare and assess domestic and foreign economic conditions. ✓✓
  (Accept any other relevant correct response) (2)

**4.2.5 How will the R100 billion long term investment affect the economy?**
It will ***positively*** affect the economy by:
- creating more job opportunities.✓✓
- improving economic growth and economic development ✓✓
- attracting investors ✓✓
- maintaining political stability ✓✓

It will ***negatively*** affect the economy by:
- increasing government spending✓✓
- increasing budget deficit ✓✓
- increasing interest rates ✓✓
- increasing environmental damage ✓✓
  (Accept any other relevant correct response) (2 x 2) (4)

**4.3 DATA-RESPONSE**

4.3.1 **Name the national provider of electricity in South Africa.**
- Eskom ✓ (1)

4.3.2 **Mention ONE source of energy in South Africa.**
- Coal ✓
- Water ✓
- Nuclear power ✓
  (Accept any other relevant correct response) (1)

4.3.3 **What is the role of NERSA in South Africa?**
- regulate the energy industry in accordance with government laws, policies,

standards and international best practices in support of sustainable development.✓✓
(Accept any other relevant correct response) (2)

4.3.4 **Why is Eskom the only supplier of electricity in South Africa?**

- the high start-up costs or powerful economies of scale of conducting a business in a such as Eskom result in significant barriers to entry for potential competitors/ Eskom is a natural monopoly and large capital outlay is needed to enter the industry.✓✓
(Accept any other relevant correct response) (2)

4.3.5 **How does load-shedding negatively affect the economy?**

- Production becomes slower/production stops during load shedding✓✓
- Discourages foreign investment✓✓
- Economic growth declines due to low production of goods✓✓
- It leads to lower profits earned by businesses✓✓
- Due to lower profits, businesses retrench (lay off) workers/unemployment increases✓✓
(Accept any other relevant correct response) (2 x 2) (4)

**4.4 DATA-RESPONSE**

4.4.1 **Name the primary sector presented in the above picture.**

- Forestry ✓ (1)

4.4.2 **Mention ONE other type of primary sector**

- Agriculture/farming✓
- Fishing✓
- Mining✓
- Oil extraction ✓ (1)
(Accept any other relevant correct response)

4.4.3 **Describe the term *primary sector***

- All the activities based on extraction of raw materials that come from the earth such as farming, mining, forestry and fishing.✓✓
(Accept any other relevant correct response) (2)

4.4.4 **How is the primary sector linked with the secondary sector.**

- The primary sector provides raw materials for further processing. ✓✓
- The secondary industries process or manufacture the raw material into more useful products for use by all of the sectors. ✓✓
(Accept any other relevant correct response) (2)

4.4.5 **Why is the contribution to GDP important in the primary sector?**

- Primary sector decreased in terms of the direct value it added ✓✓
- The relative decline represents a structural change ✓✓
- It means a country becomes less dependent on the primary sector and more dependent on the secondary and tertiary sectors ✓✓

- Industry has a very important role because it provides food to domestic population ✓✓
- Contributes greatly to employment and exports earnings✓✓
  (Accept any other relevant correct response) (2 x 2) (4)

4.5 **DATA-RESPONSE**

4.5.1 **Identify the tertiary activity in Gauteng which contributes the most to South Africa's economy?**

- Construction ✓ (1)

4.5.2 **Give an example of a personal service.**

- Education✓
- Health/medical treatment✓
- legal advice ✓

(Accept any other relevant correct response) (1)

4.5.3 **Briefly explain the term *tertiary economic activities*.**

Tertiary activity consists of all service occupations. Transport, communication, trade, health, education and administration. ✓✓ (2)
(Accept any other relevant correct response)

4.5.4 **Why is tertiary sector becoming more important than primary and secondary sector?**

- Tertiary sector provides support service to primary and secondary sector.✓✓

(Accept any other relevant correct response) (2)

4.5.5 **How will a better infrastructure benefit the community of South Africa?**

- It will increase productivity of businesses. ✓✓
- It will attract more investors which will result to increase in employment.✓✓
  (Accept any other relevant correct response) (2 x 2) (4)

**QUESTION 5 Paragraph type questions – Middle Cognitive**

5.1 **Discuss the tertiary sector as a component of GVA.**

- The tertiary industry is the segment of the economy that provides services to its consumers✓✓
- this includes a wide range of businesses such as financial institutions, schools and restaurants✓
- It is also known as the service industry/sector.✓✓
- The tertiary industry is one of three industry types in a developed economy, the other two being the primary, or raw materials, and secondary, or goods production, industries.✓✓
- As an economy becomes more developed, it shifts its focus from primary to secondary and tertiary industries.✓✓
  (Accept any other relevant correct response) (8)

(Maximum of 4 marks for mere listing of facts)

5.2 **Briefly explain the economic importance of 'energy' as part of South Africa's infrastructure.**

- Energy is crucial to the functioning of the modern society. ✓✓
- Large amounts of energy are consumed by industries and households/ industries cannot operate without power.✓✓
- The loss of power for a short time can lead to huge losses of revenue to the businesses in all sectors.✓✓
  Using technology to generate electricity from renewable sources is one of the growth sectors. ✓✓
- Energy sector employs a large number of labour force.✓✓
- It also earns foreign exchange by selling electricity to other countries.✓✓
- Reliable transport or communication is not possible without electricity.✓✓

(Accept any other relevant correct response) (8)
(Maximum of 4 marks for mere listing of facts)

5.3 **Discuss the economic importance of the secondary sector in the economy**

- The secondary sector contributes to real GDP✓✓
- The secondary sector contributes to employment✓✓
- The secondary sector contributes to economic growth✓✓
- The secondary sector contributes to exports✓✓

(Accept any other relevant correct response) (8)
(Maximum of 4 marks for mere listing of facts)

5.4 **Briefly discuss the economic importance of the primary sector.**

- Farming produces a wide range of crops and animal products/It is the basis of the food needed in the country.✓✓
- Many of the secondary industries use raw materials that are produced by the primary sector.✓✓
- Creates employment and provides training.✓✓
- South Africa is the earner of foreign exchange due to exportation of minerals and agricultural products.✓✓
- Stimulates economic growth and contributes to GDP.✓✓

(Accept any other relevant correct response) (8)
(Maximum of 4 marks for mere listing of facts)

5.5 **Briefly explain exclusions in South Africa's infrastructure.**

- Before 1994, blacks in South Africa were disadvantaged regarding the provision of infrastructural services✓✓ such as electricity, water, transport and communication✓
- Without basic infrastructure it is difficult to participate in the economy.✓✓
- Many black households still do not have electricity, although great strides have been made to electrify townships.✓✓
- Many people in rural areas still walk a long distance each day for water which is very time consuming.✓✓
- Black people generally make use of public transport and many live far from where they work.✓✓

- Communications system are still poor, the use of landlines by black consumers is low, but the use of cellphones is growing rapidly.✓✓
- The use of internet services is increasing, but still low in previously disadvantaged communities.✓✓
  (Accept any other relevant correct response) (8)
  (Maximum of 4 marks for mere listing of facts)

**TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.**

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**QUESTION 6 Paragraph type questions – Higher cognitive**

**6.1 How does the cell phone industry help the poor to gain access to communication?**

- Cellphones are readily available✓✓
- It is cheap/affordable to anyone✓✓
- Cellphones can be used even if you don't have a fixed residential address✓✓
- No waiting for landline connections✓✓
- No expensive monthly charges✓✓
- The cell phone industry caters for rich and poor, variety of phones available✓✓
  (Accept any other relevant correct response) (8)

**6.2 What has caused the ongoing energy crisis in South Africa since 2008?**

- Eskom is the only provider of electricity in South Africa. ✓✓
- Eskom has not invested enough in new power sources.✓✓
- The price of electrical power has been too low to provide the needed capital to create new power stations.✓✓
- It is very costly to build new power stations.✓✓
- Illegal power connections by households who don't pay for power usage✓✓
- The state has been very reluctant to allow privately owned companies to enter the power-generation field.✓✓
- The use of renewable sources of power, especially solar power, has not been emphasised✓✓
- Large power users have been given especially low rates by Eskom.✓✓
  (Accept any other relevant correct response) (8)

6.3 **How important is transport infrastructure in the economy?**

- Allows goods produced in one area to be processed in another area and sold all over the country.✓✓
- Goods can be exported and imported between countries.✓✓
- The country can be part of the globalised world.✓✓

- Allows the growth of tourism.✓✓
- Provides employment and contributes to the GDP.✓✓
  (Accept any other relevant correct response) (8)

6.4 **What is the link (interaction) between the primary and tertiary sector?**
- Primary sector is involved in the production, extraction or harvesting of product and raw material ✓✓,
- we consider these activities to be the first step in the production process after which they are transported by the tertiary sector. ✓✓
- Tertiary sector consists of industries which provide services for the primary sector. ✓✓
- Tertiary sector helps selling and marketing goods which have been produced under the primary sector and secondary.✓✓
- These goods and services must be made to be available to consumers through tertiary sector/that is involved in facilitating the flow of goods and services from producers in the primary sector to consumers. ✓✓
  (Accept any other relevant correct response) (8)

6.5 **Analyse the economic importance of energy as part of South Africa's infrastructure**.
- Most people's energy needs are met by the provision of electricity, which is generated from coal-fired power stations.✓✓
- Koeberg, a nuclear power station near Cape Town, also contributes significant amounts to the total electricity needed in the economy, which creates job opportunities in a new industry.✓✓
- Due to the increase in reliance on internet connectivity and mobile devices, electricity has become a necessity.✓✓
- Energy is crucial to the functioning of modern society as very large amounts of energy are consumed in modern living.✓✓
- This includes energy for industry, domestic consumption (such as lights, electrical appliances in houses, heating and cooking) ✓✓and in the business world (such as computers and telecommunications).✓✓
- The energy supply problem in South Africa since 2005 has highlighted how reliant businesses, households and the state are on electricity. ✓✓
- The high demand of SA's growing middle class, as well as the energy hungry manufacturing sector, led to massive load shedding by the state utility Eskom and they are the only electricity supplier. ✓✓
- The loss of power for a few hours a day while demand and supply attempted to reach equilibrium, led to billions of rands in lost revenue for businesses in all sectors.✓✓
- Energy takes various forms, including the burning of wood and coal, the burning of oil and gas, the provision of energy from nuclear power plants and hydroelectric plants leading to more diverse employment opportunities for all skill sets✓✓
- Using technology to generate electricity from renewable sources, such as wind, solar and wave energy is one of the growth sectors identified by the state and also increases employment opportunities.✓✓
  (Accept any other relevant correct response) (8)

6.6 **Analyse the importance of communication in the economy.**

- The use of superfast internet, satellite communication technology and cheap, reliable mobile phones have made it possible for people to do business from anywhere in the world without having to be physically at the point of sale or negotiation.✓✓
- Recent economic analysis has revealed that emerging economies that increase their broadband infrastructure by 10 % can expect increases in GDP per capita of 1,2 %.✓✓
- Communication ensures that the right information reaches the right person at the right time.✓✓
- Communication is essential for success in the business world.✓✓
- Printed media, as well as electronic media for example newspapers, television and internet services, are used by the business world to find and distribute correct information.✓✓
- Cell phone and wireless technology has enabled entrepreneurs in remote and rural parts of the country to set up small businesses.✓✓
- Knowledge is gained through communication, which helps entrepreneurs to make the correct business decisions.✓✓
- Knowledge also helps the consumer to buy the right product to satisfy his/her needs and wants.✓✓
- This sector makes an important contribution to the gross domestic product of the country.✓✓
- It is a source of employment for all levels of labour.✓✓
- Apart from the highly skilled labour needed to put the infrastructure into place, semi and unskilled workers are employed to put up masts, aerials, lay cables and maintain the infrastructure.✓✓
- South Africa is fast becoming a business-process outsourcing destination for large companies overseas.✓✓

  (Accept any other relevant correct response) (8)

**SECTION C**

**TYPICAL EXAM QUESTIONS**

**ESSAY STRUCTURE**


**:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

**HINT: Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:**

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
| --- | --- |
| **Introduction**<br>**The introduction is a lower-order response.**<br>• **A good starting point would be to the main concept related to the question topic**<br>• **Do not include any part of the question in your introduction.**<br>• **Do not repeat any part of the introduction in the body**<br>• **Avoid saying in the introduction what you are going to discuss in the body** | **Max 2** |
| **Body:**<br>**Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate**<br>**Additional part: Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest / Construct a graph** | **Max 26**<br><br>**Max 10** |
| **Conclusion**<br>**Any Higher or conclusion include:**<br>• **A brief summary of what has been discussed without repeating facts already mentioned in the body**<br>• **Any opinion or value judgement on the facts discussed**<br>• **Additional support information to strengthen the discussion/analysis**<br>• **A contradictory viewpoint with motivation, if required**<br>• **Recommendations** | **Max 2** |
| **TOTAL** | **40** |

**QUESTION 7**

- Discuss the economic importance of the tertiary sector. (26 marks)
- How do the economic sectors link with one another? (10 marks)

**INTRODUCTION**

Tertiary sector is the sector that is involved in facilitating the flow of goods and services from producers to consumers.✓✓
(Accept any other correct relevant introduction) (2)

**BODY: MAIN PART**

**Contributes to GDP** ✓
- It contributes 62% of the overall GDP of South Africa.✓✓
- In the current technological environment it is predicted that the growth in the tertiary sector will play an even bigger role in the GDP contribution in future.✓✓

- The actual numbers of the tertiary sector's contribution to GDP may be understated.✓✓
- Many essential services are not included such as the service of homemakers and services rendered by businesses for themselves in the primary and secondary sector✓✓ e.g. computer services, bookkeeping and training.✓

**Contribution to employment** ✓
- This sector dominates employment, accounting for 60% of total employment.✓✓
- Job opportunities are created for all levels of labour, including unskilled labourers, ✓✓ for example cleaners, semi-skilled workers, such as machine operators and highly skilled such as dentists and teachers. ✓
- Many South African entrepreneurs choose to start their own businesses in the tertiary sector.✓✓

**Contribution to exports**✓
- The tertiary sector exports a considerable number of services to foreign countries ✓✓ in the form of freight, insurance, transport, travel, royalties, licence fees and services such as communication.✓✓
- Countries also export services. ✓
-

**Contribution to economic growth**✓
- The growth in the tertiary sector was much bigger than that of the primary sector and of the secondary sector.✓✓
- Over this period the tertiary sector was the engine of growth that pulled the other sectors.✓✓

**Source of income for the state**✓
- Companies must pay tax to the South African Receiver of Revenue (SARS) ✓✓
- This money is used to provide basic services to South Africans ✓✓ for example, infrastructure (roads, housing, public transport) and welfare services✓

(Accept any other correct relevant response) (26 marks)
(Allocate a maximum of 8 marks for headings, sub headings and examples)
(Max. 26)

**BODY: ADDITIONAL PART**

**How do the economic sectors link with one another?**

- The secondary sector depends on the primary sector for the raw materials and products that it processes into products that are more useful.✓✓
- It depends on the tertiary sector for the provision of services.✓✓
- The primary sector depends on the secondary sector for manufactured goods such as machinery, equipment, fertilisers and pesticides.✓✓
- It depends on the tertiary sector for other services.✓✓

- The tertiary sector also depends on the secondary sector for manufactured goods,✓✓ such as office machinery, office furniture, stationery and many more.✓
- It depends on the primary sector for the provision of products resale, such as traders in fresh produce. ✓✓
- Businesses within a sector also depend on other businesses within the same sector. ✓✓
- In the secondary sector, manufacturers make components that other manufacturers use in their final products.✓✓
  (Accept any other correct relevant response) (10 marks)
  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**

The tertiary sector is important for the economy because it includes all the services provided by the government to communities as well as personal services provided by business to individual consumers. ✓✓
(Accept any other correct relevant conclusion of higher order). (2)

**[40]**

**QUESTION 8**

- Discuss transport as one of infrastructure in South Africa. (26)
- How did discrimination and exclusion impact on the provision of infrastructure before democratisation of the South African economy? (10)

**INTRODUCTION**

It involves communication, transportation networks, financial institutions and energy supply systems. ✓✓
(Accept other correct relevant introduction) (2)

**BODY: MAIN PART**

**The road network ✓**

- The responsibility for maintaining our road network is shared among central and provincial government and town council.
- The transport of heavy goods by road has increased considerably in recent years and this has put a strain on road maintenance. ✓✓
- The SA National Road Limited (SANRAL) is responsible for improving and maintaining national roads. ✓✓
- This is financed by taxes and tolls charged for using certain national roads.

**The rail network ✓**

- The rail network in South Africa is controlled by Spoornet. ✓✓
- State-owned Transnet Freight Rail is the largest railroad and heavy haulier in Southern Africa. ✓✓

- Tourists and other passengers can travel on the Blue train ✓✓ while Shosholoza Meyl transport passengers between the country's major cities. ✓✓
- Many heavy goods such as iron ore are transported by rail but there are also long distance passenger trains and Metrorail services in the cities. ✓✓

**Gautrain rapid rail link** ✓

- The Gautrain an 80 km rapid rail network connected Johannesburg, Pretoria and O.R Tambo International Airport. ✓✓
- This eased congestion on the Johannesburg-Pretoria highway by offering commuters a safe and viable alternative to road travel. ✓✓
- Luxury buses provide secondary transport to and from stations and nearby destinations. ✓✓

**Airways** ✓

- South African Airways (SAA) is owned by the state and along with its subsidiaries, SA Express and Mango.✓✓
- It provides internal and international services. ✓✓
- The Airports Company of South Africa (ACSA) provides airports of international standard. ✓✓
- Other airlines pay airport taxes to make use of our airports. ✓✓

**Harbours** ✓

- Harbours can be divided into fishing harbours and commercial ports. ✓✓
- The state-owned Transnet National Ports Authority manages the country's eight ports which are Richards Bay, Durban, East London, Port Elizabeth, the port of Ngqura, Mossel Bay, Durban and East London. ✓✓
- The busiest port is the port of Durban, which is the largest container port of Africa. ✓✓
- Transport in harbours is controlled by the National Ports Authority.✓✓
- The port of Richards Bay handles large tonnage, mainly of coal exports. ✓✓
- The port of Saldanha Bay handles iron ore and there are container facilities in Cape Town, Ngqura in the Eastern Cape. ✓✓

**Pipelines** ✓

- Transnet Pipelines operates a number of pipelines running between the port of Durban and Gauteng to deliver liquid fuels. ✓✓
- Gas is transported by pipeline from Secunda to Durban. ✓✓
- Other pipelines deliver gas from Mozambique. ✓✓
- In 2010, Transnet started building a new multi-product pipeline. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for headings, sub headings and examples)
(Max. 26)

**BODY: ADDITIONAL PART**

- There was poor fixed-line telephone infrastructure in black residential areas and few black people owned fixed-line telephones. ✓✓
- Communication facilities for black people were underprovided and underserviced. ✓✓
- Trains were segregated with separate compartments for black and white people. ✓✓
- Transport facilities from residential areas to areas of work for black people were totally inadequate, resulting in many having to walk to work or being exploited by taxis to get to work. ✓✓
- Because of poor education and lack of training, many black people earned low incomes and could not afford to buy own cars. ✓✓
- Black people were excluded from the provision of electricity to the residential areas. ✓✓
- Street lighting was rare with a few ultra-high lights used to light residential areas poorly. ✓✓
- In the absence of electricity, Black people were forced to use firewood and kerosene burners for energy to cook and provide heat. ✓✓
- Millions of black households did not have access to adequate housing. ✓✓
  Accept other relevant answers. **[10]**
  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**

- Great strides have been made to improve conditions in South Africa. The democratic government has managed to provide RDP house to the poor and increased the number of households with electricity. Most blacks can afford to buy own cars and majority of South Africans have access to a cellular phone or landline telephone. ✓✓
- (Accept any other correct relevant conclusion of higher order). (2)

**[40]**

**QUESTION 9**

- Discuss the importance of secondary sector in an economy. (26 marks)
- How can the establishment of more labour-intensive industries benefit South Africa? (10 marks)

**[40]**

**INTRODUCTION**
The primary sector (primary industry) consists of economic activities that are based on natural resources that come from the earth, e.g. mining, farming, forestry and fishing. ✓✓
(Accept any other correct relevant response) (2)

**BODY: MAIN PART**

**Importance of the primary sector:**

**Provides food and minerals** ✓

- Some agricultural products are imported ✓✓
- South Africa is almost self-reliant in minerals besides crude oil and other oil products that need to be imported ✓✓
- Earns foreign exchange by exports, which in turn pays for the imports of other products ✓✓

**Trains workers and creates job opportunities** ✓

- Workers need to be trained to use the machinery ✓✓
- Job opportunities are created in the mining industry ✓✓
- Agriculture is an important employer for rural people, although the numbers have declined in recent years ✓✓

**Provision of raw material for secondary industries** ✓

- Fishing, mining and forestry play a vital role in the expansion and establishment of the secondary industries in South Africa ✓✓

**Contribution to GDP** ✓

- Due to the fall in the contribution of the primary sector to the GDP, it is vital that its role of job creation still exists ✓✓
- South Africa is still one of the largest producers of most minerals in the world. ✓✓

**Source of capital formation** ✓
- The primary sector needs large amounts of capital to produce goods ✓✓
- Foreign investment plays a vital role in the expansion of these industries. ✓✓

**Stimulation of research and development** ✓
- In the primary sector there are research institutions that conduct research into methods of boosting productivity and quality ✓✓

**Source of state income** ✓
- In this sector the SARS receives taxes from all industries ✓
- Gold mining companies pay extra taxes, which form an important source of state revenue ✓✓

**Positive influence on infrastructure** ✓
- The development of agricultural regions and the discovery of minerals plays an important part in the country ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for headings, sub-headings and examples)

(Max. 26)

**BODY: ADDITIONAL PART**

**How can the establishment of more labour-intensive industries benefit South Africa?**

Establishment of more labour intensive industries will benefit South Africa by:

- providing more job opportunities ✓✓
- improving the utilisation of available resources ✓✓ e.g. mining, agriculture and manufacturing industries ✓
- transferring a greater variety of knowledge and skills to the workers ✓✓
- using artisans, technicians and engineers that will lead to better economic growth ✓✓
- improving the standard of living of the citizens ✓✓
- generating more revenue for the state via income tax ✓✓
  Accept any other correct relevant response) Max.10
  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**

Despite the decline in the contribution of the agricultural sector to the GDP, it still plays an important role in providing job opportunities ✓✓
(Accept any other correct relevant conclusion of higher order). (2)

**QUESTION 10**

- Discuss the economic importance of primary sector in the economy. (26 marks )
- Critically evaluate the programmes that try to redress the issue of land in South Africa. (10 marks)

**[40]**

**INTRODUCTION**

The primary sector consists of all economic activities that are a first step in the production process, for example mining, farming, forestry and fishing, to produce primary products. ✓✓
(Any relevant introduction accepted) Max. 2

**BODY: MAIN PART**

**Importance of primary sector:**

**Provides food and minerals**✓

- Some agricultural products we import. ✓✓
- South Africa is almost self-reliant in minerals besides crude oil and other oil products that need to be imported. ✓✓
- Earns foreign exchange by exports, which in turn pays for the imports of other products. ✓✓

**Trains workers and creates job opportunities** ✓
- Workers need to be trained to use the machinery. ✓✓
- Job opportunities are created in the mining industry. ✓✓
- Agriculture is an important employer for rural people, although the numbers have reduced in recent years. ✓✓

**Provision of raw material for secondary industries** ✓
- Fishing, mining and forestry play a vital role in the expansion and establishment of the secondary industries in South Africa. ✓✓

**Contribution to GDP** ✓
- Due to the fall in the contribution of the primary sector to the GDP, it is vital that its role of job creation still exist. ✓✓

**Source of capital formation** ✓
- The primary sector needs large amounts of capital to produce goods. ✓✓
- Foreign investment plays a vital role in the expansion of these industries. ✓✓

**Stimulation of research and development**✓
- In the primary sector there are research institutions that conduct research into methods of boosting productivity and quality. ✓✓

**Source of state income** ✓
- In this sector the SARS receives taxes from all industries. ✓✓
- Gold mining companies pay extra taxes, which form an important source of state revenue. ✓✓

**Positive influence on infrastructure** ✓
- The development of agricultural regions and the discovery of minerals played an important part in the country. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for headings, sub-headings and examples)
(Max. 26)

**BODY: ADDITIONAL PART**

**Briefly highlight the programmes that try to redress the issue of land in South Africa**

**Land Restitution Programme** ✓
- The purpose of the programme is to assess the validity of claims, restore land or pay financial compensation to the claimants. ✓✓
- People who were dispossessed of their land as a result of racially discriminatory laws and practices. ✓✓

**Land Redistribution Programme** ✓
- The purpose to provide previously disadvantaged South Africans with access to agricultural land. ✓✓

- The government originally aimed to redistribute 30% of South Africa's agricultural land by 2014. ✓✓
- However it conceded in 2010 that the target would not be met by 2014 and 2025 seemed to be a more realistic date. ✓✓
- The emphasis has shifted from faster redistribution of land to more support for
- settled beneficiaries. ✓✓ Max. 10

  (Maximum 2 marks for mere listing of facts)

**CONCLUSION**

Primary sector has a very important role as it has provided people with food and raw materials since ancient times. ✓✓
(Accept any other correct relevant conclusion of higher order). (2)

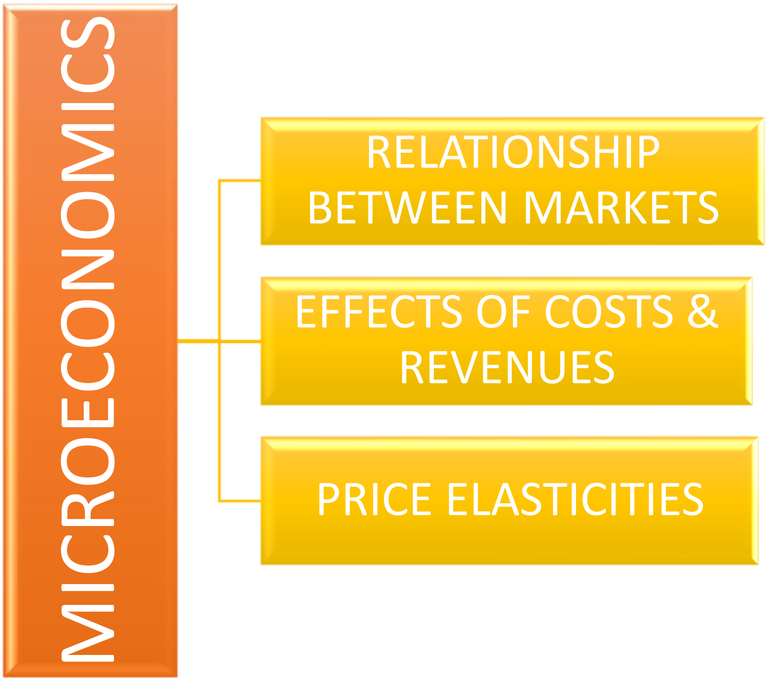
**[40]**

# CONTENT PROGRESSION – MICRO ECONOMICS

| Grade 10 | Grade 11 | Grade 12 |
|---|---|---|
| **DYNAMICS OF MARKETS**<br><br>The market as a phenomenon (demand and supply). Use graphs to illustrate the establishment of prices and quantities. | **RELATIONSHIP BETWEEN MARKETS**<br><br>Analysis of the relationships between markets - illuminate them with the aid of graphs. | **PERFECT MARKETS**<br><br>Examine the dynamics of perfect markets with the aid of cost and revenue curves. |
| **PRODUCTION POSSIBILITY CURVE**<br><br>Description of the production possibility curves (reflecting on efficiencies) and explain how they reconcile choice and scarcity. | **EFFECTS OF COST AND REVENUE**<br><br>Explain and illustrate by means of graphs the effects of cost and revenue on prices and the levels of production.<br><br>**PRICE ELASTICITY**<br><br>Explanation of price elasticity's and calculating their values. Use graphs in presentation for illustrations. | **IMPERFECT MARKETS**<br><br>Examine the dynamics of imperfect markets with the aid of cost and revenue curves. |
| **PUBLIC SECTOR INTERVENTION**<br><br>The effects (in terms of prices and quantities) of the public sector's involvement and intervention in the market, with the aid of graphs. | | **MARKET FAILURE**<br><br>Explain the reasons for and consequences of market failures, reflecting on the cost-benefit analysis. |

# MICROECONOMICS

## TOPIC 1:RELATIONSHHIP BETWEEN MARKETS (WEEKS 1-2)



**MICROECONOMICS: RELATIONSHIP BETWEEN MARKETS**
**QUESTION 1 MULTIPLE CHOICE**

QUESTION 1
**1.1 MULTIPLE CHOICE**

1.1.1 B ✓✓
1.1.2 C ✓✓
1.1.3 D ✓✓
1.1.4 B ✓✓
1.1.5 C ✓✓
1.1.6 C ✓✓
1.1.7 A ✓✓
1.1.8 D ✓✓
1.1.9 B ✓✓
1.1.10 C ✓✓
1.1.11 D ✓✓
1.1.12 C ✓✓
1.1.13 D ✓✓
1.1.14 B ✓✓

**1.2 MATCHING COLUMNS**

1.2.1 O ✓
1.2.2 C ✓
1.2.3 R ✓
1.2.4 A ✓
1.2.5 G ✓
1.2.6 U ✓
1.2.7 M ✓
1.2.8 B ✓
1.2.9 J ✓
1.2.10 Q ✓
1.2.11 F ✓
1.2.12 X ✓
1.2.13 P ✓
1.2.14 V ✓
1.2.15 D ✓
1.2.16 H ✓
1.2.17 T ✓
1.2.18 S ✓
1.2.19 W ✓
1.2.20 E ✓

**1.3 CONCEPTS/ TERMS**

1.3.1 Complementary
1.3.2 Relative price
1.3.3 Price Elasticity
1.3.4 Substitute goods
1.3.5 Implicit costs

QUESTION 2
**2.1 Give TWO examples of normal goods.**

- Holidays✓
- Cars✓
- Branded fashions
- High-tech products✓

- Diamonds
  (Any relevant answer that shows normal goods or any goods for which demand increases when income increases) (Any 2 X 1 = 2)

**2.2 List any TWO examples of complementary goods.**

- Shoe and shoelace ✓
- Torches and batteries ✓
- Cell phone and Chargers ✓
- Coffee and milk✓
- Computer hardware and computer software ✓
- Printer and ink cartridges ✓
- Tennis ball and a tennis racket ✓
- Bread and butter✓
- Shampoo and conditioner (Accept any relevant example.)

(Accept any other correct relevant response) (2x1) (2)

(Any relevant answer indicating goods that are used in conjunction with each other) (2)

**2.3 Give TWO examples of substitute goods**

- Tea and coffee
- Beef and chicken
- Butter and margarine
- pen and pencil (2)

| |
|---|
| ***All responses must be provided in full sentences for these type of questions. 2.1.2; 3.1.2 and 4.1.2. on the examination papers*** |

**QUESTION 3**

**3.1 Why would a change in the price of a good influence consumers' demand for that specific good?** (1 x 2) (2)

A change in price will influence the demand of consumers because consumers have limited income which they have to use to satisfy numerous needs and wants, therefore consumers will be willing to buy goods at a lower price but not be willing to buy goods at a higher price ✓✓

**3.2 What effect will the increase of absolute prices have on the consumers' spending power?** (1x2) (2)

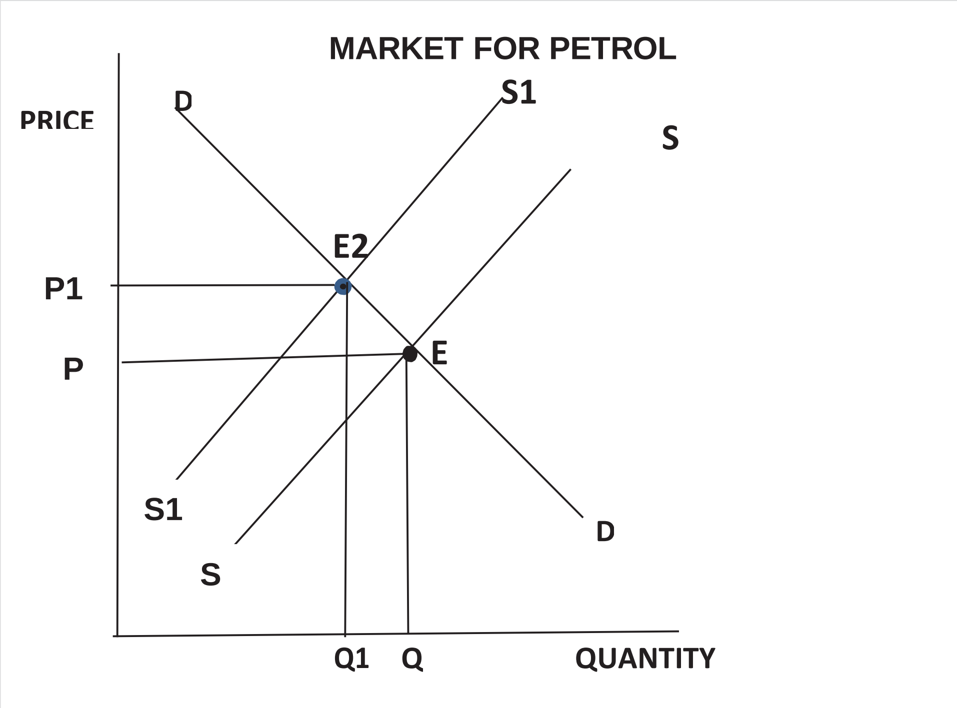
Increase in absolute prices decreases the consumers' spending power because consumers will buy less quantity than before. ✓✓

**3.3 How would decreasing relative prices influence people's standard of living?**

Decreasing relative prices is an indication that inflation is decreasing and that the people have more disposable income to spend. ✓✓ (2)

**QUESTION 4**
**DATA RESPONSE**

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




4.1.1 **What is depicted by the diagram above?**

Demand and supply relationships of a product. ✓ (1)

4.1.2 **What is the impact on the price and quantity of the shift in supply from SS to $S_1S_1$?**

- Increase in price of petrol and a decrease in quantity demanded✓ (1)

4.1.3 **Explain the term *inverse relationship*.**

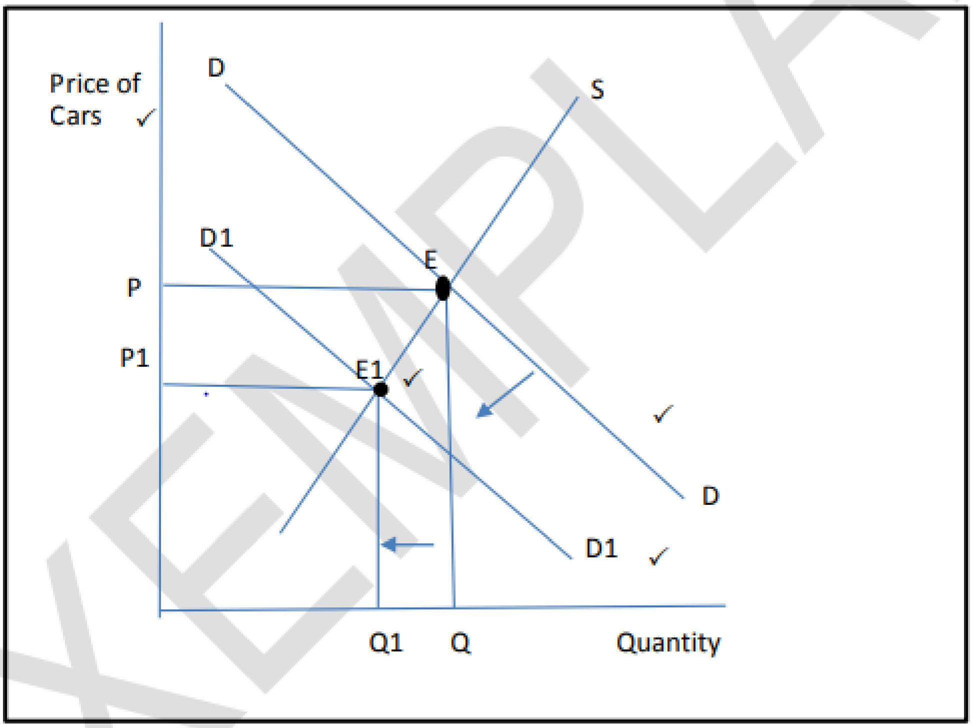
- As one variable decreases the other increases ✓✓ (2)

4.1.4 **What may be the cause of a shift in supply from SS to $S_1S_1$?**

- Global Recession ✓✓
- Increase in the price of coal ✓✓
- Depreciation of the currency ✓✓

(Accept any relevant answer) (2)

4.1.5 **Draw the graph of the complement product (petrol) and indicate what the reaction would be.**

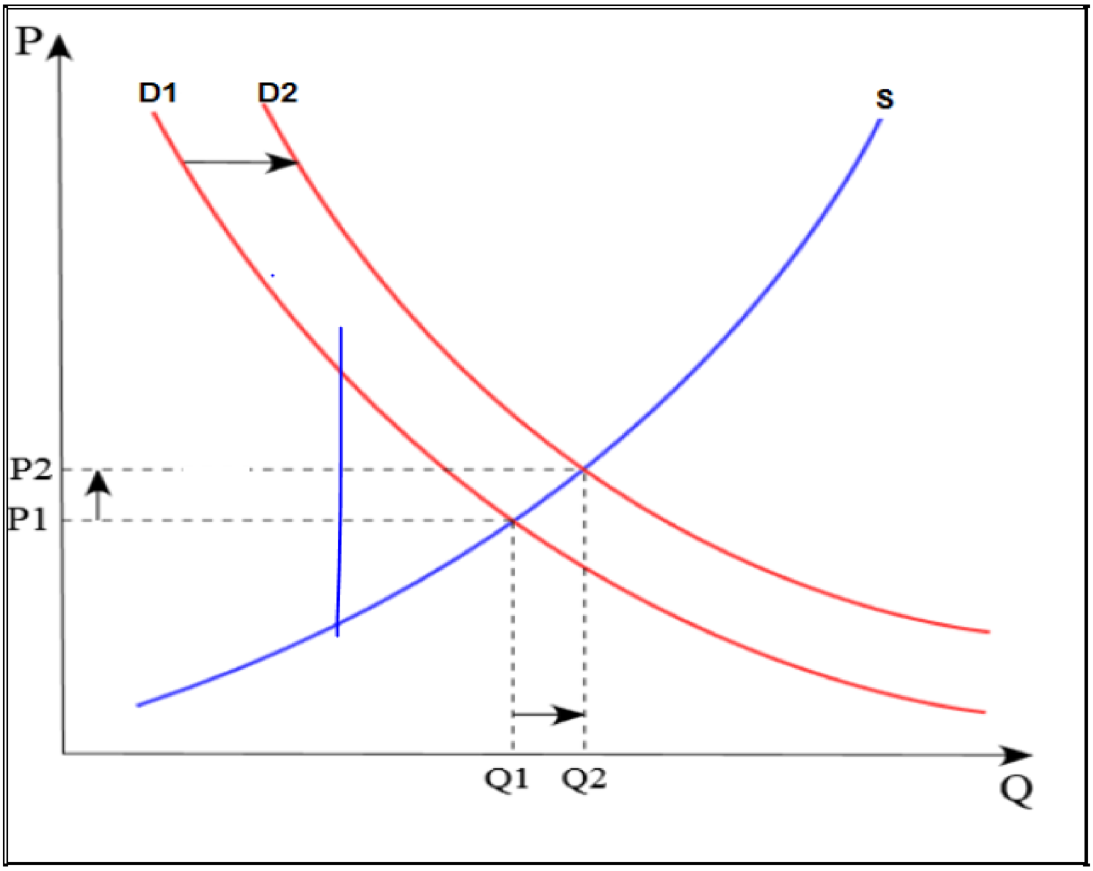



**Marks:**
- Label on axis (P and Q) – 1 mark
- Original Demand and Supply curve (D and S) – 1 mark
- Decrease in Demand (D1) – 1 mark
- New equilibrium (E1) – 1 mark

(AWARD ZERO (0) MARKS FOR AN EXPLANATION)

4.2 Study the graph and answer the questions that follow

**The demand for fresh milk**




**4.2.1 Give an example of a substitute for milk?**

- Soya milk/ Powder milk/ Cremora ✓
  (Any other relevant answer) **(1)**

**4.2.2 What happened to the price of milk?**

- There was an increase in the price of milk from P1 to P2 ✓ **(1)**

**4.2.2 Why did the demand for milk shift from D1 to D2?**

- There was probably an increase in the supply of coffee/ tea/ milo (complementary goods) therefore the shift in the demand curve ✓✓
- More people will buy coffee/ tea/ milo. ✓✓
- This increase in supply leads to an increase in the demand for milk. ✓✓
- A drop in the price of tea will raise the demand for tea thereby causing an increase in the demand for milk. ✓✓
  (Note: Any relevant answer that describes substitution can also be accepted)
  (Any 2 x 2) (4)

**4.2.3 Explain how the demand for a good is affected by the prices of its related goods. Give examples.**

Related goods are either substitutes or complementary.

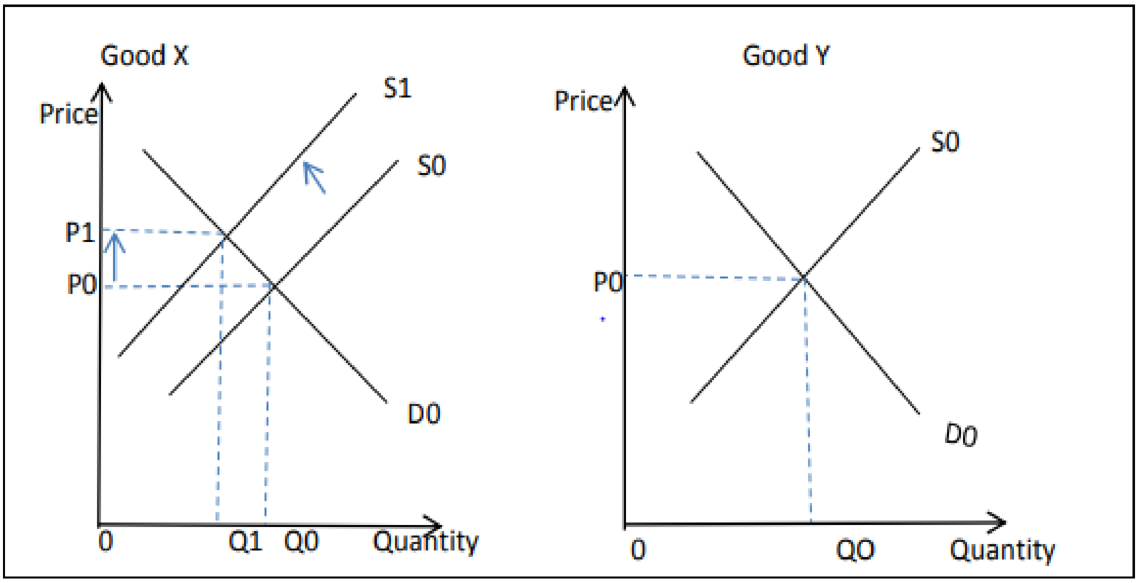
**Substitutes:** ✓

- When price of a substitute falls, it becomes cheaper than the given good. So, the consumer substitutes it for the given good. ✓✓
- Hence the demand for the given good will decrease. ✓✓
- Similarly, a rise in the price of substitute will result in an increase in the demand for given good. ✓✓
- For example, Tea and Coffee. ✓

**Complementary:** ✓

- When the price of a complementary good falls ,its demand rises and the demand for the given good will increase and vice versa, `✓✓
- for example, pen and ink. ✓ (Any 2x 2) (4)

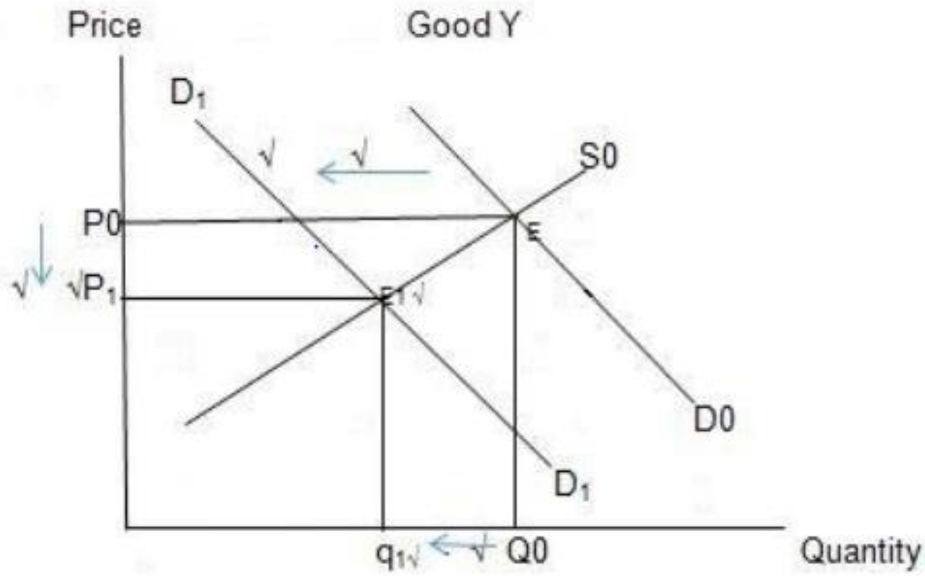
**4.3 Study the graphs and answer the questions that follow**




**4.3.1 Describe complementary products.**

Complementary products are different products that are used together at the same time to satisfy a need or want, ✓✓
e.g. tennis ball and a tennis racquet. ✓
(Accept any relevant example)
(Definition 2 marks, example only 1 mark) (2)

**4.3.2 In your answer book, copy the graph for Good Y and illustrate graphically the impact of an increase in price (from P0 to P1) of Good X on the complementary Good Y. (6)**

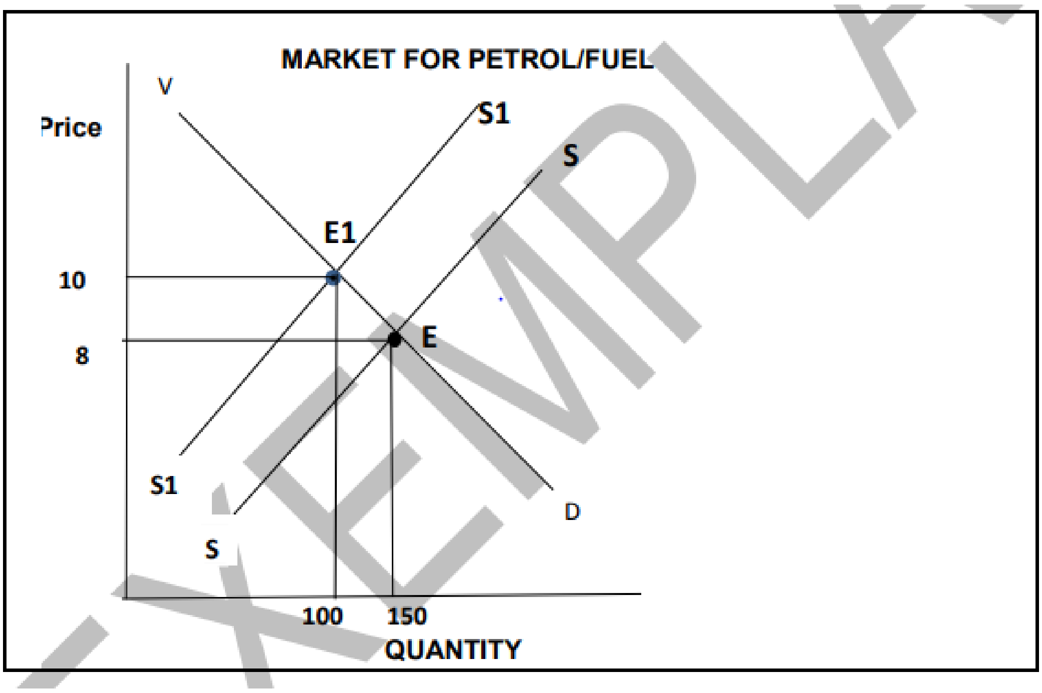



(6)

**4.3.3 Why is it important to the producer to understand the relationship between compliments?**

- Enables producers to predict what impact a change in the price of compliments will have on the demand for their product. ✓✓
- They will then be able to implement measures to counteract the effect of price change in an effort to try and maximise their profit. ✓✓
- That is cost effective measures like producing more output with the same amount of input. ✓✓ (Any 1 x 2) (2)

4.4 Study the graph and answer the questions that follow




**4.4.1 Name the price shift that takes place in the graph above.**

Price increase. ✓ (1)

**4.4.2 Give ONE reason for the shift in the supply from SS to S1S1.**

- Increase in the price of Brent crude oil. ✓
- Depreciation in the Rand (currency). ✓
- Shortages of Brent crude oil. ✓
- Shortages of petrol. ✓
- Labour actions in the petrol transport industry. ✓

(Accept any other relevant correct response) (1)

**4.4.3 Briefly describe the term *complementary goods*.**

Goods that enhance the utility (satisfaction) of each other such as phones and phone chargers. ✓✓

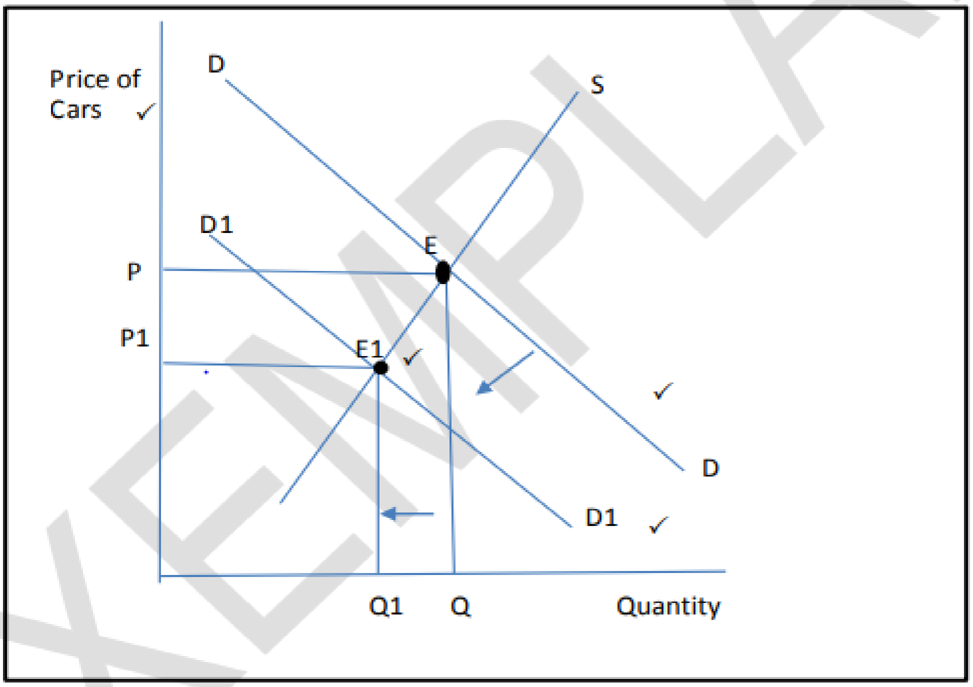
(Accept any other relevant correct response) (2)

**4.4.4 Why would the increase in the price of substitute goods like I-Phone devices cause an increase in the demand of Samsung devices?**

Substitute goods satisfy similar or the same needs, so if one good becomes more expensive, consumers can replace this good with a substitute. ✓✓

(Accept any other relevant correct response) (2)

**4.4.5 Illustrate the impact of an increase in the petrol price on a complementary good, using a neatly labelled diagram**




| Marks: |
|---|
| • Label on axis (P and Q) – 1 mark |
| • Original Demand and Supply curve (D and S) – 1 mark |
| • Decrease in Demand (D1) – 1 mark |
| • New equilibrium (E1) – 1 mark |

(AWARD ZERO (0) MARKS FOR AN EXPLANATION)

QUESTION 5

**5.1 Explain the relationship between product market and the factor market. (8)**
**Product market**

- The product market cannot exist without the factor market ✓✓
- Factors of production are only valuable when there is a need for them in the production process ✓✓
- Production of a product depends with the availability of the factor of production needed in its production
- The product market enables consumers, the government and foreign sector to get hold of products that can be used to satisfy their needs and wants

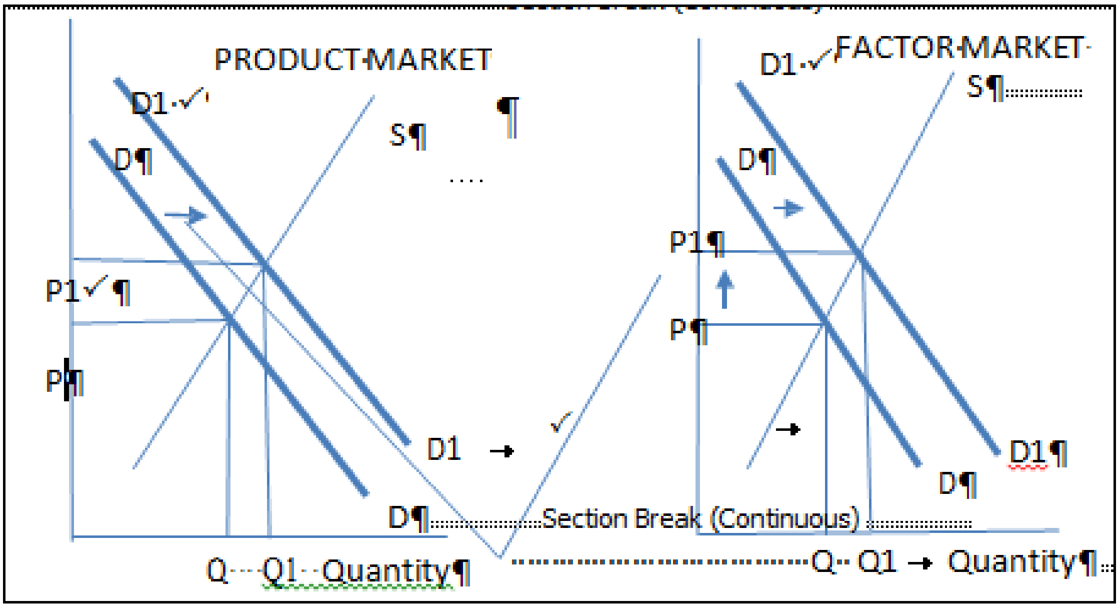
(MAX 4)

**Factor market**

- The market forms the link between owners of the factors of production and buyers of the factors of production✓✓
- Firms or producers buy the factors of production in the factor markets ✓✓
- Demand for a factor of production depends on the demand for the product for which the factor is needed (derived demand) (MAX 4)

ANY (2X4)

**5.2 With the aid of graphs, explain how an increase in demand of a product affects the factor market.**

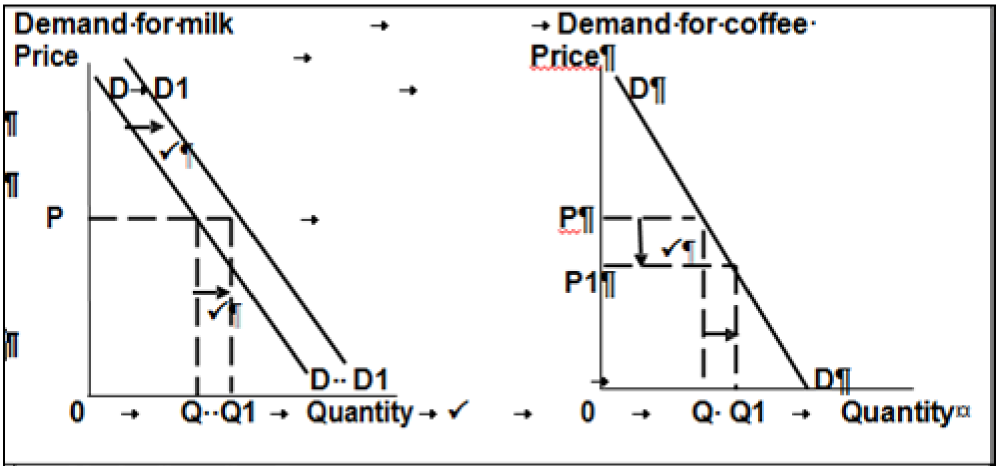



| |
|---|
| Increase in demand in both markets = 2 marks<br>Indication of an increase in price = 1 mark<br>Indication of the effect from product market to factor market= 1 mark (Max 4) |

- When the demand for a certain product in the product market increases, this affects the demand for a natural resource producing the product. ✓✓
- The demand for the product increases from DD to D1 D1. ✓✓This will lead to an increase in demand in the factor market from DD to D1 D1✓✓
- This results in the increase in price. ✓✓
- For example, the increase in demand for clothing ✓✓will result in an increase in demand for either cotton or silk, which are natural resources✓✓ for the production of clothing. ✓✓

  (Accept any relevant correct interpretation) (Max 4)

5.3 **Use a well-labeled graph to explain how the demand curve of milk would respond when the price of coffee decreases.**



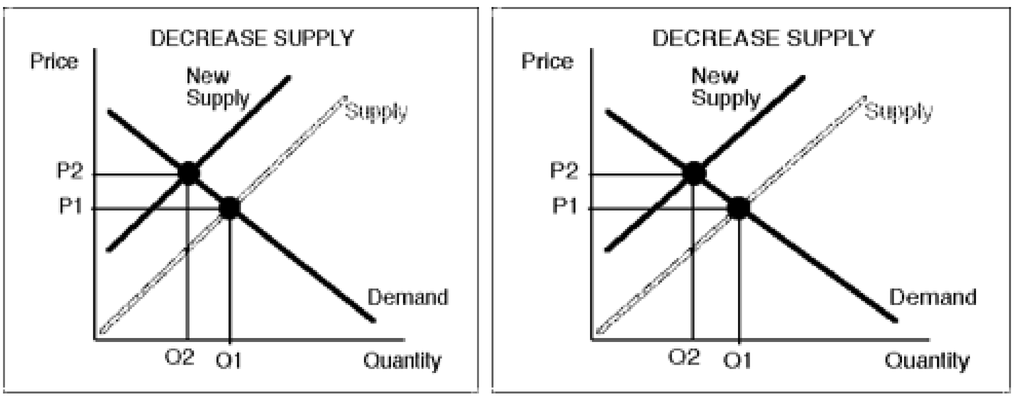

**Mark allocation**
1 mark for naming the axes correctly
1 mark for indicating that the price of coffee decreased
1 mark for indicating the shift in demand of milk from D to D1
1 mark for showing the increase in quantity demanded for milk without a change in price
**Max 4 marks for graphs**

- If the price of coffee decreases the quantity demand will increase. ✓✓
- The movement will be on the same demand curve D for coffee. ✓✓
- Because milk is a complement product of coffee the demand for milk will increase at all price levels. ✓✓
- The demand curve for milk will shift to the right from D to D1. ✓✓

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

5.4 **With the aid of graphs show the effect on the price of cars if there is a decrease in the supply of machinery and equipment to produce them.**

MACHINERY AND EQUIPMENT MARKET | MOTOR CAR MARKET




Mark allocation:
Labelling of the two markets =1
Indication of a shift of the supply curve to the left 2
Shift of the equilibrium from E1 to E2=1Max 4

A shortage of investment in machinery/equipment means less machinery/equipment on the market and fewer factories can then supply cars. ✓✓

- The supply curve will shift left to the new supply curve position. ✓✓
- The price of cars, machinery and equipment will increase, because of a shortage on the market. ✓✓
- The equilibrium point will shift from E1 to E2. ✓✓ (2x2) (4)
  (Accept any relevant correct explanation and examples) (8)

**5.5 Explain how the demand for a good is affected by the prices of its related goods. Give examples.**

**Substitutes:** ✓

- When price of a substitute falls, it becomes cheaper than the given good. So, the consumer substitutes it for the given good. ✓✓
- Hence the demand for the given good will decrease. ✓✓
- Similarly, a rise in the price of substitute will result in an increase in the demand for given good. ✓✓
  For example Tea and Coffee. ✓ (2x2) (4)

**Complementary**: ✓

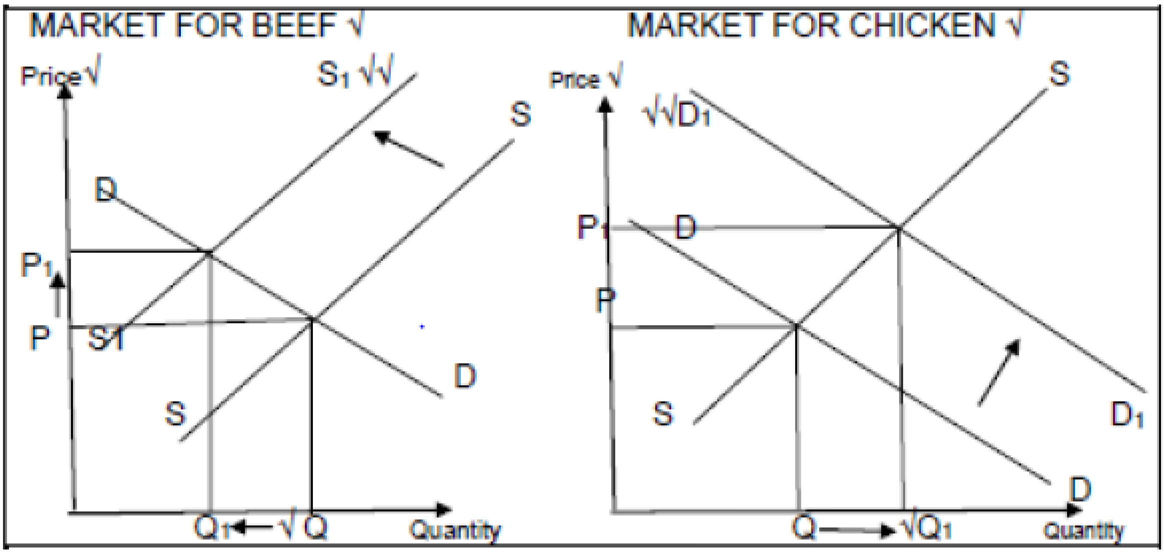
- When the price of a complementary good falls ,its demand rises and the demand for the given good will increase and vice versa. ✓✓
- For example pen and ink. ✓
  (Allocate 2 marks for examples)
  (Accept any relevant response) (2x2) (4) (8)

**QUESTION 6**

**TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.**

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**6.1 With the aid of a graph, illustrate the effect of an increase in the price of beef when consumers can substitute beef with chicken.**




**Mark the learners graphs correct if they have illustrated the principal correctly**

(8)

**6.2 Why would consumers react to price changes?**

- The availability of substitutes - the greater the number of substitutes and the closer the substitutes are to each other, the easier it is for households to start using alternative goods. ✓✓
- The period in question - Households have time to adjust to price changes by changing their behaviour over the long term; the longer price increases continue; the more consumers will adjust their demand for the product. ✓✓
- The degree of necessity or luxury of the product - Goods considered essential by households tend to be more price inelastic. ✓✓
- The proportion of income spent on the product - The smaller the proportion of income spent on a product, the more price-inelastic the demand for the product will be. ✓✓ (4 x 2) (8)

**6.3 Why are relative prices important in the economy?**

- The government and the Reserve Bank use it to decide on the correct fiscal and monetary policies to implement. ✓✓
- Consumers and producers make their decisions according to it. ✓✓
- It is used to determine whether the economic situation is worsening or improving. ✓✓
- It shows inflation, economic growth and economic development in a country ✓✓
- Economists can use them to assess the performance of the economy. ✓✓
- Relative prices form the centre of the dynamics of markets, because the decisions the policymakers, buyers and suppliers make are all based on relative prices✓✓

  (Accept any relevant correct explanation.) (2x4)(8)

SECTION C

## QUESTION 7

- Explain the demand side relationships with the aid of graphs and examples. (26)
- Why is it important for the product market to consider what is happening in the factor market? (10)

### INTRODUCTION

A demand relationship occurs when two or more goods and services are demanded at the same time, due to the fact that they can be used together. ✓✓

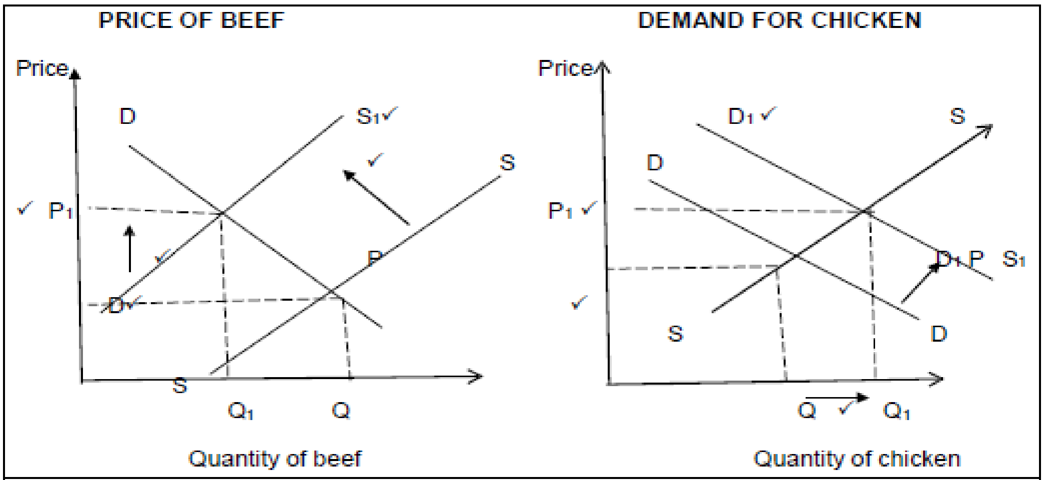
**(Accept any relevant introduction.)**

### BODY

**There are two types of demand relationships i.e. substitutes and complements. ✓✓**

Substitutes

- A substitute product is a product that is used in place of another product. ✓✓
- Some products have specific relationships that will affect demand. ✓✓
- Example: if you want to buy beef but it is too expensive, you tend to buy a cheaper alternative, e.g. chicken. In this instance, chicken is the substitute product. ✓✓




Maximum 4 marks each graph (Check ticks)

EXPLANATION OF THE GRAPH

**Price of beef**

- The price of beef increases from P to P1 due to a decrease in supply (supply curve shifts from SS to S1S1).✓✓
- Beef leads to a decrease in quantity demanded of beef from Q to Q1. ✓✓

**Demand for chicken**

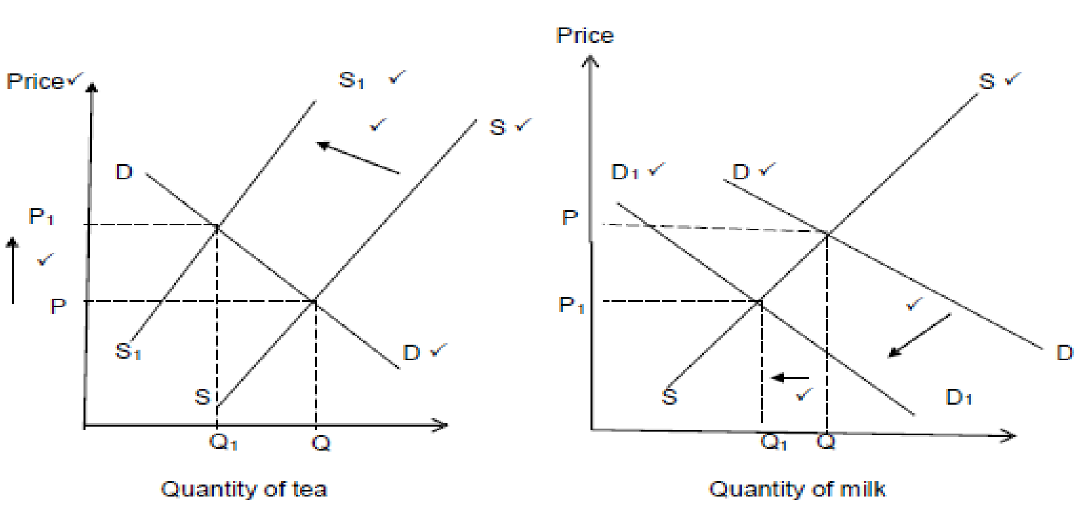
- The demand for the substitute good, which is chicken, increases from DD to D1D1. ✓✓
- Because of the increase in demand price also increases from P to P1. ✓✓

This implies that an increase in price of one product will cause an increase in demand of substitute products. ✓✓

**Max. 13**

**Complements**

Products are complementary products when they are used together to satisfy a need or a want ✓✓ e.g. tea and milk. ✓




Mark allocation (Maximum 4 for each graph)

**EXPLANATION OF THE GRAPH**

**Price of tea**

- The price of tea increases due to a decrease in supply. ✓✓
- Supply curve shifts from SS to S1S1. ✓✓The price of tea increases from P to P1.
- Quantity demanded for tea decreases from Q to Q1. ✓✓

**The demand for milk**

- The increase in price of tea will cause a decrease in demand for milk. ✓✓
- People will buy less tea, therefore they will need less milk. ✓✓
- This causes the demand curve (DD) to shift leftwards to D1D1, and quantity demanded decreases from Q to Q1 and price will decrease from P to P1. ✓✓

For complementary goods, when the price of one good increases, the demand for the complementary product will decrease. If the price of one product decreases, the demand for complement products will increase. ✓✓**(Max. 13)** **(26)**

**ADDITIONAL PART**

- The factor market is a market where factors of production are bought and sold. ✓✓
- The product market is a market where goods and services are bought and sold. ✓✓
- The product market depends on the factor market for the availability of factors of production. ✓✓
- When the supply of one factor of production changes, it will affect both the factor market and the product market ✓✓
- A change in supply of skin hide would affect the hide market negatively because there would be a decrease in the supply of hide. ✓✓
- That would also affect shoe manufacturing and there would be fewer shoes and bags available in the product market for shoes and bags ✓✓
- When the demand for shoes in the product market increases, the demand for factors of production in the factor market will also increase. ✓✓**(10)**

**CONCLUSION**

It is important that product and factor markets work closely with one another and understand each other, because they are interdependent; one cannot exist without the other. ✓✓

**(Accept any correct relevant conclusion.)** **(2)**

# MICROECONOMICS

## TOPIC 2: EFFECTS OF COSTS & REVENUES (WEEK 3-4)

| SECTION A: TYPICAL EXAM QUESTIONS |
|---|

**DYNAMICS OF MARKETS**

**QUESTION 1: Section A – Short Questions**

| HINT: When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will NEVER be two options. Only ONE option is correct. Your answer will immediately be marked incorrect if you write TWO options. |
|---|

**1.1 Various options are provided as possible answers to the following questions.**
**Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 A ✓✓
1.1.2 C ✓✓
1.1.3 B ✓✓
1.1.4 A ✓✓
1.1.5 C ✓✓
1.1.6 C ✓✓
1.1.7 B ✓✓
1.1.8 B ✓✓
1.1.9 B ✓✓
1.1.10 C ✓✓
1.1.11 D✓✓
1.1.12 B✓✓
1.1.13 A ✓✓
1.1.14 C ✓✓

1.115 D ✓✓
1.1.16 A ✓✓
1.1.17 D ✓✓
1.1.18 B✓✓
1.1.19 C✓✓
1.1.20 D✓✓
1.1.21 B ✓✓
1.1.22A ✓✓
1.1.23B ✓✓
1.1.24D ✓✓
1.1.25D ✓✓
1.1.26 A ✓✓
1.1.27 C ✓✓
1.1.28 A ✓✓
1.1.29 D ✓✓

**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 –1.2.12) in the ANSWER BOOK.**

MEMO
1.2.1 K Comparison between prices of good ✓
1.2.2 I Increase in income leads to smaller quantities demanded of these goods. ✓
1.2.3 C Goods and services are traded. ✓
1.2.4 A Able to influence the market price through changing the quantity it supplies to the market. ✓
1.2.5 B Barriers to enter the market. ✓
1.2.6 L Making as much profit as possible. ✓
1.2.7 D Period long enough to change the Inputs. ✓
1.2.8 G goods offered for sale at a given price ✓
1.2.9 F barriers protect them from competition by other businesses. ✓
1.2.10 E Few large sellers dominating the market ✓
1.2.11 H Legal barrier to entry ✓
1.2.12 J Facilitates the purchase and sale of services of factors of production, which are inputs like labour, capital, land and entrepreneurship that are used by a firm to make a finished product. ✓
1.2.13 Q Appear when a country can produce more of a product than another country using the same amount of resources ✓
1.2.14 N Businesses set and agree on prices ✓
1.2.15 Q Market structure dominated by two firms ✓
1.2.16 M Any market that does not have all the characteristics of a perfect market✓
1.2.17 O Powerful competitors try to take over each other’s market share by progressively reducing prices ✓

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. *No abbreviations, acronyms and examples will be accepted.***

1.3.1 Relative price ✓
1.3.2 Monopolistic competition ✓
1.3.3 Short run ✓
1.3.4 Normal profits ✓
1.3.5 Product market ✓
1.3.6 Inferior goods ✓
1.3.7 Kinked ✓
1.3.8 Non-price competition ✓
1.3.9 Competition ✓
1.3.10 Absolute price ✓
1.2.11 Factor market ✓
1.3.12 Market share ✓
1.3.13 Heterogeneous/ differentiated product ✓
1.3.14 Monopolistic competition ✓
1.3.15 Law of demand ✓
1.3.16 Cartel / Formal collusion✓
1.3.17 Total utility ✓
1.3.18 Monopoly✓
1.3.19 Monopolistic competition✓
1.3.20 Perfect competition✓
1.3.21 Profit- maximization quantity✓
1.3.22 Oligopoly✓
1.3.23 Variable cost✓
1.3.24 Total cost✓
1.3.25 Duopoly✓
1.3.26 Monopoly✓
1.3.27 Monopoly✓
1.3.28 Long run✓
1.3.29 Marginal utility✓
1.3.30 Short run✓
1.3.31 Economic Profits✓

**SECTIOB**

**QUESTION 2:**

| |
|---|
| **HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1 |

2.1 **Name any TWO monopoly industries in South Africa**

- Eskom✓
- Rand Water✓

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

2.2 **Give any TWO examples of monopolistic markets**.

- Restaurants ✓
- Hairdressers ✓
- Petrol stations ✓

(Accept any relevant example) (2x1) (2)

2.3 **List any TWO kinds of profit**.

- Accounting profit ✓
- Economic profit ✓
- Normal profit ✓ (2x1) (2)

2.4 **Name any TWO factors that can cause a shift of the demand curve.**

- Price of substitutes✓
- Price of complementary goods✓
- Income of consumers✓✓
- Tastes and preferences of consumers✓
- The size of the population✓
- Fashion✓
- Advertising
- Economic climate✓ (2x1) (2)

**2.5 Name (Give/List) TWO characteristics of perfect markets.**

- Price takers ✓
- Homogenous products ✓
- Normal profit in short and long term ✓
- Many buyers ✓
- Many sellers ✓
- Freedom of entry/exit ✓
- Mobility of factors of production ✓
- Perfect information ✓
- No collusion ✓
- Unregulated market ✓
- No preferential treatment (no discrimination) ✓
- Efficient transport and communication ✓

(Accept any relevant, correct characteristics) (2 x 1) (2)

**2.6 List TWO objectives of business.**

- To make profit ✓
- Survival of the business ✓
- Maximising revenue ✓
- Maximising sales ✓
- Setting targets for growth ✓ (2 x 1) (2)

**2.7 Name any TWO monopoly industries in South Africa**

- Transnet / Prasa ✓
- Eskom✓
- SAA✓
- Rand water✓
- South African Breweries✓
- De Beers's Central Selling Organisation (CSO) ✓

(Any 2 X 1 = 2)

**2.8 List any TWO characteristics of perfect markets.**

- Products are homogeneous✓
- Many buyers and sellers✓
- Buyers and sellers have full knowledge of the market conditions✓
- Free entry and exit ✓
- Products have close substitutes✓ (2 x 1 2)

**2.9 Give any TWO examples of monopolistic markets.**

- Many buyers and sellers✓
- Differentiated product or heterogeneous product✓
    - Entry into market fairly easy✓ (Any 2 X 1 = 2)

**2.10 Give TWO derivatives calculated from Total Revenue**

- Marginal revenue✓
- Average revenue✓ (2 X 1 = 2

**2.11 Name any TWO averages used to determine economic profit.**

- Average revenue✓
- Average cost ✓ (2 x 1) (2)

**2.12 Name TWO barriers that prevent new businesses from entering a monopoly market.**

- Natural barriers✓
- Cost barriers✓
- Legal barriers✓
- International distance✓ (Any 2 X 1 = 2)

**2.13 Give any TWO examples of fixed costs in the short-run.**

- Factory rent✓
- Salaries✓
- Interest expenses✓
- depreciation✓ (Any 2 X 1 = 2)

**2.14 Name any TWO Oligopoly industries in South Africa.**

- Auto industry✓
- Commercial air travel✓
- Steel industry✓
- Cement industry✓
- Cell phone network✓
- Banking sector✓

(Any 2 X 1 = 2)

**QUESTION 3:**

| **HINT:** These types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2 |
|---|

3.1 **What would encourage a producer to continue increasing its production?**

- Business will want to produce where additional income received from a unit is equal to the additional cost of producing the unit✓✓ (1 x 2) (2)

3.2 **How does an increase in demand affect the price of a good/service?**

- A higher demand for a good/service will attract the prices and pull them up – goods/services will become more expensive for the consumer. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

3.3 **Why is it important for businesses to set goals?**

- Setting goals helps the business to be able to define the direction it will take – goals should align with the business's mission and vision statements ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.4 What makes it impossible for an individual producer in perfect competition to make an economic profit in the long run?**

- Free entry, when more firms enter, supply shifts to the right, causing the market price to drop. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.5 How is non-price competition an advantage for a perfect competitor?**

- The perfectly competitive firms are price takers, and the products are homogenous, it is not necessary for producers to incur expenditure on advertisement to promote sales. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

3.6 **Why is the demand curve for a perfect competitor horizontal?**

- The individual is a price taker, and his output does not affect the market price. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.7 Why is it impossible for a monopoly to collude?**

- It is impossible for monopoly to collude because it is a one firm; collusion involves two firms or more. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.8 Why is the demand curve of a monopolist sloping downwards?**

- 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 that is, the market demand curve which slope downwards from left to right. ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.9 What is the implication of the Law of supply?**

- The law of supply states that if the price of a product increases, the quantity supplied will increase and if the price of a product decreases, the quantity supplied will also decrease. ✓✓
- There is a direct relationship between the price of a product and the quantity supplied of that product ✓✓
  (Accept any other correct relevant response) (1x2) (2)

**3.10 How do product and factor markets relate to one another?**

Factors of production are bought by producers from the factor market to produce goods and services which are sold in the product market. ✓✓
(Accept any relevant explanation.) (2)

**3.11 Explain what is meant by excess demand.**

It is a situation in which the market demand for a commodity is greater than its market supply, thus causing its market price to rise. ✓✓ (2)

**3.12 Explain the role of the monopoly as a price maker**

The monopolist is considered a price maker because it is able to influence the market price by changing the quantity available to the market. ✓✓ (2)

**3.13 Why does the average fixed-cost curve slope downwards from left to right?**

Because its value decreases for each quantity produced ✓✓ (1 x 2) (2)

**3.14 How do imperfect market structures occur?**

Imperfect markets occur when one of the conditions of perfect markets is not met. ✓✓
(Accept any relevant correct response.) (2)

**3.15 Why will consumers benefit more under perfect competition than under a monopoly?** (1 x 2)

Consumers have a wider variety of goods to choose from at lower prices whereas in a monopoly consumers have no other choice but to buy the available product at the price the monopolist charges. ✓✓

3.16 **Why does the AR curve always lie above the MR curve?** (1x2)

- AR curve is more elastic than the MR curve

**3.17 How do imperfect market structures occur**? (1 x 2)

- Imperfect markets occur when one of the conditions of perfect markets is not met. ✓✓
  (Accept any other correct relevant response)

## DATA RESPONSE

| |
|---|
| **HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document |

## QUESTION 4:

4.1. Study the extract below and answer the following questions:

| |
|---|
| **THREE MONOPOLIES THAT SOUTH AFRICA SHOULD END** |
| Entities that are protected by legislation morph into monopolies, resulting in limited competition. Time and time again, these legislated monopolies bank on the taxpayer's rands to bail them out of the repercussions of what seems to be chronic underperformance. Below is a list of industries that are overshadowed by state-run monopolies that, if deregulated and privatised, will yield far greater returns to the citizens of South Africa.<br>➢ Aviation<br>➢ Energy Supply<br>➢ Railways |

4.1. **DATA RESPONSE**

4.1.1 **Identify ONE of the three state monopolies implied in the extract.**

- SAA ✓
- Eskom ✓
- Transnet✓ (1)

4.1.2 **How are monopolies protected?**

- By legislation ✓
- Barriers such as a patent ✓

(Any other relevant correct answer) (1)

4.1.3 **Describe the term *monopoly***

- A monopoly is a market structure in which there is only one seller of a unique good or service that has no close substitute. ✓✓

(Any other relevant correct answer) (2)

4.1.4 **Why do you think South Africa should end the monopolies in the above extract?**

- Underperformance: Tax fees are used to counteract the underperformance of these monopolies, ✓✓
- No substitutes: the consumer is left with any other choice as they are the only suppliers of these specific services / products. ✓✓Limited competition: More competition will lead to more efficiency and fairer prices. ✓✓
- Restricted access: Access to the market for alternative competition is blocked.✓✓

(Any other relevant answer) (2 x 1) (2)

4.1.5 **Explain the disadvantages of the monopolies**

- A monopolist always charges a high price, which is higher than the competitive price. thus a monopolist exploits the consumers. ✓✓
- A monopolist is interested in getting maximum profit. he may restrict the output and raise prices. thus, he creates artificial scarcity for his product. ✓✓
- A monopolist often charges different prices for the same product ✓✓
- Consumers, he extracts maximum price according to the ability to pay of different consumers. ✓✓ (2x2) (4)

**4.2 Study the extract below and answer the questions that follow:**

**OLIGOPOLIES**

A few large oligopolies dominate an oligopoly market, i.e. just a few handset manufacturing companies dominate the cell network of South Africa. The products are similar, and sold by a few companies. Moreover, the products are branded due to extreme competition, and because there are huge long-term entry barriers, the companies make exorbitant profits. The competing companies have an unusual interdependence, to the point that they almost operate in unison.

*[Adapted from Markitects./co.za]*

4.2.1 **From the extract, list ONE feature of an oligopoly**.

- Products are similar and sold by a few manufacturers ✓
- Products are branded due to extreme competition ✓
- Barriers to entry. ✓ (1)

4.2.2 **What other economic term describes the nature of the product sold by oligopolies?**

- Homogenous ✓ (1)

4.2.3 **Explain the term *entry barrier.***

- It is not easy to enter or exit the market, an obstacle preventing new businesses from entering the market✓✓ (2)

4.2.4 **Why do firms collude with one another?**

- They collude with one another so as to maximise profits ✓✓
- To limit entry in the market ✓✓
- (Accept any other correct relevant response) (2x1) (2)

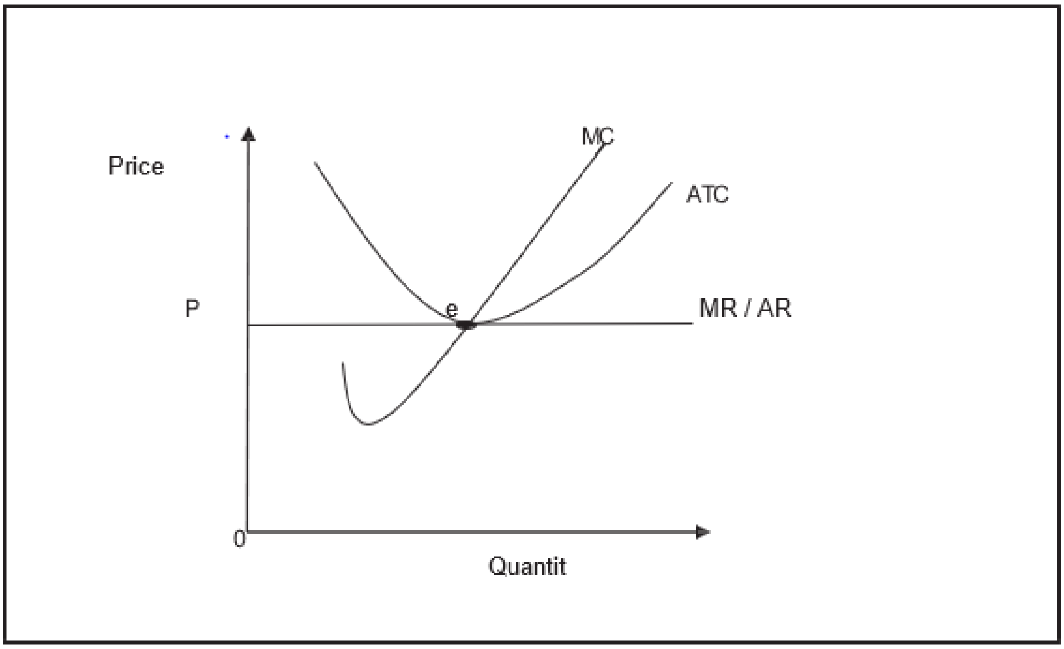
4.2.5 **How does branding assist a company operating in an oligopoly market structure?**

Branding assists in:

- Distinguishing a product from other competing brands ✓✓

- Promoting brand loyalty ✓✓
- Attracting customers ✓✓
- (Accept any other correct alternative response) (2x2) (4)

**4.3 Study the graph and answer the questions that follow**




4.3.1 **Which market structure is depicted above?**

- Perfect market✓ (1)

4.3.2 **What type of profit is indicated in the above graph?**

- Normal profit. ✓ (1)

4.4.3 **Briefly explain point 'e' on the graph**.

- A point of equilibrium where marginal cost is equal to marginal revenue✓✓ (2)

4.3.4 **Explain the slope of the marginal cost curve.**

- The marginal cost curve first slopes downwards sharply, then gradually slopes upwards, because it is a change in total cost ✓✓

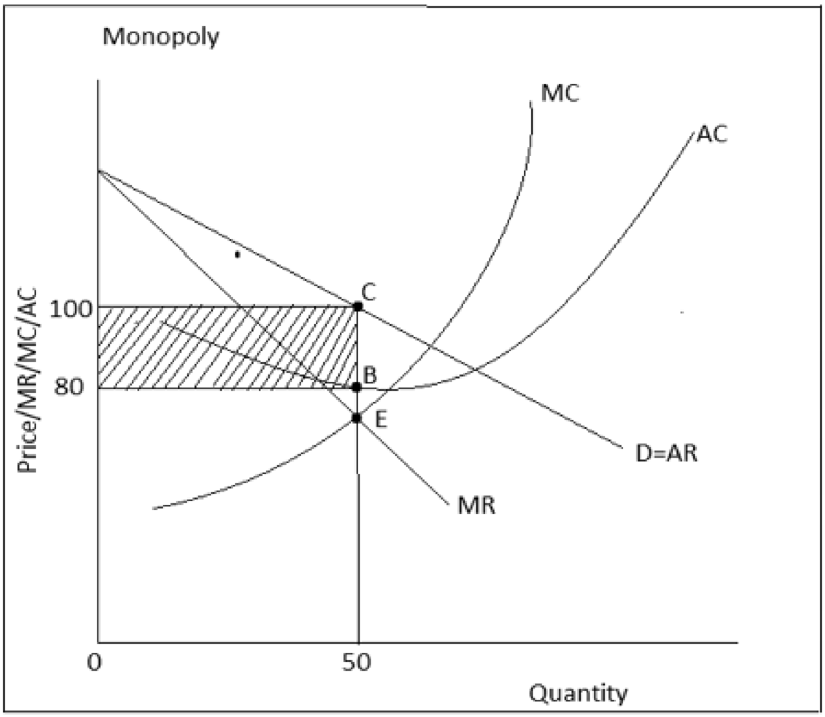
  (Accept any other correct relevant response) (2)

4.3.5 **Why are MR and AR equal in the graph?**

- Because the price is constant; extra revenue received from an extra unit (MR) is equal to price ✓✓
- And revenue per unit is also equal to price ✓✓
- Therefore, marginal revenue is equal to average ✓✓

  (Accept any other correct relevant response) (4)

**4.4 Study the graph and answer the questions that follow**




4.4.1 **What does the shaded area in the graph represent?**

- Economic profits✓ (1)

4.4.2 **Which point on the graph illustrates profit maximisation?**

- E✓ (1)

4.4.3 **Briefly describe the term *monopoly*.**

- Monopoly is a market structure where only one seller operates and entry is blocked. ✓✓

(Accept any other relevant correct response) (2)

4.4.4 **Explain *entry* as a feature of a monopoly**

- There are barriers to entry in the market. ✓✓
- Entrance to the market is completely blocked ✓✓

(Accept any other correct relevant response) (2)

4.4.5 **Use the formation from the graph, calculate the profit or loss.**
**Show ALL calculations.**

Profit/Loss = TR – TC ✓
= (100 x 50) – (80 x 50)
= 5 000 – 4 000 ✓
= 1 000 (Profit) ✓✓

**OR**

Profit/Loss = (AR – AC) x Q ✓
= (100 – 80) x 50
= 20 x 50 ✓
= 1 000 (Profit) ✓✓ (Max 4)

**4.5 Study the scenario below and answer the questions that follow**

**AIRPORTS COMPANY SOUTH AFRICA (ACSA)**

ACSA talks a lot about customer focused services, but its actions demonstrate its contempt for its customers. One needs to look no further than the line Industry to see the benefits of introducing competition into the market. Not everybody may like low cost carriers like *Kulula and 1time*, but they give people the option and together with price comparison sites like ***southafricato***, have driven airlines down dramatically. Competition has transformed the airline industry, yet a regulated monopoly continues to deliver a service, endless waits for baggage, high levels of theft, airport security lapses.

[Source http://southafricato/airports/ACSA]

4.5.1 **What according to the article should be the main focus of ACSA?**
ACSA should focus on customer services. ✓ (1)

4.5.2 **Identify ONE of the South African Airways competitors**.
Kulula✓ / 1time. ✓ (1)

4.5.3 **Briefly explain the term *competition.***
The rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix: price, product, distribution, and promotion. ✓✓ (2)

4.5.4 **How did the introduction of competition benefit the airline?**

- Gave people the option and together with price comparison sites like **southafricato**, have driven airlines down dramatically. ✓✓
- Competition has transformed the airline industry. ✓✓ (2)

4.5.5 **Would you describe the taxi industry in South Africa as a monopoly? Explain.**
No.
In the taxi industry, there are many riders (buyers) and many taxi owners (sellers). ✓✓
There are no barriers to entry. ✓✓
(Accept any other correct relevant response) (4)

**4.6 Read the extract below and answer the questions that follow**

> **Proudly South African mobile company set to launch**
>
> A young entrepreneur from rural Bushbuckridge in Mpumalanga is breaking new ground after inventing and designing his own range of smartphones and tablets, called *T-Touch mobile*.
>
> Thulani Khoza designed his smartphones through his company, *Thules Telecoms*, and has since raised funds to the tune of about R8 million to finance the manufacture of the gadgets.

**[Adapted from *news24, 13 November 2016*]**

**4.6.1 Which market structure is represented by the extract above?**

Monopolistic competition ✓ (1)

**4.6.2 Name any ONE method of non-price competition.**

- Loyalty programmes ✓
- Promotions/Sales/Discounts ✓
- After sales services ✓
- Door to door delivery ✓

(Accept any other relevant correct response) (1)

**4.6.3 Briefly describe the term *differentiated products*.**

Differentiated products are goods that are similar but not exactly the same (not identical). ✓✓

These goods satisfy the same need but have different qualities and features. ✓✓

(Accept any other correct relevant response) (2)

**4.6.4 Why do firms benefit from collusion?**

- Firms benefit by maximizing profits and limiting competition. ✓✓
- Existing firms are able to keep new entrants out of the market. ✓✓

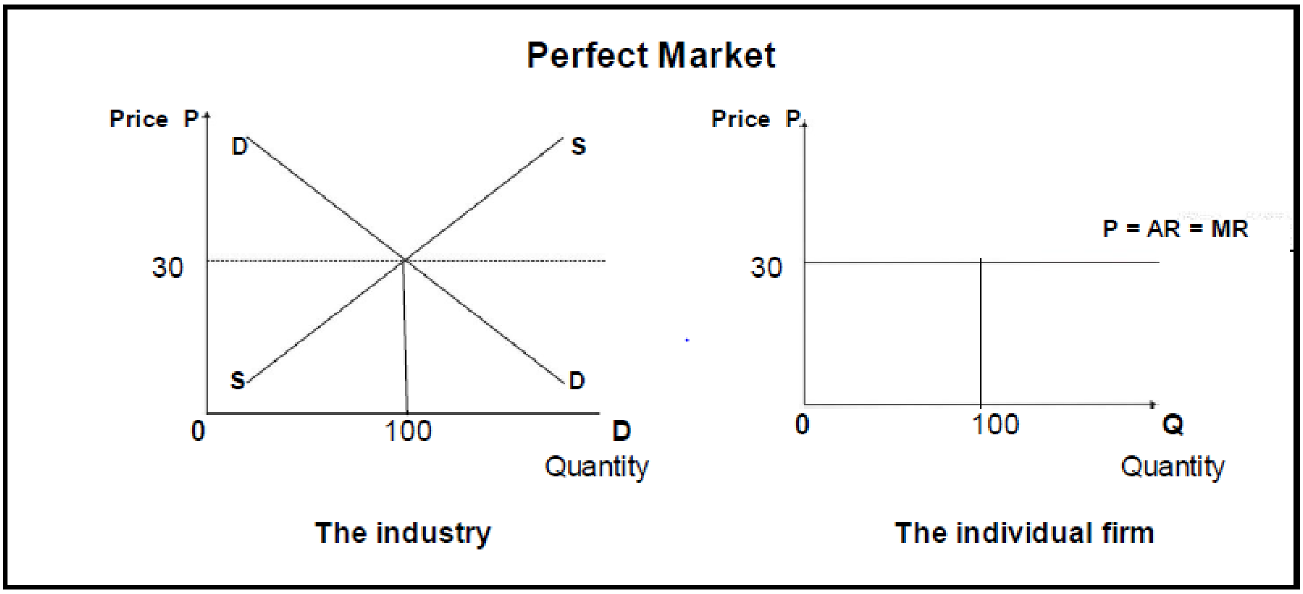
(Accept any other correct relevant response) (2)

**4.6.5 How does branding and brand loyalty impact new entrants such as T-Touch mobile to the market?**

- T-Touch mobile may struggle to compete with existing brands as these brands already have distinguished their goods. ✓✓
- Existing brands such as Samsung and Huawei will have an advantage as they have a loyal customer base. ✓✓

(Accept any other correct relevant response) (4)

**4.7 Study the graphs and answer the questions that follow**




**4.7.1 Describe the shape of the individual firms demand curve.**

Horizontal ✓ (1)

**4.7.2 Name the market price in the graphs above.**

R 30 ✓ (1)

**4.7.3 Briefly explain what long-run cost of a business is.**

- The long run refers to a period of time that is long enough for enterprises to change the quantities of all their inputs utilized in the production process. ✓✓

OR

- The period in which there are no fixed inputs – all the inputs (including all the factors of production) are variable. ✓✓

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

**4.7.4 Why is a firm in a perfect market a price taker?**

The price is determined by the market supply and demand and the individual firm is one of many sellers and must accept the price. ✓✓

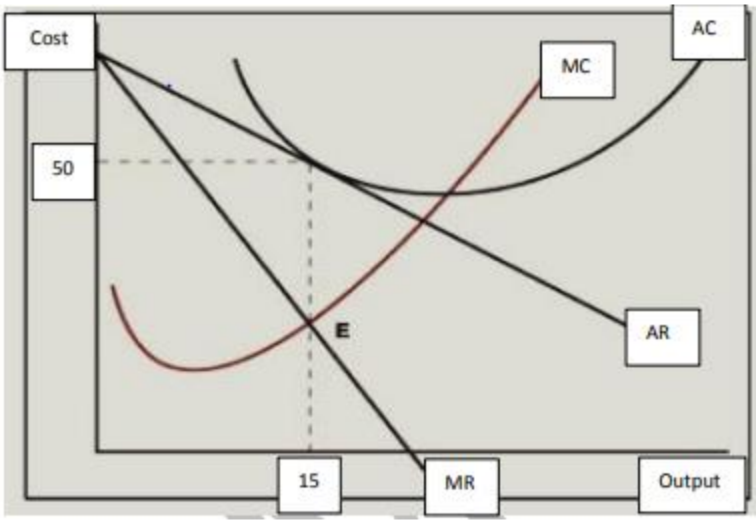
(Accept any other correct relevant response.) (1 x 2) (2)

**4.7.5 How is the price of a perfect market influenced in the long run?**

- In the long run more suppliers will enter the market as economic profit made in the short run will be attractive. ✓✓
- As more suppliers enter the market the price will be pushed down by the competition. ✓✓
- If the price is lowered the profit shrinks. ✓✓
- In the long run this lowering of prices leads to the firm being able to only make normal profit. ✓✓

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

**4.8 Study the graph below and answer the questions that follow:**




**4.8.1 Which market structure is depicted above?**

Monopoly ✓ (1)

**4.8.2 What type of profit is being made by this firm?**

Normal profit ✓ (1)

**4.8.3 Briefly describe the term *profit maximization.***

A point of equilibrium where marginal cost is equal to marginal revenue ✓✓
(Accept any other correct relevant response) (2)

**4.8.4 Why should Eskom always make an economic profit?**

Eskom is a monopoly and the only supplier of electricity in the country. ✓✓
(Accept any other correct relevant response) (2)

**4.8.5 Determine the firm's economic loss/profit. SHOW ALL CALCULATIONS.**

| METHOD 1: | METHOD 2: |
|---|---|
| TR – TC<br>R50 – R50✓ = R0.✓<br><br>R0 x 15 ✓ = R0 ✓ | TR x Q = R50 x 15 = R 750 ✓<br>TC x Q = R50 x 15 = R 750 ✓<br><br>TR – TC = R 750 – R 750 ✓ = R0 ✓ |

**4.9 Study the picture and answer the questions that follow**


**4.9.1 Why would an entrepreneur choose to operate in a monopolistically competitive market?**

- No barriers to entry ✓
- The products are differentiated ✓
- Every monopolistic-competitive business has a degree of monopolistic power and is actually a mini-monopoly in the sense that it is the only producer of that specific brand or variant of the product ✓
  (Accept any other relevant answer) (1)

**4.9.2 What kind of profit can these competitors make in the short-run?**

Economic profit ✓ (1)

**4.9.3 Based on the cartoon, give TWO characteristics of monopolistic competition.**

- A large number of producers ✓
- Products are not identical but differentiated – similar in many ways but not totally identical ✓
- Differences based on branding ✓ (any 1 x2 ) (2)

**4.9.4 Name TWO similarities between a perfect competitor and a monopolistic competitor in the long run.**

- Many suppliers and many consumers ✓
- Completely free entry / unrestricted ✓
- Both market structures make a normal profit in the long run ✓
- The price of the product = average cost ✓
- Collusion is not possible ✓ **(Any 2x1) (2)**

**4.9.5 How can the two competitors depicted in the cartoon compete? Give examples.**

- Businesses compete on the basis of non-price competition. ✓✓
- Product differentiation and advertising play a key role. ✓✓

- Packaging ✓ and for example toys given with kiddie's meals are used to compete. ✓ (4)

**4.10 Read the extract and answer the questions that follow**

**THESE NEW CARTELS: WHY WE NEED TO WAKE UP TO THE THREAT POSED BY OLIGOPOLIES**

Last week, Barack Obama unexpectedly issued an executive order directing US agencies to shake up uncompetitive industries, tacitly confirming that the American economy has a problem with oligopoly power.

Kraft Food Group, SABMiller, 99p stores, BetFair and O2. What do these companies have in common? They were all recently involved in corporate mergers or takeovers, or are set to be in the near future. Heinz's merger with Kraft last year made it the fifth largest food company in the world, while AB InBev's likely takeover of SABMiller means that a single company will soon supply a third of the world's beer.

Many of us are familiar with the presence of oligopoly power in our economy. It is no secret that the energy, banking and supermarket sectors are dominated by a handful of very large firms. The extent of this market concentration seems to be significantly underestimated. From telecoms and radio, through to IT services and accountancy services, oligopolies have taken root in all corners of our economy.

**[Source: https//www.thersa.org/discover/publications-and-articles/rsa-blogs/2016/04/these-new-cartels-why-we-need-to-wake-up-to-the-threat-posed-by-oligopoly-power]**

**4.10.1 Which company involved in a takeover mentioned above is a South African company? (1)**

- SABMiller ✓

**4.10.2 In which industry is the above-mentioned company they involved in?**

- Producing beer / liquor industry✓ (1)

**4.10.3 Name TWO examples of oligopoly industries mentioned in the article above.**

- The energy industry ✓
- Banking industry ✓
- Supermarket industry ✓
- Telecoms and radio industries ✓
- IT services ✓
- Accountancy✓ (2)

**4.10.4 Briefly describe the term *cartels.***

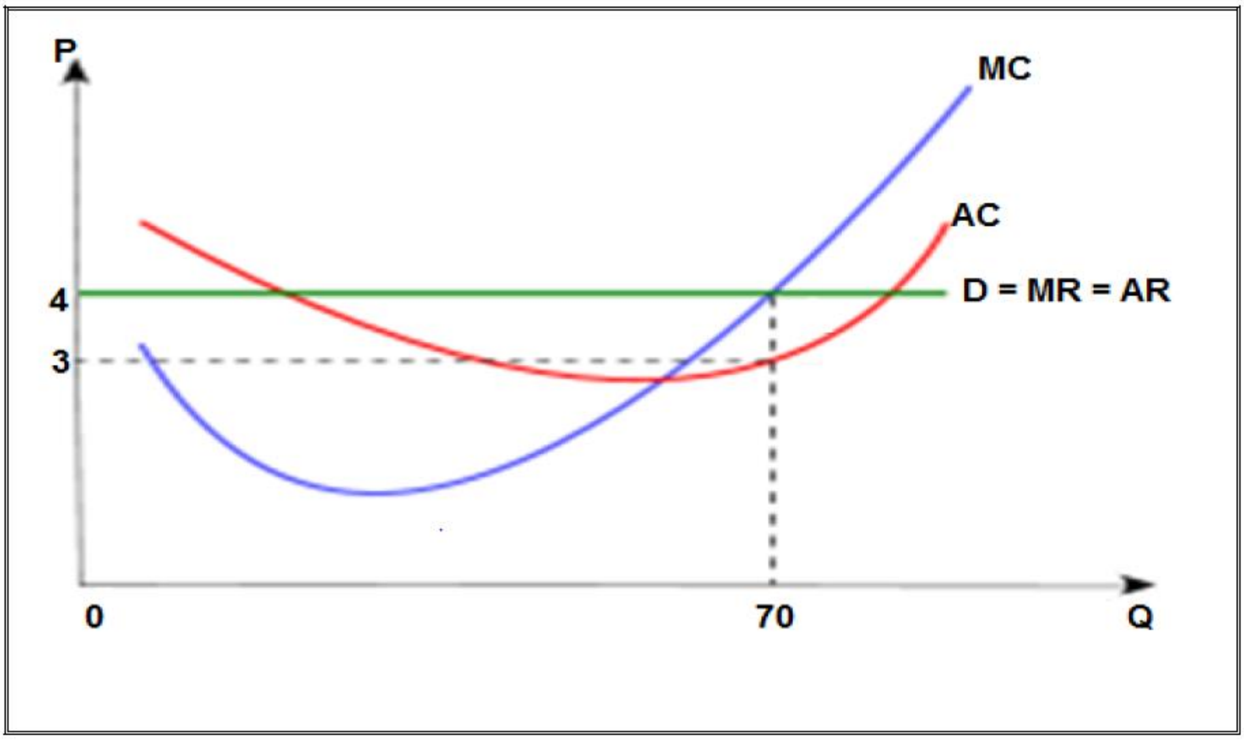
- An association of manufacturers or suppliers formed to maintain high prices and restrict competition. ✓✓
  (Accept any other relevant answer.) (2)

**4.10.5 What effect does "uncompetitive industries" have on the economy? Substantiate your answer.**

- Uncompetitive industries have a negative effect on the economy. ✓✓

- Lack of competition leads to high prices being asked by producers as there is no competition. ✓✓
- It also leads to underproduction and wastage of resources. ✓✓
  (Accept any relevant answer.) (4)

4.11 Study the graph and answer the questions that follow




**4.11.1 Identify the market structure above.**
Perfect market structure ✓ (1)

**4.11.2 What is the market price?**
R4.00✓ (1)

**4.11.3 What type of profit will the above-mentioned market structure make in the long term?**
Normal Profit ✓✓ (2)

**4.11.4 Determine whether this business make a normal/ economic profit or a loss. Show ALL calculations.**

| | | | | | |
|---|---|---|---|---|---|
| TR | = | PxQ | TC | = | PxQ |
| | = | 4(70) | | = | 3(70) |
| | = | R280.00✓✓ | | = | R210.00✓✓ |

| | | | |
|---|---|---|---|
| PROFIT | = TI –TK | OF | 4 – 3 = 1✓ |
| | = 280 – 210 | | 1 x 70 ✓✓ |
| | = R70.00✓✓ | | = 70 ✓✓ |

(6)

**4.12 Study the table below and answer the questions that follow.**

| Price | Quantity | TR | TC | Profit |
|---|---|---|---|---|
| 10 | 0 | 0 | 25 | -25 |
| 10 | 5 | **A** | 30 | 20 |
| 10 | 10 | 100 | 35 | 65 |
| 10 | 15 | 150 | 40 | **B** |
| 10 | 20 | 200 | 45 | 155 |

**4.12.1 Identify the market represented by the table.**

- Perfect Market ✓ (1)

**4.12.2 What is represented by the -25 in the profit column above?**

- A loss of R25✓ (1)

4**.12.3 Determine the values of A and B**

- 50 ✓
- 110 ✓ (2)

**4.12.4 Why is there a value for TC when production (quantity) is zero?**

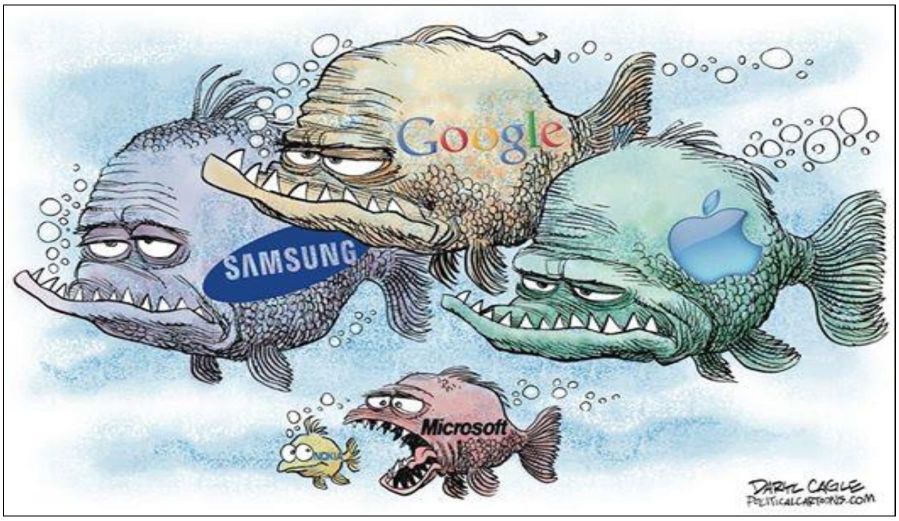
- There will always be a fixed cost even if no production takes place. Firms still have to pay these fixed costs as they are not related to production levels ✓✓
  (Accept any other relevant correct response) (2)

**4.12.5 Present TR and TC on the same set of axes**


Mark allocation
- Correct drawing of TC curve = ✓✓
- Correct drawing of TR curve = ✓✓

(4)

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




Source: businessbookmail.com

**4.13.1 Which market structure is illustrated in the cartoon above?**

- Oligopoly✓ (1)

**4.13. 3 What is the nature of the product in the cartoon?**

- Identical or highly differentiated ✓ (1)

**4.13.3 Briefly describe the concept *collusion.***

- This is when oligopolists does secret pricing, quality and market deals with each other to reduce the strain of uncertainty and competition ✓✓
(2)

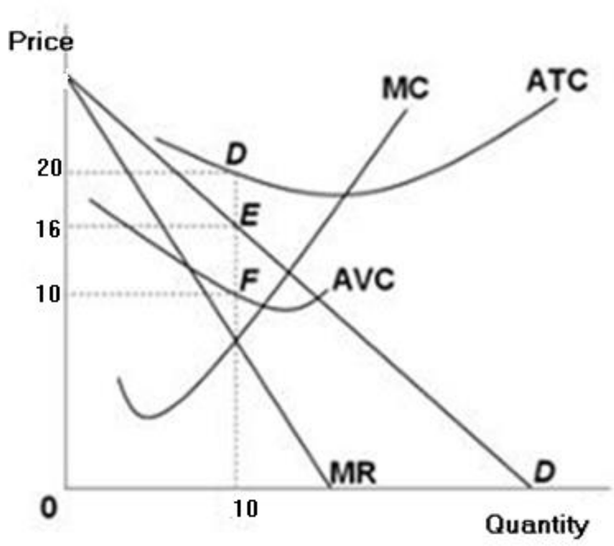
**4.13.4 Why is it more beneficial for firms to collude instead of engaging in competition?**

- Firms will make more profit when they collude. It is difficult to constantly compete with other firms while making an agreement to limit competition means less effort✓✓ (2)

**4.13.5 Evaluate the impact price fixing has on the poor?**

- Poor people will be affected negatively as prices will increase. ✓✓
- The increase in prices will lead to poor being able to buy less than before, decreasing the standard of living. ✓✓ (4)
(Accept any other relevant correct response)

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




**4.14.1 Identify the profit maximisation quantity in the graph above**

- 10 ✓. (1)

**4.14.2 Which curve is also known as the supply curve?**

- MC curve ✓ (1)

**4.14.3 Define the term *marginal revenue*.**

- Additional income the firm receives after selling an additional unit. ✓✓ (2)

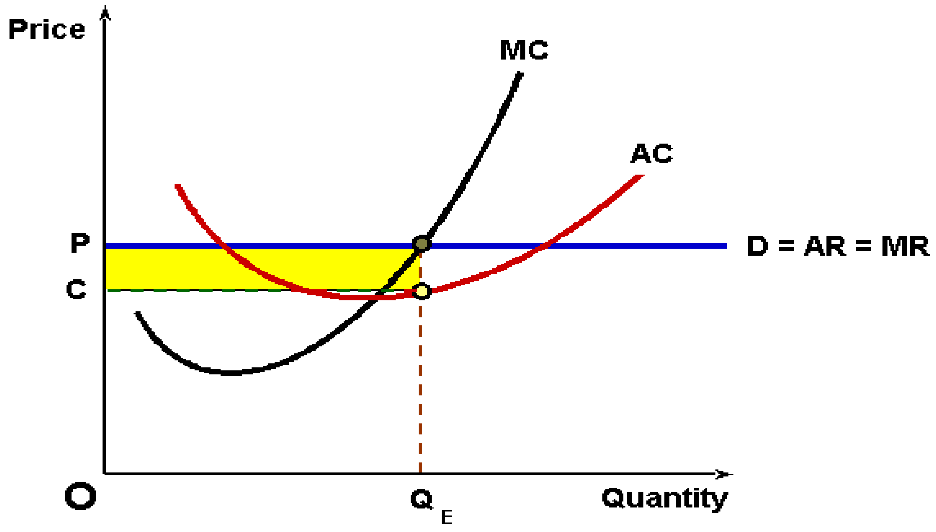
**4.14.4 Why is the MC curve of a monopoly not intersecting the ATC at the minimum point?**

- It is because a monopoly firm does not produce at the lowest cost. Production is restricted in order to goods in short supply and charge higher prices✓✓ (2)

**4.14.5 Determine whether the firm represented in the above graph is making a profit or a loss.**

- Total cost = 10 x R20 = R200✓
  Total revenue = 10 x R16 = R160✓
  Profit / (loss) R160 – R200 = -R40✓✓
  The firm is making economic loss as total revenue is less than total cost. (4)

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




**4.15.1 Which market structure is represented by the graph?**

- Perfect competition or Perfect market ✓ (1)

**4.15.2 What does the shaded area represent?**

- Economic profit ✓ (1)

**4.15.3 Briefly explain the concept price taker.**

- A price taker is an individual producer who accepts prevailing prices in a market, lacking influence over the price. ✓✓
- An individual producer cannot charge higher prices as this will result in him/her customers buying somewhere else ✓✓ (2)

**4.15.4 Why is the demand curve of the market structure a horizontal line?**

- An individual producer cannot influence the price and has to accept the market price. ✓✓
- Charging a higher price will result in the firm losing customers to its competitors. ✓✓ (2)

**4.15.5 Explain why a perfect market firm makes normal profit in the long run?(4)**

- Economic profit an individual producer earns in the short term attracts new entrants. ✓✓ The new entries increase the quantity supplied and pulls down the price resulting in average cost being equal to average revenue in the long term. ✓✓
- The individual producer may acquire a bigger plant to increase production as a result of the economic profit ✓✓. Quantity produced increases leading to a decrease in price. (4)


All section B questions have TWO 8 marks questions. One is a M**iddle order** paragraph, the other is a **Higher order** paragraph

**QUESTION 5** **Paragraph type questions – Middle Cognitive**

**5.1. Differentiate between product market and factor market.**

**Factor markets**:

- Market for factors of production. ✓✓
- Each factor of production is sold in a different market. ✓✓
- The price of each factor of production is determined through the interaction of demand and supply. ✓✓
- If the supply of one factor of production changes, it affects the rest of the factor market as well as the product market✓✓ (2x2) (4)

**Product market**:

- Market for goods and services. ✓✓
- Product market is divided into capital goods market, consumer goods market and the service market. ✓✓
- If demand for a product or a service increases, the demand for factors of production will also increase in the factor market. ✓✓
- A change in the product market influences demand in other markets. ✓✓

(2x2) (4) (8)

5.2 **Examine the implication of 'non price competition' in oligopolies.**

- Oligopolies tend not to compete in terms of the price of products. ✓✓
- Businesses normally engage in non-price competition such as advertising, product differentiation, to gain market share. ✓✓
- They try to distinguish their products from those of other businesses in order to gain a competitive advantage. ✓✓
- Businesses try to avoid price competition as this could lower the profitability of the different businesses. ✓✓
- Forms of non-price competition include: building brand loyalty✓✓extended shopping hours; ✓✓ doing business over the internet; ✓✓ after sales service; ✓✓ loyalty rewards to customers; ✓✓ etc. (2x4) (8)

**5.3 Briefly discuss *nature of the product* and *price control* as characteristics of monopolistic competition.**

**Nature of the product**

- Monopolistic competition offer differentiated product, which means they are similar but slightly different from each other. ✓✓
- The differentiation is in the minds of the consumers – they perceive the product of a specific firm as unique or superior to any other product belonging to the same group and so creating a sense of value✓✓
- Product differentiation may be real or imaginary – real differences are like design, material used, and skills, whereas imaginary differences are through advertising, trademark and so on. ✓✓
- Differentiation does not imply changing the product, sometimes it is enough just by simply creating a new advertising campaign or by changing packages. ✓✓

(2 x 2) (4)

**Price control**

- Businesses have considerable control over the prices of their goods or services but less control than in a monopoly – they cannot fix the price ✓✓
- The only control they have depends on the strength of brand loyalty ✓✓
- Competition does not take place through prices, but through differentiation of products ✓✓

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

(8)

**5.4 Discuss *barriers to entry* and *collusion* as some of the determinants of market structures**.

**Barriers to entry**:

- This refers to how easy or difficult it is for businesses to enter or leave the market. ✓✓
- Under perfect condition, entry is completely free whereas it is entirely blocked under monopolies. ✓✓
- Very often access is denied by law. ✓✓ (2x2) (4)

**Collusion:**

- Collusion occurs when sellers come up with ways in which they can minimise competition amongst themselves in order to gain market power so that they can influence the market price of the product. ✓✓
- In a perfect market, monopoly and monopolistic competition there is no secret communication between sellers that enables them to negotiate favourable terms for themselves✓✓
- It is impossible for a monopolist to collude since he/she is the only seller✓✓.
- In an oligopolistic market, sellers can fix prices by agreeing on the prices they are going to charge and the quantities they are going to produce. ✓✓

(Accept any relevant correct explanation.) (2 x 2) (4)

(8)

5.5 **Briefly explain the characteristics of an oligopoly.**

- There is limited competition. ✓✓
- Only a few suppliers manufacture the same product. ✓✓
- Products may be homogenous or differentiated. ✓✓
- This market is characterised by mutual dependence. ✓✓
- The decision of one company will influence and will be influenced by the decisions of the other companies. ✓✓
- Oligopolies can frequently change their prices in order to increase their market share. However this can result in a price war. ✓✓
- Extensive use is made non-price measures to increase market share e.g. advertising, efficient service or product differentiation. ✓✓
- Producers have considerable control over the price of their products although not as much as in a monopoly. ✓✓
- If oligopolies operate as a cartel, firms have an absolute cost advantage over the rest of the competitors in the industry. ✓✓

- Abnormal high profits may be a result of joint decisions in an oligopoly. ✓✓
- Entry is not easy in an oligopolistic market. This is due to brand loyalty and it also requires a large capital outlay.✓✓
  (Accept any relevant characteristic) (2x4) (8)

**5.6 Briefly discuss the SMART principle in designing the objectives of business.**

**Specific:** ✓
- The idea must be identified and understood, ✓✓ e.g. the business must become the most profitable in the country✓

**Measurable:** ✓
- It must be possible to test or measure whether the goal has been reached✓✓. e.g. in order for a business to reach its goal it must make a profit of R5 000 a month✓

**Attainable**: ✓
- All stakeholders must agree to the set goal✓✓

**Realistic**: ✓
- The goal must be within reach for the business e.g. the business must be capable of reaching the required profit ✓✓

**Time specific**: ✓
- There must be a time limit on achieving a goal. e.g. the business must be the most profitable within a period of five years✓✓
  (Accept any correct relevant response) (4 x 2) (8)

**5.7 Briefly discuss nature of the product and entry as characteristics of a perfect markets**.

**Nature of the product**:
- The product is homogenous.✓✓
- It is identical in all respects.✓✓
- there is no branding.✓✓ (2 x 2) (4)

**Entry:**
- Entry and exit are free ✓✓
- There are no barriers to entry (2 x 2) (4) (8)
  (Accept any other correct relevant response)

**5.8 Distinguish between natural and artificial monopolies.**

**Natural monopolies**
- A type of monopoly that exists due to the high fixed or start-up costs of conducting a business in a specific industry. ✓✓
- Natural monopolies can arise in industries that require unique raw materials, technology or similar factors to operate. ✓✓
- Since it is economically sensible to have some monopolies like these, governments allow them to exist, but provide regulations, ensuring that consumers get a fair deal. ✓✓
- A single business in such an industry can serve the whole market at a lower

price than two or more businesses together. ✓✓

- They are frequently owned or regulated by the government. ✓✓
- Example, ✓ Eskom, ✓ Transnet✓ (2x2)(4)

**Artificial monopolies**

- A very large firm that has no advantage in production efficiency over smaller firms✓✓but nonetheless manages to drive all of its competitors out of business, remaining the sole producer in the industry. ✓✓
- Patents are also encountered in these monopolies. ✓✓
- Example, Microsoft, Google✓

(Accept any relevant correct response.) (2x2)(4)

(8)

**5.9 Discuss *competition* and *transport and communication* as characteristics of perfect markets.**

**Free competition**

- Buyers must be free to buy whatever they want from any firm and in any quantity. ✓✓
- Sellers must be free to sell what, how much and where they wish. ✓✓
- There should be no State interference and no price control. ✓✓
- Buyers should not form groups to obtain lower prices, nor should sellers combine to enforce higher prices. ✓✓ (2x2) (4)

**Efficient transport and communication**

- Efficient transport ensures that products are made available everywhere. ✓✓
- In this way changes in demand and supply in one part of the market will influence the price in the entire market. ✓✓
- Efficient communication keeps buyers and sellers informed about market conditions. ✓✓

(Accept any correct response.) (2x2)(4)

(8)

**5.10 Discuss non-price methods to increase market share.**

- To create loyalty to a brand name✓✓
- To have longer shopping and business hours ✓✓
- To do business over the internet (banking and shopping) ✓✓
- To provide good after-sales services ✓✓
- To provide additional services (such as free travel insurance by banks) ✓✓
- To reward customers for loyalty ✓✓
- To offer door-to-door delivery✓✓

(Accept any correct response.) (2x4) (8)

**5.11 Examine the disadvantages of a monopoly as a market structure.**

- A monopolist always charges a high price, which is higher than the competitive price. ✓✓
- Thus a monopolist exploits the consumers. ✓✓

- A monopolist is interested in getting maximum profit. He may restrict the output and raise prices. ✓✓
- Thus, he creates artificial scarcity for his product. ✓✓
- A monopolist often charges different prices for the same product from different consumers. ✓✓
- He extracts maximum price according to the ability to pay of different consumers. ✓✓
- A monopolist uses large-scale production and huge resources to promote his own selfish interest. ✓✓
- He may adopt wrong practices to establish absolute monopoly power. ✓✓
- In a country dominated by monopolies, wealth is concentrated in the hands of a few. ✓✓
- It will lead to inequality of incomes. ✓✓
- This is against the principle of the socialistic pattern of society. ✓✓
  (Accept any relevant correct explanation.) (2x4) (8)

**5.12 Explain *interdependence of firms* and *non-price competition* as characteristics of an oligopoly.**
**Mutual dependence**

- One seller's action will influence the other sellers✓✓.
- Each firm is aware of each other's actions since the market is dominated by a few firms, e.g. cars. ✓✓
  **Non-price competition** (2x2) (4)
- Oligopolists are reluctant to change prices, this is to prevent price wars✓✓
- They make use of other measures to attract customers and increase their market share✓✓
- for example after sales service, building brand loyalty. ✓
  (Accept any correct response.) (2x2)(4)
  (8)

**5.13 Discuss FOUR characteristics of a perfect market.**

- Large number of buyers and sellers – they cannot control price. ✓✓
- Products are homogeneous, which means products are of the same type, quality and appearance. ✓✓
- Freedom of entry and exit – market is totally accessible. ✓✓
- Buyers and sellers have complete knowledge about price, quality and availability of goods. ✓✓
- The market is impartial – no one has an advantage over the other. ✓✓
  (Accept any other correct characteristic.) (Any 4 x 2) (8)

**5.14 What would producers benefit by producing at a level that allows them to experience economies of scale?**

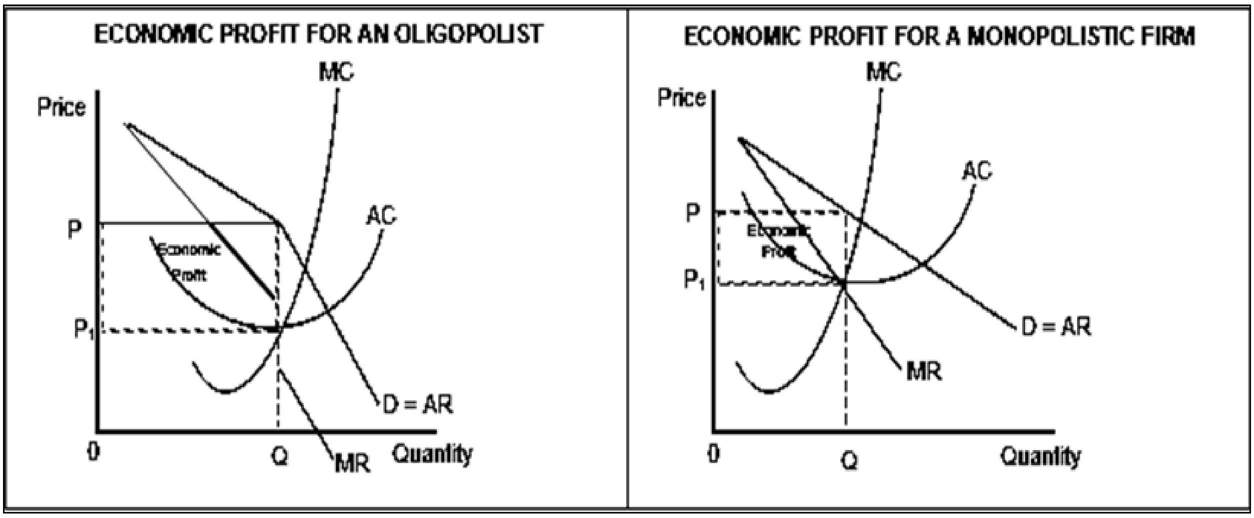
- They produce at the lowest cost per unit. ✓✓
- Fewer inputs are needed to produce the same number of output. ✓✓

- Prevents a situation of producing beyond a certain point, where a company would not be managed efficiently. ✓✓
- Producers often buy in bulk and get discounts. ✓✓
- They have a better ability to invest in advanced technology and new equipment. ✓✓
- They can afford to invest in other important business activities, such as marketing. ✓✓
  (Accept any relevant answers.) (4 x 2) (8)

**5.15 With the aid of** a **formulae explain the relationship between average and marginal revenue when price is constant at all levels of output.**

- Marginal revenue (MR) refers to the additional revenue that the firm gains, if it sells an additional unit. ✓✓
- MR can be calculated as follows: $MR = \frac{\text{Change in total revenue}}{\text{Change in units sold}}$ ✓✓
- In firms where the price is constant, an additional unit sold increases total revenue by the same amount which the same as the price. ✓✓
- Average revenue (AR) is the revenue per unit. ✓✓
- AR is calculated as follows: $\frac{\text{Total revenue}}{\text{Number of units}}$ ✓✓
- Since the price is constant the revenue received for each unit is equal to the price. ✓✓
- Therefore MR and AR are equal to the price. P=MR=AR. ✓✓
- The demand curve is the same as the AR and MR curves. ✓✓ (2x4) (8)

**5.16 With the aid of graphs explain the type of demand curve, type of profit and profit maximizing points of the oligopolist and the monopolistic firm.**



| | |
|---|---|
| Mark allocation: | **Max = 4** |

- Correct naming of both graphs.=2
- Correct indication of economic profit on both graphs. =2
- Correct positioning of the MC and MR on both graphs. =2
- Correct indication of profit maximizing points in both graphs =2
- Correct position and shape of the demand curve of both graphs.=2

| | OLIGOPOLIST | MONOPOLISTIC FIRM |
|---|---|---|
| Demand curve | Kinked | Downward sloping (Relatively elastic) |
| Profit maximizing point | Where MC = MR | Where MC = MR |
| Profit and reason | Economic Profit because AR > AC | Economic Profit because AR > AC |

(Max 4)(8)

**5.17 Compare Perfect competition and the Monopoly in terms of entry and price control**

| PERFECT COMPETITION | MONOPOLY |
|---|---|
| • ENTRY: Very easy✓✓ <br> • PRICE CONTROL: No control over price as it is set by the market✓✓ | • ENTRY: Blocked✓✓ <br> • PRICE CONTROL: Considerable but limited by market demand ✓✓ |

**(4 x 2) (8)**

**5.18 Briefly explain how oligopolies can increase their market share.**

- Oligopolies will use non-price competition to increase market share. ✓✓
- Oligopoly firms tend not to compete in terms of the price of products. ✓✓
- They will use product branding and marketing to gain market share. ✓✓
- Firms in an oligopoly are interdependent. This means that each firm has to consider how the other firms in the industry will react to any decision made. ✓✓
- Businesses try to avoid price competition as this could lower the profitability of the different businesses. ✓✓
- Forms of non-price competition include:
  - Building brand loyalty✓
  - Extended shopping and business hours✓
  - Doing business via the internet✓
  - After-sales service✓
  - Offering additional services✓
  - Loyalty rewards for customers✓
  - Door-to-door deliveries✓

  (Accept any relevant answer. Examples only 1 marks each and max 2 marks)

(4 x 2) (8)

**5.19 Compare the *nature of the product* and *ease of entry*, as characteristics of a perfect market, with that of an oligopoly.**

**Nature of the product:**

- Perfect market goods are homogenous, meaning all goods are identical. ✓✓

- While in an oligopoly goods can be similar, differentiated or heterogenous, meaning goods are branded and have features that are different. ✓✓ (e.g. design) (MAX 4)

**Ease of entry:**

- Entry into and exit out of a perfect market is completely free, meaning there are no barriers to entry. ✓✓
- However, entry into an oligopoly is free but difficult as there are a number of barriers making it harder for firms to enter the market. (e.g. high capital costs). ✓✓ (MAX 4)

(Accept any other correct relevant response)
(Maximum 4 marks for mere listing) (8)

**5.20 Discuss non-price methods to increase market share.**

- To create loyalty to a brand name✓✓
- To have longer shopping and business hours ✓✓
- To do business over the internet (banking and shopping) ✓✓
- To provide good after-sales services ✓✓
- To provide additional services (such as free travel insurance by banks) ✓✓
- To reward customers for loyalty ✓✓
- To offer door-to-door delivery✓✓ (Any 4 x 2) (8)

**5.21 Briefly discuss the demand curve of the monopolist. (4x2)**

- Monopolist demand curve has a negative slope/downward sloping from left to right. ✓✓
- The demand curve is also the market (or industry's) demand curve. ✓✓
- The shape of the curve indicates that there is an inverse relationship between price and quantity demanded. ✓✓
- This means as price increase quantity demanded will decrease/price decrease quantity demanded will increase. ✓✓ (8)

**5.22 Distinguish between TWO types of profit**

**Accounting profit**✓

- Also known as total profit✓✓
- It I s the difference between total revenue from sales and total cost✓✓
- Accounting profit = Revenue minus explicit costs✓✓

**Normal profit**✓

- It is the minimum return required by owners to continue with the business✓✓
- It is the remuneration for entrepreneurship✓✓
- It is included in the total cost of production✓✓
- When revenue is equal to explicit costs plus implicit costs✓✓

**Economic profit**✓

- It is the extra profit that the firm makes✓✓
- Is the profit that the business makes in addition to normal profit✓✓
- It's also known as surplus or excess or extra profit✓✓
- Economic profit = revenue minus explicit costs plus implicit costs✓✓

**5.23 Discuss the characteristics of monopolistic competitor (8)**

- Relatively large number of sellers ✓✓
- This type of competition consists of a large number of seller, who are typically small businesses and no business has total market control ✓✓
- Monopolistic competitors have little control over prices ✓✓
- Competition does not take place through prices, but through differentiated products ✓✓
- Products are differentiated brand loyalty is also important ✓✓

- Differentiated products differ only slightly, and the sellers promote their products as unique products through advertising ✓✓
- Market exit and entry is relatively easy ✓✓
- Ext and entry are relatively easy as there are no legal restrictions or patent rights✓✓
- Buyers and seller have incomplete information ✓✓
- Neither the buyer nor the seller have full knowledge about market conditions as there are many buyers and sellers ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of fact/example)

**5.24 Explain the terms *price makers* and *completely blocked entry* in terms of a monopoly.**

**PRICE MAKERS**

- The monopolist has some control over the price of the product. ✓✓
- They will tend to set the price at such a level that it maximises its own benefit. ✓✓
- While the monopolist is a price maker, this does not imply that it can control both the price and the quantity sold, because it must still take the law of demand into account. ✓✓

(Accept any other relevant correct answer.) (Max 4 Marks)

**COMPLETELY BLOCKED**

- No other firm may enter the market. ✓✓
- The monopoly is normally protected. ✓✓
- Examples of protection: Legislation, patents, licensing, exclusive ownership etc. ✓✓ (Examples 1 mark each – max 2 marks for examples in total)

(Accept any other relevant correct answer.) (Max 4)
(2 x 4) (8)

**5.25 Discuss the impurities in perfect markets**.

-The number of producers is not numerous ✓
-In South Africa, e.g. the private hospital market is dominated by two big businesses ✓
-Goods sold by all producers are not completely identical ✓✓
-Agricultural goods are often graded to create homogeneity ✓✓
-There are costs involved in moving into and out of the market ✓✓
-licences are required to sell food, permits to sell medicines, professional registrations for professionals such as accountants ✓✓ (8)

**5.26 Distinguish between natural and artificial monopolies**.

Natural monopolies

- A monopoly that exists due to the high fixed or starts up costs of conducting a business in a specific industry. ✓✓
- Natural monopolies can arise in industries that require unique raw materials, technology or similar factors to operate✓✓
- A single business in such an industry can serve the whole market at a lower price than two or more businesses together✓✓
- They are frequently owned or regulated by the government
- E.g. Eskom, Transnet ✓ (MAX 4)

Artificial monopolies

- A very large firm that has no advantage in production efficiency over smaller firms but nonetheless manages to drive all of its competitors out of business, training, remaining the sole producer in the industry. ✓✓
- Patents are also encountered in these monopolies ✓✓
- E.g. Microsoft, Google ✓ (MAX 4))

(2 x 4) -= (8)

**5.27 Differentiate between accounting profit and economic profit**

Accounting profit

- Also known as total profit ✓
- It is the difference between total revenue from sales and total costs ✓✓
- Accounting profit =Revenue minus explicit costs ✓✓
- It excludes implicit costs ✓✓ (MAX 4)

Economic profit

- It is the extra profit that the firm makes ✓
- It is profit that business makes in addition to the normal profit ✓✓
- It is known as surplus or excess or extra profit ✓✓
- Economic profit =Revenue minus the sum of implicit and explicit costs ✓✓
- Includes implicit costs ✓ (MAX 4) (8)

**5.28 Distinguish between Fixed costs and Variable costs** (8)

**Fixed costs**

-Remain the same whether the business is producing at capacity or the factories are standing idle ✓✓

-the curve is a horizontal line✓✓

-the curve starts above zero ✓ (MAX 4)

**Variable costs**

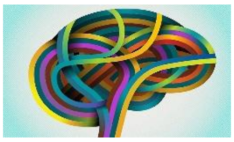
-They change with the level of output ✓✓

-curve is upward sloping ✓✓

- the curve starts at zero (MAX 4)

**5.29 Discuss the characteristics of monopolistic competition.**

- There are many competitors some of which are large ✓✓
- Entry into the market is not difficult but is restricted by modest entry costs mainly overheads. ✓✓E.g. licences and qualifications✓
- Product differentiation prevails. Brand names are articulated ✓✓
- There is no price competition✓. Competitors compete through advertising, good customer service and service differentiation ✓✓
- Information is incomplete ✓ (8)
- 



TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**QUESTION 6** **Paragraph type questions – Higher cognitive**

### 6.1 How can changes in the product market effect the factor market?

- Any change in the demand and supply of a product will affect the market of that product. ✓✓
- Prices and quantities will change and the market for the factors of production involved in the production of that product will also change. ✓✓
- If the demand for a product increases, that will lead to an increase in the price of that product in the market and an increase in price will make it more profitable for producers to supply that product. ✓✓
- If the suppliers want to supply more of that product, they are going to need more factors of production (land, labour, capital) which they must get from the factor market. ✓✓
- A change in the demand and supply in the goods market will lead to a change in the demand and supply in the factor market. ✓✓
- For example, if there is a move from eating 'junk food' (e.g. pizzas and hamburgers) towards more health-conscious habits such as exercising. ✓✓

(Accept any relevant correct explanation.) (2x4) (8)

### 6.2 How can fast food outlets, namely KFC and Nando's, compete without using market price?

- KFC uses limited meals or combo's and promotions such as the dunked burger to attract more customers, ✓✓ and introduces new permanent food items to the menu so that existing customers will have a wider variety to choose from. ✓✓
- Nando's uses controversial advertisements to create brand loyalty and to pique customer interest. ✓✓
- Both Nando's and KFC specialize in chicken however KFC provides a variety of chicken meals such as nuggets, burgers, pieces etc. creating a wider variety of chicken options to choose from. ✓✓
- Recently, Nando's introduced burgers and wraps to their menu in order to compete with KFC's variety of options. ✓✓
- Nando's also introduced a vegetarian option (veggie wraps and burgers) to appeal to the vegetarian market share. ✓✓
- Nando's has always sold spicy chicken and owned the market share of people who prefer spicy chicken ✓✓ but recently, KFC introduced a spicy version of their batter to gain customers from Nando's who prefer spicy chicken. ✓✓
- Nando's added Lemon and Herb and BBQ flavours to their chicken to gain the market share of people who do not like spicy chicken. ✓✓
- Nando's sells healthier fast-food chicken because their chicken does not have a crumbed crust around it and they offer rice and vegetables as possible meal combos. ✓✓
- KFC's crumbed crust recipe is a secret, and they promote it in this way to create curiosity among consumers. ✓✓

- KFC introduced a drive-through option to make it more convenient for consumers to buy their product and in recent years, Nando's has followed this trend and now also has a drive-through option. ✓✓
- Nando's released their signature sauces to shops which is available for consumers to purchase and use at home, meaning they can get a taste of Nando's with home cooking. ✓✓
- Nando's is a South African franchise, and they could use this to their advantage by promoting the proudly South African campaign. ✓✓
- Both KFC and Nando's offer store delivery as well as arrangements with Mr Delivery and Uber Eats to create ease of access to their food. ✓✓
- Neither of these two fast food outlets have special kids' meals and toys to attract people with children but it would advantage them if they do so as other franchises have had great success with this method. ✓✓
- KFC has the 'Add Hope' campaign where customers can donate R2 to feed children in poverty, appealing to the humanitarian side of consumers. ✓✓

(Accept any other correct relevant response) (8)

**6.3 Examine the positive impact of competition on markets**

- Promoting competition yields the best allocation of resources, lowest prices, highest quality and the greatest material progress. ✓✓
- Competition improves productivity and international competitiveness of markets and promotes dynamic markets and economic growth. ✓✓
- Markets faced with vigorous competition are continually forced to become more efficient and more productive. ✓✓
- They know that their competitors are constantly seeking ways to reduce costs in order to increase profits. ✓✓
- Competition results in markets being innovative because innovation is crucial to success. ✓✓
- Innovation leads to new products and new production technologies being developed. ✓✓
- Competition allows new firms to enter into the market usually dominated by few firms. ✓✓
- Competition forces decisions to be based on market factors such as demand, costs, technologies rather than incomplete information. ✓✓ (8)

**6.4 How would collusion between companies negatively impact on the consumers?**

Collusion impacts negatively on the consumer because:

- It increases the price of goods and services ✓✓
- It decreases the quantity supplied, this leads to shortage or scarcities✓✓
- It leads to ineffective use of factors of production, leading to wastage, productive inefficiencies ✓✓
- It leads to creation of monopolies✓✓
- It leads to allocative inefficiencies – incorrect combination of product supplied to satisfy needs and wants✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of fact/example)(4 x 2) (8)

**6.5 How do legal barriers prevent new businesses from entering a specific type of market?**

- Monopolies are protected by law when the national government argues that it is in the best interest of society/ public ✓✓
- Mail service – single price stamp will guarantee delivery anywhere in the country ✓✓
- Monopoly enables cheap local deliveries to remote places✓✓
- Teachers, doctors, lawyers belong to professional bodies to ensure a standard – it is a type of monopoly✓✓
- Patents, copyright, intellectual property – new ideas cannot be pirated✓✓ (4 x 2) (8)

(8)

**SECTION C**

| |
|---|
| **HINT:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one. |

ESSAY STRUCTURE

**HINT: Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:**

| **STRUCTURE OF ESSAY:** | **MARK ALLOCATION:** |
|---|---|
| **Introduction**<br>**The introduction is a lower-order response.**<br>• **A good starting point would be to the main concept related to the question topic**<br>• **Do not include any part of the question in your introduction.**<br>• **Do not repeat any part of the introduction in the body**<br>• **Avoid saying in the introduction what you are going to discuss in the body** | **Max 2** |
| **Body:**<br>**Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate**<br>**Additional part: Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest/ Construct a graph** | **Max 26**<br><br>**Max 10** |
| **Conclusion**<br>**Any Higher or conclusion include:**<br>• **A brief summary of what has been discussed without repeating facts already mentioned in the body**<br>• **Any opinion or value judgement on the facts discussed**<br>• **Additional support information to strengthen the discussion/analysis**<br>• **A contradictory viewpoint with motivation, if required**<br>• **Recommendations** | **Max 2** |
| **TOTAL** | **40** |

[40]

**QUESTION 7**

**(MARKET STRUCTURES) 40 MARKS**

- Discuss in detail the characteristics of a perfect market. (26)
- Examine the positive impact of competition on markets. (10)

  A maximum of 8 marks allocated for headings/sub-headings and examples)

**INTRODUCTION**

A perfect market is a hypothetical model of a market where there is no single consumer or producer that has an impact on the market price. Buyers and sellers have no preference where to buy or sell the product because the products are the same. ✓✓

**(Accept any other correct response.)(2)**

**MAIN PART**

**CHARACTERISTICS OF A PERFECT MARKET**

**Number of buyers and sellers** ✓

- The number of buyers and sellers is so large that individual market participants are insignificant in relation to the market as a whole**.** ✓✓
- No individual buyer or seller has an influence on the market price in that everyone is a price-taker**.** ✓✓

**Nature of the product** ✓

- All products sold in the specific market are homogenous. ✓✓
- They are the same in all respects regarding quality, appearance and any distinctive characteristic. ✓✓
- It makes no difference to the buyer where or from whom to buy the product. ✓✓

**Freedom of entry and exit** ✓

- There are no factors limiting the producer's decisions to enter or leave the market. ✓✓
- Enterprises are free to enter the market where there are opportunities of making profits and free to withdraw where losses are occurring. ✓✓
- The market is totally accessible, there are no legal, financial nor technological barriers that can hinder entry and exit. ✓✓

**Mobility of factors of production** ✓

- All factors of production are totally mobile as they can freely move between markets without any limitations. ✓✓
- Labour can move between jobs at any time. ✓✓
- Producers have access to production technology and resources, no producer pays more for a factor of production than the other. ✓✓

**Perfect knowledge** ✓

- Buyers have complete knowledge about the prices, quality and availability of goods and services. ✓✓
- Sellers have complete knowledge about production costs and market opportunities. ✓✓
- If one business ventures to raise its price above the market price, buyers will immediately become aware of it and would switch their purchases to businesses still charging the lower market price. ✓✓

**No collusion** ✓

- Collusion does not occur in a perfect market because sellers act independently of the others. ✓✓

**Unregulated market** ✓

- Buyers and sellers are not influenced by government intervention. ✓✓

**(Allocate a maximum of 8 marks for listing of facts and examples.)**

**(Accept any other relevant correct response.)**(26)

**ADDITIONAL PART**

**Competition has a positive impact on the markets because:**

- Promoting competition yields the best allocation of resources, lowest prices, highest quality and the greatest material progress. ✓✓
- Competition improves productivity and international competitiveness of markets and promotes dynamic markets and economic growth. ✓✓
- Markets faced with vigorous competition are continually forced to become more efficient and more productive. ✓✓ They know that their competitors are constantly seeking ways to reduce costs in order to increase profits. ✓✓
- Competition results in markets being innovative because innovation is crucial to success. ✓✓ Innovation leads to new products and new production technologies being developed. ✓✓
- Competition allows new firms to enter into the market usually dominated by few firms. ✓✓
- Competition forces decisions to be based on market factors such as demand, costs, technologies rather than incomplete information. ✓✓

  (Accept any other relevant correct response.) **(5 x 2) (10)**

## CONCLUSION

Perfect markets are really rare to find and they serve as a benchmark for the imperfect markets. ✓✓

**(Accept any other relevant high order conclusion.)(2)**

**[40]**

**QUESTION 8**

**(MARKET STRUCTURES) 40 MARKS**

- Discuss in detail the characteristics of a perfect market. (26)
- Briefly highlight how the perfect market differs from that of a monopolistic market. (10)

  A maximum of 8 marks allocated for headings/sub-headings and examples)

**QUESTION 9**

**(MARKET STRUCTURES) 40 MARKS**

- Discuss in detail the characteristics of a perfect market (26)
- Examine the positive impact of competition on markets. (10)

**QUESTION 10**

- Discuss the FOUR broad types of market structures. (26
- Determine which market structure KFC operates in and give a reason for your answer. Draw a graph that shows economic profit for KFC. (10)

**QUESTION 11**

- Discuss in detail the characteristics of an oligopoly. (26 marks)
- Use a graph and explain why oligopolists are reluctant to compete on prices. (10 marks)

**Introduction**
The oligopoly is a market structure dominated by a few large firms.✓✓
**(Any other relevant definition)(Max. 2)**

**Body**

**MAIN PART**
**Number of businesses**: ✓
- A few big firms dominate the market in an oligopoly. ✓✓
- If there are only two firms in the market, it is called a *duopoly*.✓✓

**Nature of the product**: ✓
- The product may be identical or differentiated. ✓✓
- If the product is homogeneous, the market is a pure oligopoly. ✓✓
- If the product is differentiated the market is called a differentiated oligopoly.✓✓

**Entry**: ✓
- New producers have free entry to an oligopolistic market, although this is not easy as illustrated by the fact that there are only a few businesses in the market. ✓✓
- Firms under oligopoly advertise extensively and this in itself is a barrier to entry to other firms. ✓✓
- Advertising is very expensive and firms who cannot afford to do so will lag behind in competition. ✓✓

**Interdependent decision-making**: P
- Firms in an oligopoly are interdependent in their decision-making, because there are so few competitors in the market. ✓✓
- Any decision and actions of one will have a direct effect on the profits of the others, who will retaliate by changing prices and output. ✓✓
- In an oligopoly a firm not only considers the market demand for its product, but also the reactions of other firms to its price and output policies.✓✓

**Price control / market power**: ✓
- There are limited competitors in an oligopoly which makes firms price- makers. ✓✓
- The oligopolist has limited but fierce competitors, and must therefore consider their possible reaction. ✓✓
- An oligopoly is characterised by price rigidity, because if one firm cuts

their price, rival firms retaliate by cutting theirs as well. ✓✓

**Price and profits**: ✓

- Prices of goods and services are higher in general in imperfect markets than in perfect competition. ✓✓
- Oligopolies develop brand loyalty amongst their customer base and they are able to generate economic profit. ✓✓

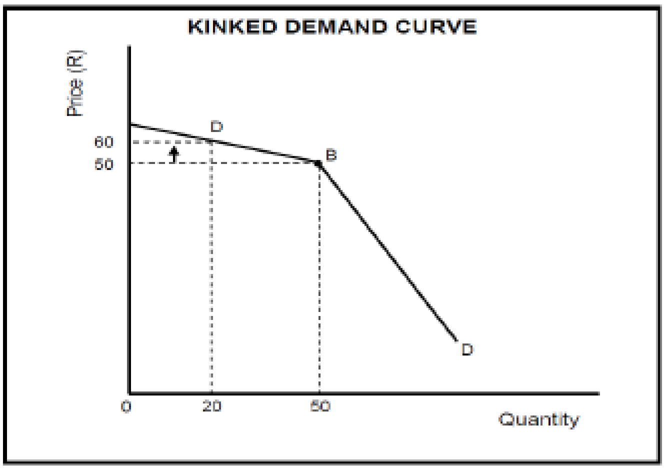
**Market concentration**: ✓

- Market concentration refers to the number of firms and the size of their market share. ✓✓
- For example, a four firm concentration ratio of 80% illustrates the market is highly concentrated. ✓ Other, smaller firms comprise the rest of the market. ✓

**(Max of 8 marks for headings and examples and listing)**

**(Max. 26)**

**ADDITIONAL PART**
**Use a graph and explain why oligopolists are reluctant to compete on prices.**
**(Max. 10)**




| |
|---|
| Labeling on the axes (1)<br>Labelling of the axes (1)<br>Correcet shape top – elastic (1)<br>Correcet shape bottom – inelastic (1) |

**(Max. 10)**

**Conclusion**

An oligopoly is the only market structure where collusion can occur.✓✓
(Any other relevant conclusion) **(Max. 2**

**QUESTION 12**

- **Discuss the Oligopoly as an imperfect market structure and pay specific attention to its characteristics and general behaviour.** **(26)**
- **Why is collusion among Oligopolists illegal?** **(10)**

**[40]**

## INTRODUCTION

- An Oligopoly is an industry that is dominated by a few sellers and entry is difficult (2)

## BODY

- Many mathematical and graphical models of this market structure exist, however not one is generally accepted. ✓✓
- Only a small number of large businesses dominate the market. ✓✓
- Intense competition can occur which sometimes result in collusion. ✓✓

**Kinds of goods ✓/ Nature of the goods ✓**

- Most of the times homogenous goods ✓
- Either differentiated goods ✓ such as motorcars and newspapers✓ or
- Identical goods ✓ such as steel and cement ✓ are produced

**Barriers ✓**

- Barriers to entry are considerable ✓✓

**Pricing ✓**

- Is done interdependently ✓✓
- Pricing of one firm affects the pricing decisions of the others ✓✓
- Each business must monitor and respond to the pricing and production decisions of the other enterprises ✓✓ This is critical ✓✓

**Slope of the demand curve ✓**

- It can be horizontal, or it can be kinked ✓✓

**Slope of the supply curve ✓**

- Upward sloping ✓

**Production levels ✓**

- Will produce where MR = MC ✓
- Price setting differs ✓
- AR = AC = Sometimes price makers/ price leaders ✓

**Control over price ✓**

- Considerable, but less than the monopoly ✓

**Profits ✓**

- Normal profits are made unless they collude ✓

**MAX 8 MARKS FOR HEADINGS** **(26)**

## ADITIONAL PART

- According to the law, collusion is illegal in South Africa ✓✓
- The law is administered by the Competition Commission to check uncompetitive behaviour ✓✓
- However, in order to reduce the uncertainty in the market, businesses are tempted to collude to reduce competition ✓✓/ Strong incentives to collude ✓✓
- Hence the laws, to prevent collusion but to promote competition ✓✓
- When collusion occurs monopoly conditions enter ✓✓
- That is why we find price leaders in an oligopoly market where the business with the largest share sets its prices according to its own cost and revenue conditions and other businesses will follow the price movements of the price leaders ✓✓□ (10)
- (Accept any other correct relevant response)

**CONCLUSION**

- If an Oligopolist decides to sell its product at a price below or above the fixed price, consumers only buy from another supplier and the Oligopolist will not make a profit. Accept any relevant answer. (2)

**[40]**

**QUESTION 13**

- **Compare in detail, the features of a monopoly with those of monopolistic competition.** (26 marks)
- **Why would government support or license monopolies?** **(10 marks)**

**[40]**

**INRODUCTION**

Any market that does not have all the characteristics of a perfect market is called an imperfect market. This is also the case with monopolies and monopolistic markets. ✓✓
(Accept any relevant definition.) **(Max 2)**

| **BODY: MAIN PART CHARACTERISTICS** | **MONOPOLY** | **MONOPOLISTIC COMPETITION** |
|---|---|---|
| Number of firms in an industry | A **single supplier** or firm ✓ e.g. Eskom. ✓ There is no competition. One business in the market controls the supply of the goods and services. ✓✓ | A **large number of firms or suppliers**✓ e.g. KFC, Nandos and Tagos. ✓ There is an element of competition. ✓✓ |
| Product ✓ | A **unique product** is produced. ✓ There are no close substitutes. ✓✓ The product cannot be easily replaced. ✓✓ Consumers have no choice in price and quality of the product. ✓✓ | Differentiated products, ✓ are similar but not identical. ✓✓ They are similar in that they satisfy the same needs of the consumer. ✓✓ There may be differences in packaging, but the product is the same. ✓✓ |
| Freedom to enter and exit the market ✓ | There **are barriers to entry**. ✓ Entry into the market is completely blocked. ✓✓ The barriers are caused by patents and other forms of intellectual property rights. ✓✓ | **Easy entry into the market**. ✓ There is complete freedom of entry and exit into the market. ✓✓ |
| Slope of the demand curve ✓ | **Downward sloping demand curve** for the firm ✓ and the same curve for the industry. ✓✓ It is also inelastic. ✓✓ | **Downward sloping demand curve for the industry**, ✓ and it is elastic. ✓✓ |
| Control over price ✓ | The firm is a **price maker** ✓ The monopolist is able to influence the market through changing the quantities it supplies to the market. ✓✓ | **Firms have little control over the price.** ✓ Each business sells at its own price. ✓✓ since a single price, cannot be determined for the differentiated product ✓✓ |
| Relative market share ✓ | Total market belongs to one firm. ✓ | Relatively small share of the total market ✓✓ |

| | | |
|---|---|---|
| Information ✓ | There is perfect knowledge and information is complete. ✓✓<br>Max 13 | Information is incomplete. ✓✓<br>Max 13 |

**ADDITIONAL PART**
**Explain why the government would support monopolies.**

- To protect the intellectual skill and rights of the producer. ✓✓
- Some products are very dangerous for there to be too many companies producing or providing the service; there needs to be a level of accountability. ✓✓
- To motivate the producer to continue with the skill, grow the company and employ more people. ✓✓
- From the economic profits made, government to get more revenue in terms of tax. ✓✓
- To be able to monitor the company, especially if it provides an essential service like electricity, i.e. price, provision of electricity to all, e.g. in rural areas and the consistency in doing that.✓✓

(Accept relevant correct explanations (10)

**QUESTION 14**

- **Compare the market structure of a perfect with that of a monopoly (detail) using the characteristics. ( No graphs required) (26 marks)**
- **With reference to the graphs, explain how the price formation process takes places in the perfect market. (10 marks)**

Introduction
A market structure are the different levels and forms of competition. ✓✓
OR
A market is any organisation that brings buyers and sellers together. ✓
(Accept any other relevant introduction)

Body/ Main Part

1. Number of buyers and sellers ✓

Perfect market:

- There is a large number of buyers and sellers. ✓✓
- It should not be possible for one buyer or seller to influence the price. ✓✓
- When there are many sellers , the share of each sellers 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. ✓✓

Monopoly:

- There is only one seller of the product. ✓✓

2. Nature of the product ✓

Perfect market:

- Products are homogeneous/ identical. There should be no difference in style, design and quality. ✓✓

- Products compete solely on the basis of price and can be purchased anywhere. ✓✓
- Products have close substitutes. ✓✓ E.g butter and margarine ✓

Monopoly

- The product is unique. ✓✓
- The product does not have close substitutes. ✓✓
- The product cannot be easily replaced by another product or service. ✓✓
- The consumer can only buy from the monopoly or will have to go without the product. ✓✓

3. Barriers to entry ✓

Perfect market

- There is freedom of entry and exit. ✓✓
- No laws, permits, or regulations that may prohibit new firms to enter the market.✓✓
- New producers are not restricted by high set-up costs. ✓✓

Monopoly

- Other producers are unable to supply the same product as there are barriers to entry. ✓✓
- Examples are: natural barriers such as geographical area, licensing, patent rights, legal restrictions. ✓

4. Availability of information ✓

Perfect market

- All participants have complete and accurate information about market conditions✓✓
- All buyers and sellers know what quality of goods are available, what the market prices are and how to produce the product. ✓✓
- Buyers know the characteristics of the producers, how much they should pay and where they could buy the product. ✓✓

Monopoly

- Complete market information exists. ✓✓
- All buyers and single seller have full knowledge of all the current market conditions, ✓✓ however new firms intending to enter the market will not have the same information available to them. ✓✓

5. Collusion ✓

Perfect markets

- Collusion occurs when buyers and sellers make an agreement to limit competition. In perfect markets no collusion takes place. ✓✓

- Buyers and sellers base their action solely on price, homogenous products fetch the same price. ✓✓

Monopoly

- Collusion is impossible in monopoly market, because there is only 1 supply ✓✓.

6. Free Competition ✓

Perfect markets

- Buyers and sellers are free to buy whatever they want from any firm and in any quantity. ✓✓
- Sellers must be free to sell what, how much and where they wish. ✓✓
- There should be no state intervention and no price control. ✓✓

Monopoly

- There is no competition. One business in the market controls the supply of goods and services. ✓✓

7. The demand curve ✓

Perfect market

- An individual firm has a horizontal demand curve as the individual firm has no influence over the price. ✓✓
- An industry in a perfect market has a downward sloping demand curve. ✓✓

Monopoly

- The monopolist's demand curve is downward sloping as the single firm is the whole market. ✓✓

8. Profits ✓

Perfect market

- A perfect competitor can make normal or supernormal (economic) profit in the short run or a loss. ✓✓
- Only normal profits can be made in the long run. ✓✓

Monopoly

- A monopolist makes economic profit in both short run and long run. ✓✓

(26)

**Max 8 for headings**
**Max 8 for perfect markets and 1 for example = 9**
**Max 8 for Monopoly and 1 mark for example = 9**
Additional Part:

- The market forces of demand and supply determines the prices at R10 and Quantity at 100. ✓✓

- The sellers are too insignificant to influence the market price, hence they are price takers. ✓✓
- Each individual producer is forced to sell his goods at R10. ✓✓
- Thus the demand is horizontal or perfectly elastic. ✓✓
- The individual producer will not increase his price above R10 because he will lose customers to his competitors. ✓✓
- The individual producer will not decrease his price to below R10 as he is able to sell all his products at market price. ✓✓

(Accept any other correct relevant response) Max = (10)

Conclusion:
A perfect market structure has the extreme largest number of producers (many) and monopoly has the extreme smallest number of producers (single). In reality there is no such thing as pure monopoly or a perfect market. There are quasi monopolies and perfect markets has its own impurities. ✓✓
( Any relevant conclusion (higher order)

**QUESTION 15**

- **Compare the market structure of an oligopoly with that of a monopoly (in detail) using the characteristics. ( No graphs required) 26 marks)**
- **With the aid of a graph, explain fully the graph of an oligopolist. (10 marks)**

Introduction
- A market is all the parties that influence the price of a good or service giving rise to different levels and forms of competition. ✓✓

Main Part/ Body
Characteristics
1.Number of participants✓
Oligopoly
-Only a few large sellers of the same product dominate the market. ✓✓
-Examples are: cement, banks and mobile service providers ✓

Monopoly
-There is only one seller. ✓
-The seller completely controls the supply of goods and services to the market. ✓✓
-For example Eskom ✓

2. Nature of the product ✓
Oligopoly
-Products can be homogenous or differentiated. ✓✓
Examples of homogeneous products are in an oligopoly are oil, petrol or bread industry ✓
-If products are homogenous the market is known as a pure monopoly. ✓✓
- Oligopoly markets with differentiated products are known as differentiated oligopoly. ✓✓
-Examples of differentiated products are, cars and cell phones ✓
-Products of oligopoly market structure have close substitutes. ✓✓

-The consumer has a choice in price, quality or supplier from whom to buy the product. ✓✓

Monopoly
- The product is unique. ✓✓
- The product or service has no close substitute. ✓
- For example diamonds ✓
- The consumer has no choice in price, quality or supplier as there are no close substitutes. ✓✓

3.Barriers to entry and exit ✓

Oligopoly
-Entry into the market is limited. ✓✓
-New producers can have difficulty in entering the market because of natural barriers to entry. For example, large capital requirements. ✓✓
- Cell phone industry has artificial barriers. The service provider is required to be licensed in order to operate. ✓

Monopoly
-Entry into the market is completely blocked. ✓✓
- Examples or barriers to entry natural barriers such as geographical area, natural resources, artificial such as licensing and legal restrictions. ✓
-A monopoly that exists as a result of natural barriers is known as a natural monopoly. ✓✓
-Natural monopolies are often owned by the government. ✓✓
- A monopoly that exists as a result of artificial barriers is known as artificial monopoly. ✓✓

4.The availability of information ✓

Oligopoly
-Buyers and sellers have incomplete information ✓✓
-Buyers and sellers do not have full knowledge of prevailing market conditions ✓✓
- Oligopolists watch each other closely, but they don't always know how buyers and competitors will react

Monopoly
-Buyers and the single seller have full knowledge of all the current market conditions. ✓✓

5. The demand curve

Oligopoly
- Oligopoly firms have a kinked demand curve. ✓✓

Monopoly
- Monopolist represent the whole industry therefore the demand curve is downward sloping. ✓✓

6. Price control

Oligopoly
-An oligopolist has a considerable control over prices resulting in high prices and profits. ✓✓
- Prices in price by one business others will follow suit. A price decrease by one firm can initiate price war. ✓✓

Monopoly
-A monopolist has full price control. ✓✓
-Prices can be influenced through changing the quantity supplied to the market. ✓✓

7. Interdependency ✓

Oligopoly
-Each seller is influenced by the decisions of other sellers. ✓✓
-Competitors may react in different ways to a price reduction by a competitor. ✓✓

-The general behavior of oligopolists cannot be predicted with certainty. ✓✓

8.Collusion ✓

Oligopoly

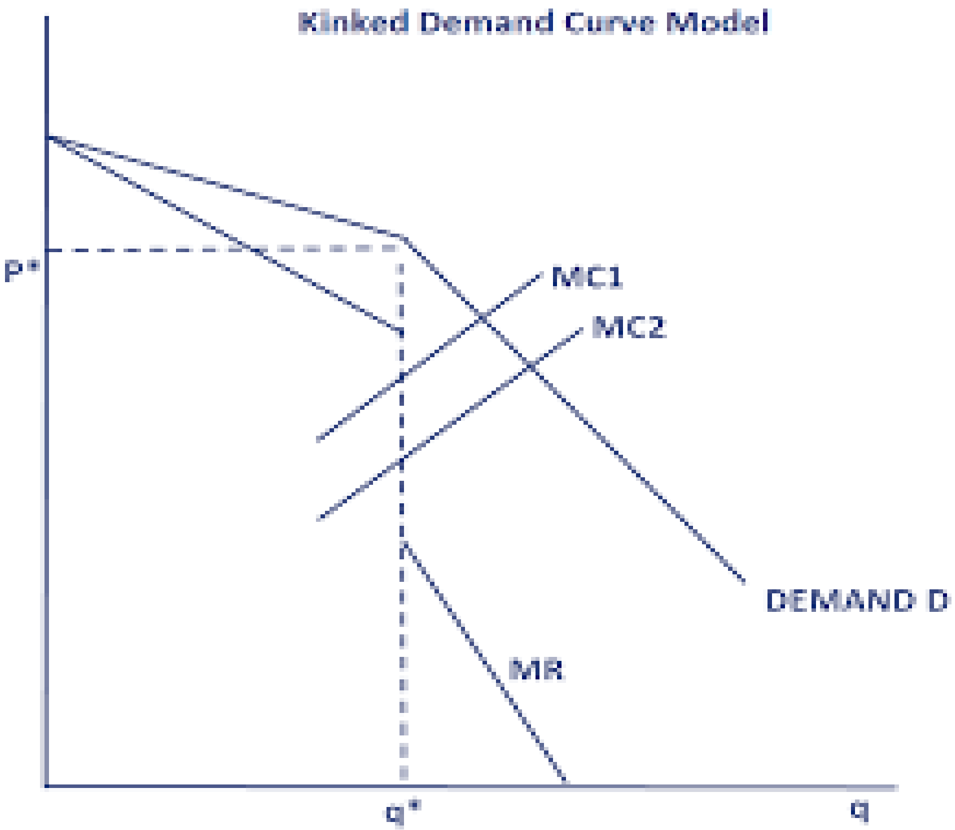
- No business in an oligopoly can be ever sure about the policy and behavior of its competitors, therefore the market is full of uncertainty. ✓✓
- Sellers collude to eliminate the uncertainty. ✓✓

Monopoly

-Collusion is impossible as there is a single producer with the powers to influence the price. ✓✓
(26)

**Max 8 for headings**
**Max 8 for oligopoly and 1 for example = 9**
**Max 8 for Monopoly and 1 mark for example = 9**

Additional Part




Mark allocation
Heading of the graph – 1 mark
Correct position of MR- 1 mark
Correct AR/D curve – 1 mark
Correct position of MC- 1 mark Max – 4marks

Explanation
-The equilibrium price is p. ✓✓
-When an oligopoly increases the price, its competitors do not follow and consumers buy from cheaper competitors. ✓✓
-A small change in price will cause a large change in quantity demanded. This is represented by the upper part of the demand curve.( Demand curve above price p)
-A decrease in demand by the competitor, other competitors will also decrease their prices. ✓✓
-The decrease in price will cause a small change in quantity demanded as all competitors will have decreased their prices. ✓✓
- An oligopoly produces quantity where MR = MC and this quantity is in a region where MR is broken. ✓✓
- It does not make a difference in price to produce quantity of MC1 or MC2. ✓✓ Max 6
(10)

Conclusion
Both oligopoly and monopoly are imperfect markets where competition is not very healthy. The competition in these market structures is monitored using the Competition Act policies. ✓✓ Max 2
(Any relevant conclusion (higher order

# MICROECONOMICS

## TOPIC 3: ELASTICITIES
## (WEEK 5 TO 6)

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 B income ✓✓
1.1.2 C move in the same direction as price. ✓✓
1.1.3 D total satisfaction gained by adding up all utils. ✓✓
1.1.4 C inelastic ✓✓
1.1.5 B elastic ✓✓
1.1.6 D less than 1 ✓✓
1.1.7 C completely inelastic ✓✓
1.1.8 A price ✓✓
1.1.9 C total ✓✓
1.1.10 B inelastic ✓✓
1.1.11 A income ✓✓
1.1.12 D Increase in risk ✓✓
1.1.13 A elastic ✓✓
1.1.14 B utility ✓✓
1.1.15 B inelastic✓✓
1.1.16 A income✓✓
1.1.17 B cross✓✓
1.1.18 B luxury ✓✓
1.1.19 A price elastic supply✓✓
1.1.20 B the law of diminishing returns. ✓✓

**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 –1.2.10) in the ANSWER BOOK.**

1.2.1 J ✓
1.2.2 E ✓
1.2.3 A ✓
1.2.4 F ✓
1.2.5 B ✓
1.2.6 G ✓
1.2.7 H ✓
1.2.8 D ✓
1.2.9 I ✓
1.2.10 C ✓

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. *No abbreviations, acronyms and examples will be accepted.***

1.3.1 Cross elasticity ✓
1.3.2 Relative price ✓

1.3.3 Total utility ✓
1.3.4 Economies of scale ✓
1.3.5 Perfectly inelastic demand ✓
1.3.6 zero-income elasticity of demand ✓
1.3.7 Price elasticity of demand ✓
1.3.8 Value ✓
1.3.9 The law of supply ✓
1.3.10 Normal good ✓
1.3.11 The cross elasticity of demand ✓
1.3.12 Unit elasticity ✓
1.3.13 Marginal costs ✓
1.3.14 the law of demand ✓
1.3.15 inferior goods ✓
1.3.16 unitary elasticity✓

**SECTION B**

**QUESTION 2:**

| |
|---|
| **HINT:** When the question requires you to "list" or "name", you need not write a sentence but merely one or two words. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1 |

**2.1.1 List any TWO ways a firm can increase its scale of operations.**

- Internal growth/ organic growth ✓
- External growth/integration ✓

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

**2.2 Name any TWO determinants of the price elasticity of demand.**

- Substitution possibilities. ✓
- The degree of complementarity of the product. ✓
- The type of want satisfied by the product. ✓
- The time period under consideration. ✓
- The proportion of income spent on the product. ✓
- The definition of the product. ✓
- Advertising. ✓
- Durability ✓
- Number of uses of the product. ✓
- Addiction ✓

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

**2.3. State any TWO degrees of price elasticity of supply.**

- Perfectly Elastic Supply. ✓
- Perfectly Inelastic Supply. ✓
- Relatively Elastic Supply. ✓
- Relatively Inelastic Supply. ✓
- Unitary Elastic Supply. ✓

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

**2.4 Give TWO factors influencing the price elasticity of supply.**

- Number of suppliers in the market ✓
- Time taken to produce the product ✓
- Nature of the product and durability ✓

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

**2.5 List any TWO factors determining the price elasticity of demand**

- Availability of close substitutes ✓
- Nature of products ✓
- Habit forming products ✓
- Proportion of income spent on the products ✓
- Durability of the product ✓
- Time ✓
- Possible uses ✓
- Degree of necessity or luxury ✓ (2 x 1) (2)

**2.6 List any TWO categories of price elasticity of demand.**

- Perfectly elastic demand ✓
- Elastic demand ✓
- Unitary elastic demand ✓
- Inelastic demand ✓
- Perfectly inelastic demand ✓ (Any 2 x 1) (2)

**2.7 Name any TWO types of supply elasticity.**

- Perfect elastic supply✓
- Relative elastic supply✓
- Relative inelastic supply✓
- Perfect inelastic supply✓ (Any 2 x 1) (2)

**2.8 List any TWO factors that influence the elasticity of demand.**

- Availability of substitutes✓
- Time period✓
- Degree of necessity of luxury□✓
- Proportion of income spent on the product✓
- Type of the product✓ (Any 2 X 1 = 2)

**2.9 Name any TWO features of utility.**

- It is abstract✓
- It is subjective✓
- Varies from one person to the other✓
- Differs from one situation to the next✓ (Any 2 x 1) (2)

**QUESTION 3:**

| |
|---|
| **HINT:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2 |

**3.1 How does scarcity impact on total utility?**

One must choose which goods and services to buy with their limited resources in order to get maximum satisfaction. ✓✓ (1 x 2)

**3.2 Why is it important for businesses to evaluate price elasticity of demand?**

Businesses evaluate price elasticity of demand for various products to help predict the impact of a pricing on product sales ✓✓
(Accept any other relevant correct answer) (1 x 2)

**3.3 What effect does a price elastic demand have on a producer, should the price of a product increase?**

- The quantity demanded decreases leading to a decrease in total revenue. ✓✓
- It will be easy for the consumer to substitute the expensive product for a cheaper product and the producer will lose customers. ✓✓

(Accept the opposite, that is, the effect of decrease in price.) (1 x 2)

**3.4 Why are productively efficient firms make use of cost curves in perfectly competitive market?**

Productively efficient firms use these curves to find the optimal point of production minimising cost and profit maximising firms can use them to decide output quantities to achieve those aims. ✓✓
(Accept any other relevant correct response) (1 x 2)

**3.5 Why is the cross elasticity of demand important?**

It measures the responsiveness of the quantity demanded for a good to a change in the price of another good, ceteris paribus. ✓✓
(Accept any other relevant correct answer) (1 x 2)

**3.6 Why is the quantity demanded of habit-forming products, price inelastic?**

It is because consumers are used to these products, in so much that they believe that they cannot survive without them.
(Accept any other relevant correct response) ✓✓ (1 x 2)

**3.7 How does durability affect elasticity of demand?**

The more durable the good, the more the elastic the demand will tend to be, ceteris paribus. ✓✓
(Accept any other relevant correct response) (1 x 2)

**3.8 What happens to the quantity demanded if the income elasticity of demand is 2 and income increases by 7%?**

Demand will increase. ✓✓ (1x2)

**3.9 Why would a producer of a product with a unitary price elastic demand not use price to increase profits?**

The producer will not increase price as the demand will equally reduce and no additional revenue will be generated ✓✓ (1x2)

**3.10 What price elasticity would a supply curve have if it intercepts the horizontal (quantity) axis?**

Perfect inelastic supply ✓✓ (1x2)

**3.11 What effect does a price elastic demand have on a producer?**

Should the price of a product increase:

- The quantity demanded decreases leading to a decrease in total revenue ✓✓
- It will be easy for the consumer to substitute the expensive product for a cheaper product and the producer will lose customers ✓✓

(Accept the opposite, that is. The effect of decrease in price) (1x2)

**3.12 How would a firm benefit from considering the price elasticity of demand before changing prices?**

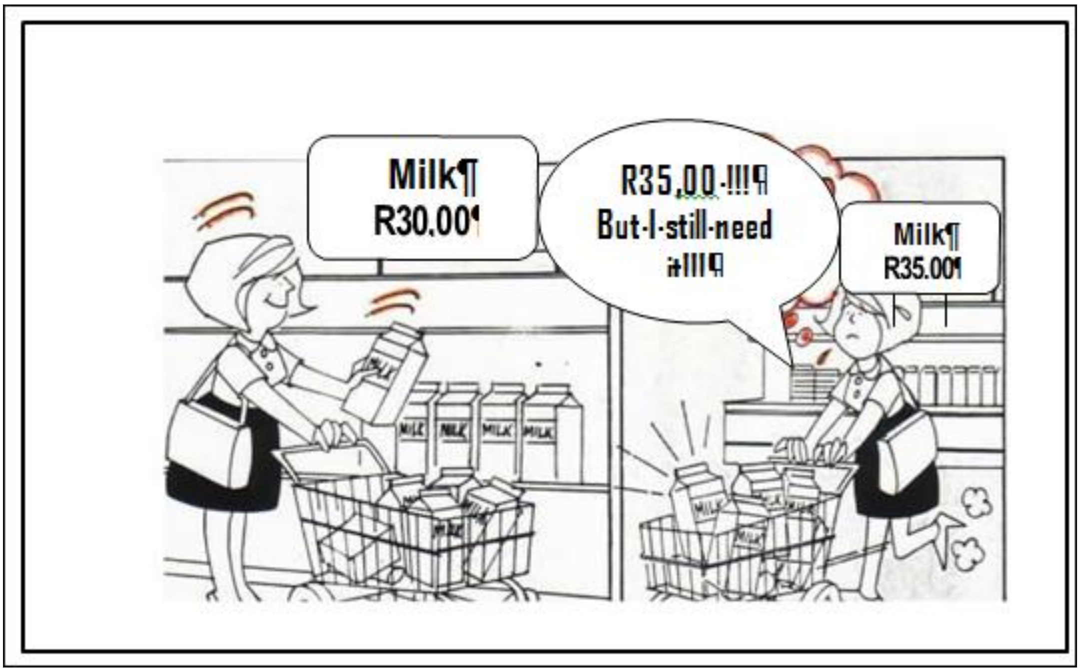
- A firm will benefit by making correct price changes according to the demand of consumers. This ensure that their profit remain stable and that they do not lose customers due to overcharging. ✓✓ (1x 2)

**DATA RESPONSE**

| |
|---|
| **HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document |

**QUESTION 4:**

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




4.1.1 **Identify the phenomenon depicted by the cartoon.**
- Price elasticity of demand / inelastic demand ✓ (1)

4.1.2 **Name ONE example of normal goods.**
- Any product that is competitive in consumption and exclusive e.g. Medical Services ✓ (Any other relevant example) (1)

4.1.3 **Explain the term *perfectly inelastic demand*.**
- Perfect inelastic demand has an elasticity coefficient of zero and is depicted by a vertical line. ✓✓
- It indicates that a change in the price has no effect on the quantity demanded. ✓✓ (2)

4.1.4 **A product has a price elasticity of 1,58. What kind of elasticity of demand does it represent? Motivate your answer.**
- Price elastic demand (Price elasticity <1) ✓
- The amount demanded by the consumer reacts strongly to a price change ✓✓

- the percentage change in quantity demanded is greater than the percentage change in price. ✓✓ (2)

4.1.5 **Why is the elasticity of demand important to producers?**

- Tells a producer that for every action there is a reaction. ✓✓
- By studying price elasticity of demand, we can predict what the change in price will be for the producers. ✓✓
- Price elasticity of demand is useful to help firms decide how to increase their total revenue. ✓✓
- To increase its total revenue the producer can (1) raise the price to get more revenue per product; ✓✓ and (2) drop the price to increase the quantity sold. ✓✓
- If the buyers are sensitive to the price (elastic demand), they will buy more if the price drops, ✓✓ so the producers should drop the price. ✓✓
- If the buyers are not sensitive to price (inelastic demand) they will not buy much less even if the price goes up,✓✓ so the producers should increase the price. ✓✓
- To increase sales, raise the price when the demand is inelastic,✓✓ or drop the price when the demand is elastic. ✓✓
- Producers want to know how sensitive the market supply is to a change in the price of the product. ✓✓

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

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

**CROSS ELASTICITY OF DEMAND**

**GOOD X AND GOOD Y ARE SUBSTITUTES**

| PRICE OF GOOD X | QUANTITY DEMANDED OF GOOD Y |
|---|---|
| 50 | 100 |
| 60 | 150 |

**4.2.1 What type of cross elasticity is depicted in the above table?**

- Positive cross elasticity ✓ (1)

**4.2.2 Give ONE example of goods for cross elasticity of demand above.**

- Tea and coffee ✓
- Beef and mutton ✓
- Butter and margarine ✓

(Accept any other correct relevant response) (1)

**4.2.3 Briefly describe the term *cross elasticity of demand.***

- Cross elasticity of demand is the relationship between changes in the price of one product and the resulting changes in the quantity demanded of another product. ✓✓ (2)

4.2.4 **Explain cross elasticity of demand for unrelated goods**.

- If the products are not related, they cannot be substituted with another and resulting in no change in demand with any price change, so elasticity of demand will be zero ✓✓
  (Accept any other correct relevant response) (2)

4.2.5 **Use the information above calculate the cross elasticity of demand**.

$$\text{Cross elasticity of demand} = \frac{\text{\% change in quantity demanded of Good Y}}{\text{\% change in price of Good X}} ✓$$

$$= \frac{50\%}{20\%} ✓$$

$$= 2{,}5 ✓✓$$

(4)

**4.3 Study the extract below and answer the questions that follow:**

In January a small pizza shop received 350 boxes of Margherita pizzas and 200 boxes of cheese from its supplier. They sold each box of Margherita pizzas at R30 and a box of cheese at R35. The following month (February) pizza prices increased to R42 for margherita and R49 for cheese. In the same month (February) the supplier increased the number of boxes supplied from 350 to 441 boxes for Margherita pizzas and from 200 to 252 boxes for cheese.

**4.3.1 What is depicted by the extract above**

- Response of suppliers to price changes. ✓
- Price elasticity of supply.✓
- Response of quantity supplied to changes in price. ✓
  (Accept any other correct relevant response) (1)

**4.3.2 How is the slope of the supply curve?**

- Slopes upwards from bottom left to upward right. ✓
  (Accept any other correct relevant description) (1)

**4.3.3 Briefly describe the term *price elasticity of supply*.**

- Price elasticity of supply measures the responsiveness of quantity supply to changes in price ✓✓ (2)

**4.3.4 Explain any challenge that may be experienced by producers when**

**they have to increase supply in the short run.**

- Fixed inputs do not change in the short run; therefore a supplier is able to increase output using only the variable inputs ✓✓
- A fixed factor of production such as land and other specialised capital equipment is expensive. ✓✓

(Accept any other correct relevant explanation) (2)

**4.3.5 Calculate the elasticity of supply for cheese.**

- PES = $\frac{\text{\% change in quantity supplied}}{\text{\%change in price}}$

% change in price of cheese

$= \frac{R49 - R35}{R35} \times 100 = 40\%$✓

Percentage change in price of cheese

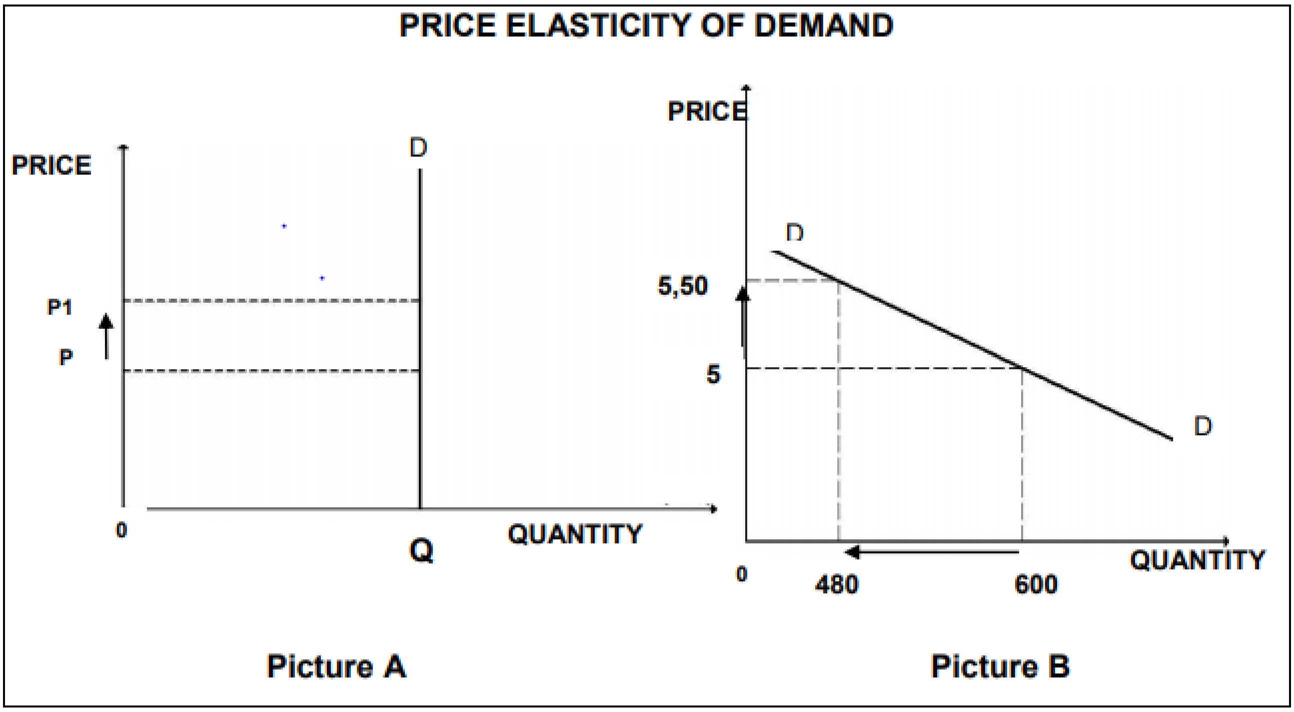
$= \frac{R252 - R200}{R200} \times 100 = 26\%$✓

PES = $\frac{26\%}{40\%}$✓

= 0, 65%✓

(4)

**4.4 Study the following graphs and answer the questions that follow**




**DATA RESPONSE**

**4.4.1 Which picture represents a perfectly inelastic price elasticity of demand?**
Picture A ✓✓ (2)

**4.4.2 Briefly describe the term *elasticity of demand* in full.**

Elasticity denotes the responsiveness or sensitivity of one variable to the change of another. A percentage of change in the dependent variable, with a change of one percent in the independent variable. ✓✓ (2)

**4.4.3 Why is the change in the quantity demanded larger than the change in price in Picture B?**

- The quantity demanded reacts to a change in the price, but by a greater percentage than that of the change in price. ✓✓
- Producers wanting to increase their revenue can do so by decreasing the price of the product, as the change in the quantity demanded will be proportionally greater than the percentage increase of the price of the product. ✓✓ (2)

**4.4.4 Calculate the price elasticity of demand (PEd) for Picture B. Show all calculations.**

Percentage change in the quantity demanded

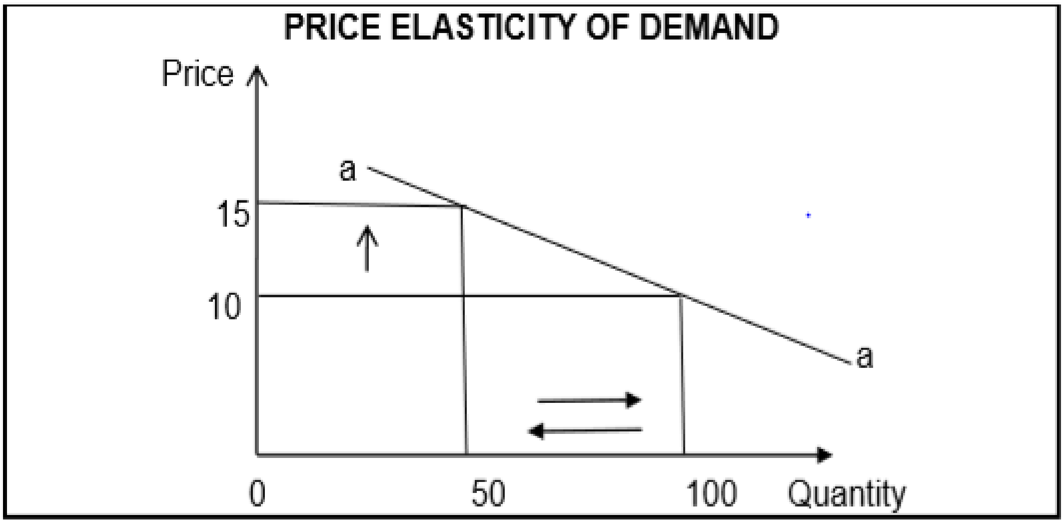
$$= \frac{\Delta Q_d}{Q_d} \times \frac{100}{1}$$
$$= \frac{(600 - 480)}{600} \times \frac{100}{1} \checkmark$$
$$= \frac{120}{600} \times \frac{100}{1}$$
$$= 20\%$$

**Percentage change in the price**

$$= \frac{\Delta P}{P} \times \frac{100}{1}$$
$$= \frac{(5{,}50 - 5)}{5} \times \frac{100}{1} \checkmark$$
$$= \frac{0{,}5}{5} \times \frac{100}{1}$$
$$= 10\%$$

$$PEd = \frac{\text{\% change in the quantity demanded}}{\text{\% change in the price}}$$
$$= \frac{20\%}{10\%} \checkmark\checkmark$$
$$= 2$$

**4.5 Study the graph below and answer the questions that follow.**




**4.5.1 Provide the correct label for curve 'aa'**

Demand curve ✓✓ (1)

**4.5.2 If the price would increase from 10 to 15, what is the quantity of goods that would be demanded.**

50 units ✓✓ (1)

**4.5.3 Briefly explain price elasticity of demand for luxury goods**

- Luxury goods are price elastic because they respond to price changes ✓✓
- A price increase in luxury products will cause a large decrease in quantity demanded since these goods are not essential ✓✓ (2x2)(4)

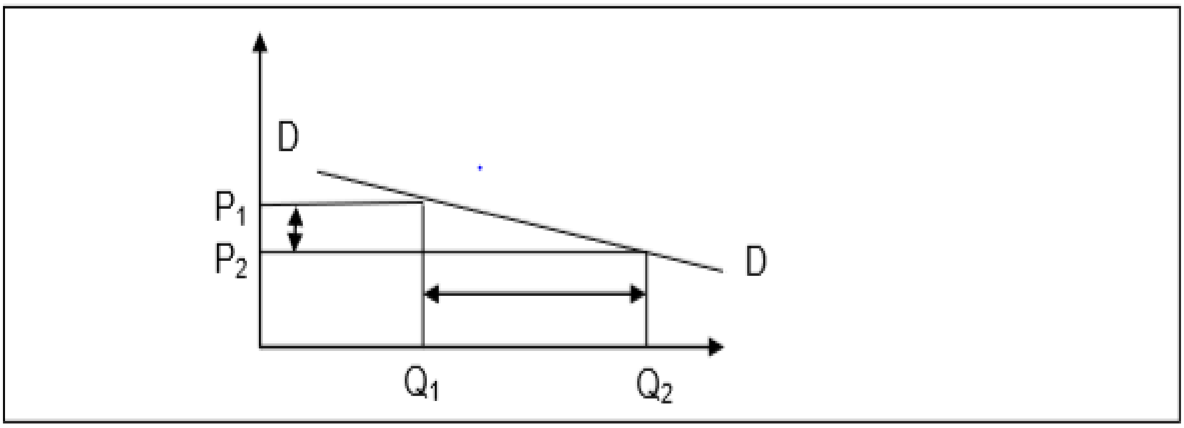
**4.5.4 Using information from the graph, calculate and indicate the type of price elasticity of demand**

$$PED = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

$$= \frac{50/50 \times 100}{5/15 \times 100} \checkmark = \frac{100}{33{,}3}$$

$= 3$ ✓ Relative elastic demand ✓✓ (4)

4.6 Study the graph given below and answer the questions that follow.



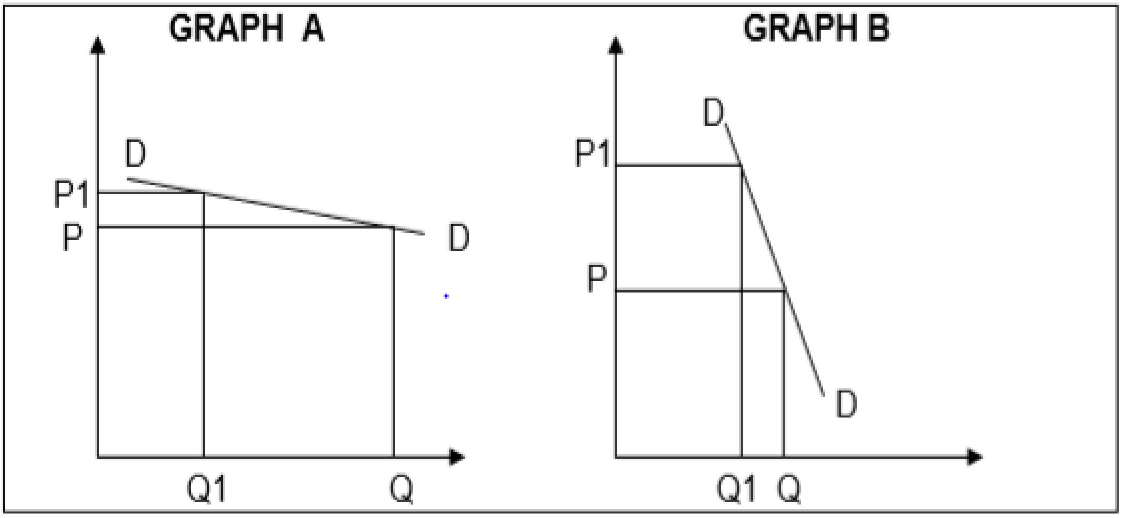
**4.6.1 According to the graph above, what kind of an elasticity of demand is represented in the** graph?
Elastic demand/Relative elastic demand ✓✓ (2)

**4.6.2 Briefly explain the kind of elasticity of demand represented in the above graph.**

- Percentage change in the quantity demanded will be more than the percentage change in price. ✓✓
- E.g., 10% change in price will lead to more than 10% change in quantity demanded ✓✓
- Demand will be very sensitive to changes in price. ✓✓
- Ed > 1 ✓✓ (Any 3 x 2) (6)

**4.6.3 Give an example of a product with the same kind of elasticity of demand represented in the above graph.**
Luxury goods – washing machines, dish washers, big screen TVs (Any other appropriate example) ✓✓ (2)

**4.7 Study the graphs given below and answer the questions that follow.**




**4.7.1 Briefly describe the term *Elasticity of demand*.**
Responsiveness of quantity demanded to change in price✓✓ (2)

**4.7.2 Identify the degrees of elasticity as shown in the above Graph A & B.**
GRAPH A – Elastic demand/Relative elastic demand ✓✓
GRAPH B – Inelastic demand/Relative inelastic demand ✓✓ (4)

**4.7.3 Distinguish between the TWO types of elasticity of demand in the above two graphs**.
Graph A – A % change in the price leads to a greater % change in the quantity demanded. ✓✓
Graph B – A % change in the price leads to a smaller % change in the quantity demanded. ✓✓ (4)

**4.8 Study the article below and answer the questions that follow**

**How income and price changes affect demand**

When economists tell us that the demand for basic food products is 'inelastic', this is frequently misunderstood to mean that demand will not decrease if food prices are increased.

In reality, it only means that the quantity demanded will decrease by a smaller percentage than the increase in prices.

In addition to the response of demand to price change (price elasticity). Change in income affect the quantities demanded (income elasticity)

If demand increase by a higher percentage than the increase in prices (elastic demand) gross income will decrease, if the quantity demanded decreases by a lower percentage gross income will increase

**4.8.1 Give a reason why food has an inelastic demand.**
Everyone must eat and need food irrespective of the price. ✓ (1)

**4.8.2 Name ONE example of normal goods.**
- movie tickets ✓
- meat ✓
- clothing ✓

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

**4.8.3 Briefly describe the term *income elasticity*.**
- Measures the responsiveness of the quantity demanded against changes in income✓✓. (Accept any other correct relevant response.) (1 x 2) (2)

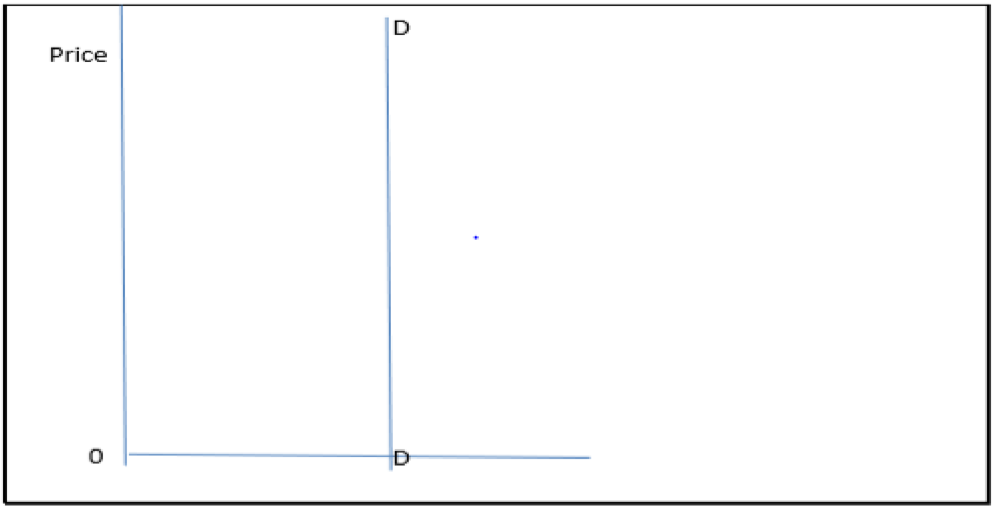
**4.8.4 Will a producer with a unit elastic demand use price to increase profits? Explain**.
- When producers face a unit elastic demand curve there is no reason for them to change the price of their products. ✓✓
- Their sales income will remain constant as the quantity will decrease by exactly the same percentage as the increase in the price of the product. ✓✓

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

**4.8.5 Why is the demand elasticity of importance to the economy?**
- In the determination of output levels – since the changes in demand is due to the change in price, the knowledge of elasticity of demand is necessary for determining the output level. ✓✓
- In the determination of price – the elasticity of demand for a product is the basis of its price determination. ✓✓
- As the demand for a product is inelastic, the producer can charge high prices. ✓✓
- If an elastic demand type of product they will charge low prices. ✓✓
- For demand forecasting – long-term production planning and management depend on the income elasticity and the change in income levels. ✓✓
- In the determination of prices of joint products – the price of each product is fixed on the basis of its elasticity of demand. ✓✓

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

**4.9 Study the graph below and answer the questions that follow:**




**4.9.1 Identify the type of elasticity illustrated above.**

- Perfectly inelastic demand. ✓ (1)

**4.9.2 What is the PED of this type of elasticity?**

PED = 0 ✓ (1)

**4.9.3 Explain the type of elasticity illustrated above.**

- At any level of price the quantity demanded remains constant. ✓✓ (2)

Accept any relevant explanation

**4.9.4 Which type of goods would fall under this type of elasticity? Give a reason for your answer.**

No goods , No one can afford to pay an infinite price for a good. ✓✓

OR

Goods that have very few substitutes. E.g., Reading glasses. ✓
The buyer cannot live without the product therefore he buys it even if the price is high. ✓✓
(Accept any relevant explanation) (2)

**4.9.5 Of what benefit is this type of elasticity to the seller?**

- Since the demand is entirely unresponsive to the price changes, the buyers buy the same quantity at any price. ✓✓
- The seller can charge higher prices without any fear of losing customers, ✓✓ and thereby increase the revenue and profit. ✓✓

(Any 2 x 2) (4)

**4.10 Study the table below and answer the questions that follow.**

| CROSS ELASTICITY OF DEMAND | |
|---|---|
| GOOD X AND GOOD Y ARE SUBSTITUTES | |
| PRICE OF GOOD X | QUANTITY DEMANDED OF GOOD Y |
| 50 | 100 |
| 60 | 150 |

**4.10.1 What type of cross elasticity is depicted in the above table?**
- Positive cross elasticity ✓ (1)

**4.10.2 Give ONE example of goods for the cross elasticity of demand above.**
- Tea and coffee ✓
- Beef and mutton ✓
- Butter and margarine ✓

(Accept any other correct relevant response) (1)

**4.10.3 Briefly describe the term cross elasticity of demand**
- Cross elasticity of demand is the relationship between changes in the price of one product and the resulting changes in the quantity demanded of another product. ✓✓ (2)

**4.10.4 Explain cross elasticity of demand for unrelated products.**
- If the products are not related, they cannot be substituted with another and resulting in no change in demand with any price change, so elasticity of demand will be zero. ✓✓ (2) (Accept any other correct relevant response)

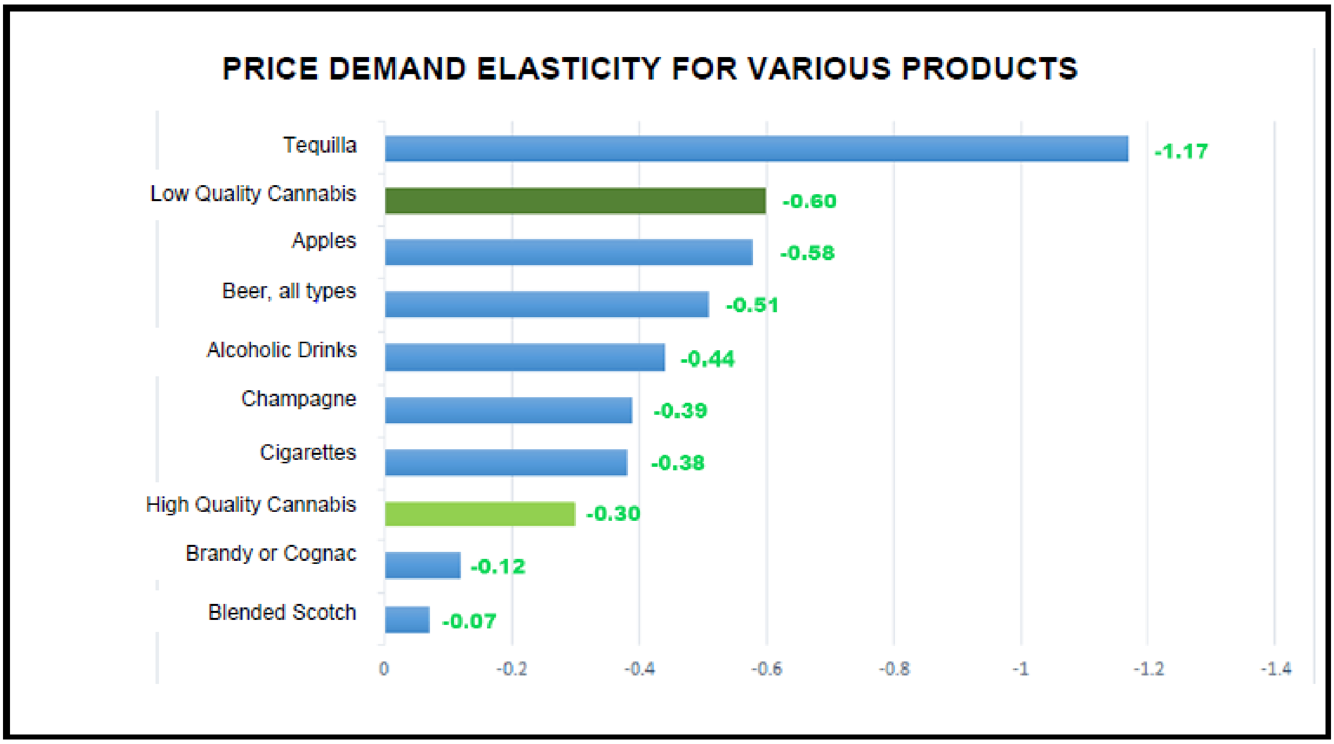
**4.10.5 Using the information above calculate the cross elasticity of demand.**

$$\text{Cross elasticity of demand} = \frac{\text{\% change in quantity demanded of Good Y}}{\text{\% change in price of Good X}} \checkmark$$

$$= \frac{50\%}{20\%} \checkmark$$

$$= 2 \checkmark\checkmark \qquad (4)$$

**4.11 Study the table below and answer the questions that follow**




**[Source: http//www.marijuanapublicmedia.org/cannabis-economics-milestone-nationwide-price-demand-elasticity/]**

**4.11.1 Name the product with the highest price inelasticity of demand.**

- Tequila ✓ (1)

**4.11.2 Explain perfectly inelastic demand.**

- Perfect inelastic demand has an elasticity coefficient of zero and is depicted by a vertical line. ✓✓
- It indicates that a change in the price has no effect on the quantity demanded. ✓✓ (2)

**4.11.3 Apples have a price elasticity of - 0.58. What elasticity does this indicate? Substantiate your answer.**

- Apples have an inelastic demand as -0.58 is smaller than 1. ✓
- The demand for a product is said to be inelastic, if the quantity demanded by consumers does not respond strongly to a change in price. ✓✓ (3)

**4.11.4 How do we explain the price elasticity of demand of cigarettes?**

- Cigarettes are habit-forming substances. ✓✓
- A change in the price has a relatively small impact on the quantity demanded. ✓✓
- Consumers are addicted to the product. They want to continue their consumption of the product at the higher price if they can possibly afford it. ✓✓
- The demand for cigarettes tends to be price inelastic. ✓✓ (2x2) (4)

**4.12 Study the cartoon below and answer the questions that follow.**


cartoonistgroup.com

**4.12.1 Give the form of elasticity illustrated in the cartoon above**.

- Cross elasticity of demand ✓ (1)

**4.12.2 State the relationship between the two products in the above cartoon**.

- Substitutes ✓ (1)

**4.12.3 briefly describe the concept elasticity of demand in full**.

- The responsiveness of quantity demanded to the change in the price. ✓✓ (2)

**4.12.4 What is the impact of the change in price of margarine on the demand for butter**?

- The two products give the same satisfaction and serve the same purpose, therefore as margarine becomes cheaper, quantity of butter demanded will decrease. ✓✓ (2)

**4.12.5 Assume the two products were being sold at the same price, the percentage change in quantity demanded for butter is 20%. Calculate the cross elasticity of demand for the two products and prove that they are substitutes or complements. Show ALL calculations** (4)

- Percentage change in price of margarine= $\frac{\text{R1,80} - \text{R1,43}}{\text{R1.80}} \times 100$ =21% ✓

Cross elasticity of demand = $\frac{\%\Delta \text{ Quantity demanded of Butter}}{\%\Delta \text{ Price of margarine}}$

$= \frac{20\%}{21\%}$ = 0.95 ✓✓

Cross elasticity of substitutes is greater than 1 or positive ✓

4.13 Study the table below and answer the questions that follow

Diminishing Marginal Utility

| Muffins | Total Utility | Marginal Utility |
|---|---|---|
| 1 | 10 | 12 |
| 2 | 13 | 3 |
| 3 | 14 | 1 |
| 4 | 12 | -2 |
| 5 | 9 | -3 |

**4.13.1 According to the table above, how many muffins should this person consume?**)

- 3 muffins (1

**4.13.2 What is the formula to calculate marginal utility?**

- MU= ∆TU/∆Q✓✓ (1)

**4.13.3 Briefly describe the concept *diminishing marginal utility*.**

(2)

- Additional satisfaction gained by consuming equal successive units of a good declines as the quantity consumed increases✓✓

**4.13.4 Differentiate between economic profit and normal profit**

Normal profit

- It is the minimum return required by the owners to continue with the business ✓✓
- It is remuneration for entrepreneurship

Economic profit

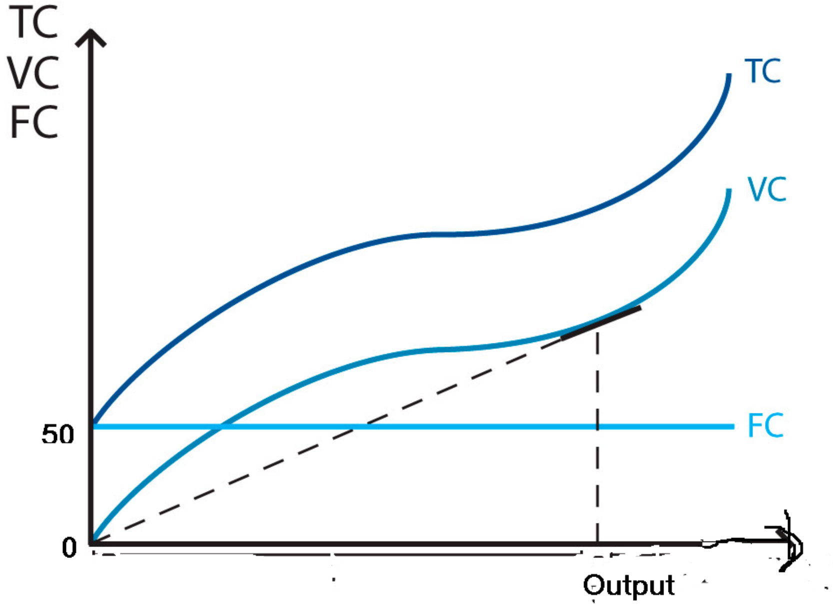
- It is the extra profit that the firm makes
- It is profit that the business makes in addition to the normal profit ✓✓

. (2)

**4.13.5 Why is it important for an entrepreneur to cover implicit and explicit costs?**

- Helps the entrepreneur to see whether he/she is making normal profit or economic profit✓✓
- One can make a decision whether it is worth to remain in business or shutdown ✓✓
- Enable the entrepreneur to assess alternative use of resources that will give him a good return (4)

4.14.Study the graph below and answer the questions that follow:




**4.14.1 What does the abbreviation TVC stand for**?

- Total Variable Costs✓ (1)

**4.14.2 Why is the FC curve horizontal?**

- The curve is horizontal because fixed costs do not change with the change in the level of production. ✓ (1)

**4.14.3 Briefly describe the term *long run*.**

- The period during which all the factors of production are variable. ✓✓ (2)

**4.14.4 Given that TVC= R235. How much are the total costs?**

- Total costs = TFC plus TVC
  = R50 plus R235 ✓
  = R285 ✓ (2)

**4.14.5 What is meant by marginal costs? Explain in detail.**

- The increase in total cost when on additional unit of output is produced ✓✓
- The in total cost, resulting from a change in the quantity of output produced by the firm. ✓✓
- Marginal cost must be calculated together with marginal revenue to determine profit maximization point of the business. (4)

**HINT:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document.

**QUESTION 5 Paragraph type questions – Middle Cognitive**

5.1. **Briefly discuss relative inelastic demand without the aid of a graph.**

- Relative inelastic demand occurs when a change in price will cause a smaller percentage change in quantity demanded. ✓✓
- Basic, necessary foodstuffs that have no close substitutes, such as maize meal are examples of a product that tends to be inelastic. ✓✓
- Other examples include goods and services which requires a small portion of the consumer's income such as matches, ✓✓ salt etc.and habit-forming products such as cigarettes and alcohol. ✓✓
- Price elasticity of demand will be less than one **(PED < 1)** ✓✓
- A relatively inelastic demand encourages producers to increase the price of their products as they will be able to increase their sales income. ✓✓
- A relative inelastic demand curve can be represented by a steep curve. ✓✓
  (Accept any other correct relevant discussion) (2x4) (8)

**5.2 Distinguish between elasticity and inelasticity of demand.**
**Elasticity**

- Elastic is an economic term referring to the change in behaviour that buyers and sellers have in response to a price change for a good or service. ✓✓
- The quantity of that good or service reacts to price changes, and the degree to which it reacts determines how elastic or inelastic it is. ✓✓
- The elasticity of a good or service can vary according to the amount of close substitutes, its relative cost and the amount of time that has elapsed since the price change occurred. ✓✓

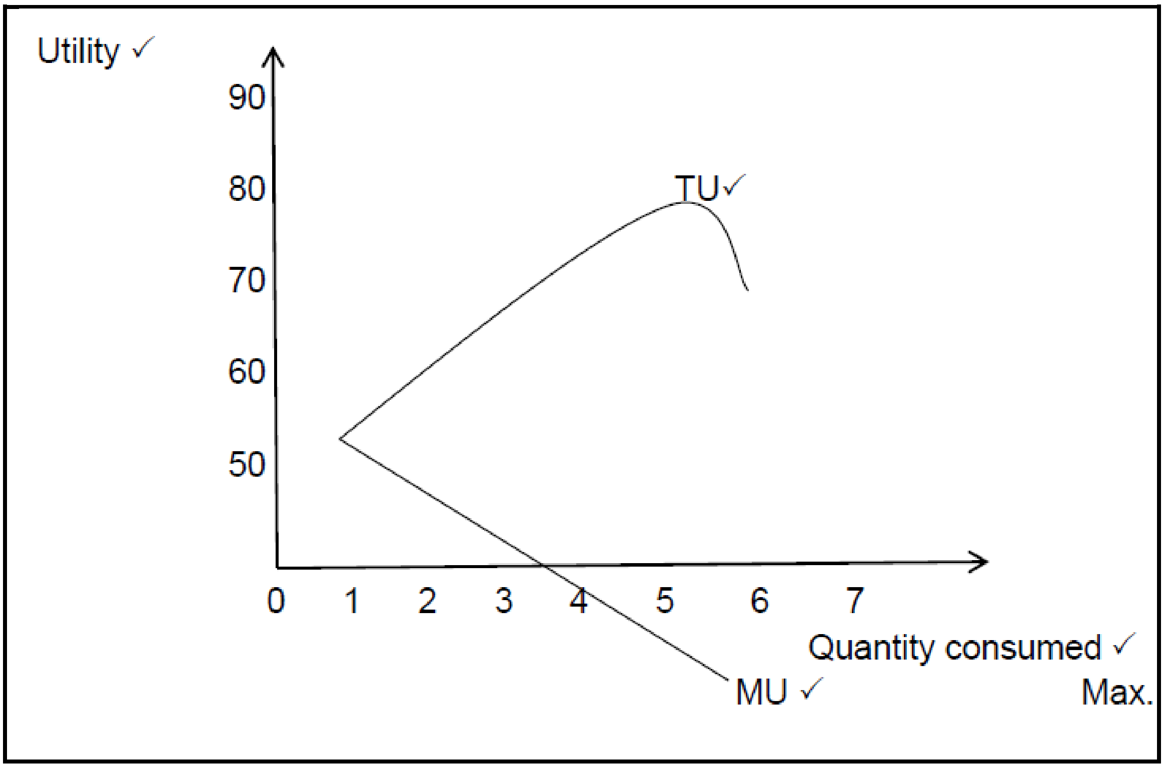
- So in other words, elasticity is a measure of responsiveness or sensitivity✓✓ (2x2)(4)

**Inelasticity**

- Inelastic is an economic term used to describe the situation in which the quantity of a good or service is unaffected when the price of that good or service changes. ✓✓
- Inelastic means that when the price goes up, consumers' buying habits stay about the same, and when the price goes down, consumers' buying habits also remain unchanged. ✓✓
- For example, if the price of an essential medication changed from R200 to R202 (a 1% increase) and demand changed from 1,000 units to 995 units (a less than 1% decrease), the medication would be considered an inelastic good. ✓✓
- Price elasticity of demand is a measure of the relationship between a change in the quantity demanded of a particular good and a change in its price✓✓
- Price elasticity of demand is often used when discussing price sensitivity. ✓✓ (2x2) (4)

(Accept any relevant correct explanation.) (8)

5.3 **With the aid of a graph, explain the relationship between an increase in consumption, total utility and marginal utility.**




<u>Graphical explanation</u>

- As the units consumed increases, total utility increases at a lower rate ✓✓
- while marginal utility decreases at a faster rate ✓✓
- The total utility curve slopes upwards as the marginal utility curve slopes downwards. ✓✓

- As consumption continues to unit 5, marginal utility becomes negative while total utility declines. ✓✓

  (Accept any relevant correct explanation.) (Max 4) (8)

5.4 **Discuss time and availability of labour as factors that determine price elasticity of supply.**

**Time taken to produce**

- The capacity of producers is fixed in the short run. ✓✓
- They cannot produce more products overnight. ✓✓
- Therefore the supply is more inelastic in the short run.✓✓ (2x2) (4)

**Availability of labour**

- If producers use unskilled labour, it will be easier for them to adapt to price changes. ✓✓
- If producers want to increase production, it will be easier to employ unskilled workers than skilled workers. ✓✓
- Therefore supply is more elastic if production needs unskilled labour as there is a shortage of skilled labour in South Africa✓✓. (2x2) (4)

  (Accept any relevant correct explanation.) (8)

**5.5 Briefly discuss any TWO characteristics of utility.**

**Satisfaction is abstract because utility cannot be measured**✓

- There is no standard way to measure someone's satisfaction or utility, so economists sometimes simply assign it and value a call the measurement "utils". ✓✓

**Utility is subjective**✓

- Because it differs from person to person, ✓✓
- The satisfaction two people get from consuming the same product differ depending on personal preferences ✓✓
- e.g. some people will find that ice cream has a high utility, while others would prefer to have cold drinks. ✓

**Utility differs from one situation to the other / (from time to time)** ✓

i.e. warm clothes provide satisfaction in winter as opposed to summer. ✓✓

**Utility differs from place to place**✓✓

- A swimming costume will be satisfying at the beach but not in the classroom.

(2x4)(8)

**5.6 Elaborate on the importance of price elasticity of demand to producers.**

- It tells the producer that for every action there is a reaction. ✓✓
- By studying price elasticity of demand, we can predict what the change in price will be for the producers. ✓✓
- Price elasticity of demand is useful to help firms decide how to increase their total revenue. ✓✓
- To increase its total revenue the producer can (1) raise the price to get more revenue per product; ✓✓ and (2) drop the price to increase the quantity sold. ✓✓

- If the buyers are sensitive to the price (elastic demand), they will buy more if the price drops, ✓✓ so the producers should drop the price. ✓✓
- If the buyers are not sensitive to price (inelastic demand) they will not buy much less even if the price goes up, ✓✓ so the producers should increase the price. ✓✓
- To increase sales, raise the price when the demand is inelastic, ✓✓ or drop the price when the demand is elastic. ✓✓
- Producers want to know how sensitive the market supply is to a change in the price of the product. ✓✓

  (Accept any relevant correct explanation.) (2x4) (8)

**5.7 What reasons would you give for the reaction of consumers to price changes?**

- The availability of close substitutes: if a close substitute is available the demand of a product will be very elastic, because consumers will choose to buy the substitute product. ✓✓
- The demand for essential product such as basic food stuff, medicine, electricity is price inelastic because they are necessary for survival. ✓✓
- Consumers respond easily to increase in prices for durable goods, because durable goods last for a long period of time, expenditure can be delayed. ✓✓
- If prices decrease, consumers rush to buy the product because they see it is bargain. ✓✓
- Changes in price of habit forming products will not have an influence on quantity demanded. ✓✓
- Consumers are sensitive to price changes if a product lasts for a longer period of time. ✓✓
- If a product has only one possible use, consumers will be sensitive to its price increase. ✓✓

  (Accept any other correct relevant response) (2x4) (8)

**5.8 Examine the reasons for unequal distribution of income in South Africa.**

- The level of education and post-school qualifications. ✓✓
- Geographic area with urban areas earning higher incomes than rural areas. ✓✓
- Sectors in which people are employed – tertiary sector earnings are higher than primary sector earnings. ✓✓

  The power that trade unions have to negotiate higher wages. ✓✓
- Unequal ownership of resources of wealth such as land, housing, vehicles, etc. ✓✓
- Family size: some households have more dependants than others. ✓✓
- Discrimination: traditionally, gender inequality has favoured men over similarly qualified women. ✓✓
- Racial discrimination also caused inequalities of income amongst various races in South Africa. ✓✓
- Culture and personal preferences for a certain type of work will affect income. ✓✓
- Inheritance passed on from one generation to the next generation ensures that wealth remains in the hands of few. ✓✓

- The social benefit system or the tax system may favour some individuals over others. ✓✓
- Unemployment levels remain high in SA, with even more people becoming unemployed during the pandemic✓✓
- The impact of globalisation. ✓✓

  (Accept any other correct relevant response) (2x4) (8)

**5.9 Compare positive and negative cross elasticity. (8)**

| Positive Cross Elasticity | Negative cross elasticity |
|---|---|
| • An increase in the price of one good leads to an increase in the demand for another ✓✓ | • Increase in the price of one good leads to a decrease in the demand for another ✓✓ |
| • Substitute goods have a positive demand relationship ✓✓ | • Compliment have an inverse relationship ✓✓ |

(8)

**5.10 Briefly explain relative inelastic supply and unitary plastic supply as a degree of price elasticity of supply, without the use of diagrams.**

**Relative inelastic supply**

- Price elasticity is less than one (PES < 1) ✓✓
- A change in price will cause a smaller percentage change in quantity supplied ✓✓
- Producers would struggle to adapt to the price increase, particularly in the short run ✓✓

**Unitary elastic supply**

- Price elasticity is equal to one (PES = 1) ✓✓
- A change in price will cause exactly the same percentage change in quantity supplied ✓✓
- The supply curve looks like the normal supply curve with a positive slope from left to right ✓✓

  (Accept any other relevant correct response.)

## QUESTION 6 Paragraph type questions – Higher cognitive

**TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.**

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/examine/describe/analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

6.1 **How can the government benefit from having knowledge on elasticity of demand?**

- A knowledge of the elasticity of demand plays an important part in policy decisions as taxation is concerned. ✓✓
- An increase in VAT will cause prices to increase. ✓✓

- If the demand for goods is elastic, there could be a reduction in the demand for products, causing tax revenues to decline. ✓✓
- If the demand for goods is inelastic, some greater tax revenues can be expected✓✓, e.g. products like tobacco, ✓ basic food✓ etc. are normally targeting in the form of indirect taxes. ✓✓
- The use of elasticity of demand for the government is: (a) to raise government revenue; (b) to discourage the use of demerit goods, like cigarettes, ✓✓ etc.

(Accept any other relevant correct response.) (2x4) (8)

**6.2 Why is demand elasticity of importance to the economy?**

**In the determination of output levels** ✓

- Since the change in demand is due to the change in price, the knowledge of elasticity of demand is necessary for determining the output level. ✓✓

**In the determination of price**✓

The elasticity of demand for a product is the basis of its price determination. ✓✓

- As the demand for a product is inelastic, the producer can charge high prices. ✓✓
- If an elastic demand type of product they will charge low prices. ✓✓

**For demand forecasting**. ✓

- Long-term production planning and management depend on the income elasticity and the change in income levels. ✓✓

**In the determination of prices of joint products** ✓

- The price of each product is fixed on the basis of its elasticity of demand. ✓✓

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

**6.3 Why are relative prices important in the economy?**

- The government and the Reserve Bank use it to decide on the correct fiscal and monetary policies to implement. ✓✓
- Consumers and producers make their decisions according to it. ✓✓
- It is used to determine whether the economic situation is worsening or improving. ✓✓
- It shows inflation, economic growth and economic development in a country ✓✓
- Economists can use them to assess the performance of the economy. ✓✓
- Relative prices form the center of the dynamics of markets, because the decisions the policymakers, buyers and suppliers make are all based on relative prices. ✓✓

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

**6.4 How would it help the entrepreneur to increase or decrease the price of his product if he is aware of the elastic of demand curve?**

- Perfectly inelastic – the quantity demanded will not respond to any changes in the price of the product ✓✓ Producers can increase their income by increasing the price of the product as the quantity demanded will not change ✓✓
- Perfectly elastic – demand is very responsive to a change in price and lowering the price will increase the demand and as a result your revenue ✓✓
- Relatively elastic – to increase the revenue always decrease the price never increase it ✓✓
- Relatively inelastic – to improve revenue only increase the price. ✓✓ A price increase will lead to an increase in income while demand remains unchanged ✓✓

- Unitary elastic – price changes have no effect on revenue. ✓✓ There sales income will remain constant. ✓✓ (4x2)(8)

**6.5 Explain the importance of price elasticity of demand to producers.**

- Tells a producer that for every action there is a reaction. ✓✓
- By studying price elasticity of demand, we can predict what the change in price will be for the producers. ✓✓
- Price elasticity of demand is useful to help firms decide how to increase their total revenue. ✓✓
- To increase its total revenue the producer can (1) raise the price to get more revenue per product; ✓✓ and ( ) drop the price to increase the quantity sold. ✓✓
- If the buyers are sensitive to the price (elastic demand), they will buy more if the price drops, ✓✓ so the producers should drop the price. ✓✓
- If the buyers are not sensitive to price (inelastic demand) they will not buy much less even if the price goes up, ✓✓ so the producers should increase the price. ✓✓
- To increase sales, raise the price when the demand is inelastic, ✓✓or drop the price when the demand is elastic. ✓✓
- Producers want to know how sensitive the market supply is to a change in the price of the product. ✓✓ (4 x 2) (8)

**6.6 Explain the price elasticity of supply for maize in the short and long term.**

Short term

- In the short run most supply curves are inelastic ✓✓as suppliers do not have sufficient time to respond to price change. ✓✓
- If the maize price increases, farmers need a full growing season to adjust their production to the price increase. ✓✓
- A fall in price will not necessarily result in a rapid reduction in the quantity supplied. ✓✓
- Farmers with maize will probably still be forced to harvest and sell maize at the lower price rather than lose all their income ✓✓

Long term

- The price elasticity becomes elastic in the long term. ✓✓
- In the long-term famers can adjust their levels of production in response to changes in price. ✓✓ (8)

**6.7 Examine the importance of income elasticity of demand to businesses.**
**(4 x 2) (8)**

Income elasticity of dem and is important because:

- Knowledge of income elasticity of demand helps firms predict the effect of an economic cycle on sales. ✓✓
- Luxury products with high income elasticity see greater sales volatility over the business cycle, than necessities where demand from consumers is less sensitive to changes in the cycle. ✓✓
- It helps classify goods on the basis of relationship between income and demand. If demand for a good increase with income, it is referred to as normal good, but if demand falls with increase in income it is an inferior good. ✓✓
- A firm can forecast the impact of a change in income on sales volume and sales revenue. ✓✓

- Knowing income elasticity of demand helps the firm decide whether to raise or lower price following a change in consumer incomes. ✓✓
  (Accept any other correct relevant response.) (4 x 2) (8)

**6.8 In which way would knowledge of price elasticity of demand support an entrepreneur to decide if he must adjust the profit levels?**

| | |
|---|---|
| **Perfectly inelastic**✓ | • The quantity demanded remains unchanged irrespective of a change in price✓✓<br>• Producers can increase their revenue by increasing the price of the product✓✓ |
| **Inelastic**✓ | • The quantity demanded reacts to a change in the price, but by a smaller percentage than that of the change in price✓✓<br>• Producers are encouraged to increase their revenue by increasing the price of the product, as the percentage change in the quantity demanded will be proportionally smaller than the percentage change in the price of the product✓✓ |
| **Unit elastic**✓ | • The percentage change in the quantity demanded is equal to the percentage change of the price✓✓<br>• Producers cannot increase their total revenue by increasing the price of the product as the percentage change in the quantity demanded will always be equal to the percentage change in the price✓✓ |
| **Elastic**✓ | • The quantity demanded reacts to a change in the price, but by a greater percentage than that of the change in price✓✓<br>• Producers wanting to increase their revenue can do so by decreasing the price of the product, as the change in the quantity demanded will be proportionally greater than the percentage increase of the price of the product✓✓ |
| **Perfectly elastic**✓ | • When the demand is perfectly elastic this will lead to a change in price and an infinite change in the quantity demanded. ✓✓<br>• Income will increase infinitely with a reduction in price. ✓✓ |

**6.9 Briefly debate whether a supplier of chocolates and a supplier of petrol would both use price increases to increase their profits.**

- No, the supplier of chocolates and the supplier of petrol will not both use price to increase their profits.✓✓
- The price elasticity of demand for chocolates is price elastic. ✓✓
- As chocolates is a luxury good, with a price that is too high, people will stop eating chocolates or find a substitute for the chocolates. ✓✓
- Producers of chocolates wanting to increase their revenue can do so by decreasing the price of the chocolates, as the change in the quantity demanded will be proportionally greater than the percentage increase in the price of the product. ✓✓
- The price elasticity of demand for petrol is inelastic. ✓✓
- Even if the price increases, people need transport to get to work and will still use petrol.
- There is no substitute for petrol and they must pay the higher prices. ✓✓
- Producers of petrol are encouraged to increase their revenue by increasing the price of petrol, as the percentage change in the quantity demanded will be proportionally smaller than the percentage change in the price of the product. ✓✓
  (Any relevant answer) (Max 8)

**6.10 Explain the price elasticity of supply for maize in the short and long term.**

**Short term**

- In the short run most supply curves are inelastic ✓✓ as suppliers do not have sufficient time to respond to price change. ✓✓
- If the maize price increases, farmers need a full growing season to adjust their production to the price increase. ✓✓
- A fall in price will not necessarily result in a rapid reduction in the quantity supplied. ✓✓
- Farmers with maize will probably still be forced to harvest and sell maize at the lower price rather than lose all their income ✓✓

**Long term**

- The price elasticity becomes more elastic in the long term. ✓✓
- In the long term farmers can adjust their levels of production in response to changes in price. ✓✓

(Accept any relevant higher order answer.) (Max 8)

**6.11 What reasons would you give for the reaction of consumers to price changes?**

- The availability of close substitutes: if a close substitute is available the demand of a product will be very elastic, because consumers will choose to buy the substitute product. ✓✓
- The demand for essential product such as basic food stuff, medicine, electricity are price inelastic because they are necessary for survival. ✓✓
- Consumers respond easily to increase in prices for durable goods, because durable goods last for a long period of time, expenditure can be delayed. ✓✓
- If prices decrease, consumers rush to buy the product because they see it is bargain. ✓✓
- Changes in price of habit forming products will not have an influence on quantity demanded. ✓✓
- Consumers are sensitive to price changes if a product lasts for a longer period of time. ✓✓
- If a product has only one possible use, consumers will be sensitive to its price increase. ✓✓

(Accept any other correct relevant response) (8)

**6.12 What is the importance of elasticity of demand to the economy**?

- Knowledge of elasticity of demand is necessary for determining the output level ✓✓
- The elasticity of demand for a product is the basis of its price determination ✓✓
- As demand for a product is inelastic, the producers can charge high prices ✓✓
- If an elastic demand type of product they will charge low prices✓✓
- Long term production planning and management depend on the income elasticity and change in income levels ✓✓
- Prices of joint products are determined by the price of each product on the basis of its elasticity of demand ✓✓

(Accept any other correct relevant response) (8)

**<u>SECTION C</u>**

| |
|---|
| **HINT:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one. |

ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|---|---|
| **Introduction**<br>The introduction is a lower-order response.<br>• A good starting point would be to the main concept related to the question topic<br>• Do not include any part of the question in your introduction.<br>• Do not repeat any part of the introduction in the body<br>• Avoid saying in the introduction what you are going to discuss in the body | Max 2 |
| **Body**:<br>**Main part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>**Additional part:** / Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ / Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest / Construct a graph | Max 26<br><br>Max 10 |
| **Conclusion**<br>Any Higher or conclusion include:<br>• A brief summary of what has been discussed without repeating facts already mentioned in the body<br>• Any opinion or value judgement on the facts discussed<br>• Additional support information to strengthen the discussion/analysis<br>• A contradictory viewpoint with motivation, if required<br>• Recommendations | Max 2 |
| **TOTAL** | **40** |

[40]

**QUESTION 7**

**PRICE ELASTICITY OF SUPPLY 40 MARKS**

- With the aid of graphs describe the various categories of price elasticity of supply. (26)
- Explain the price elasticity of supply for maize in the short and long term. (10)

A maximum of 8 marks allocated for headings/sub-headings and examples)

**INTRODUCTION**

Price elasticity of supply measures how sensitive the market supply is to change in the price of the product. ✓✓

(Accept any relevant introduction) (2)

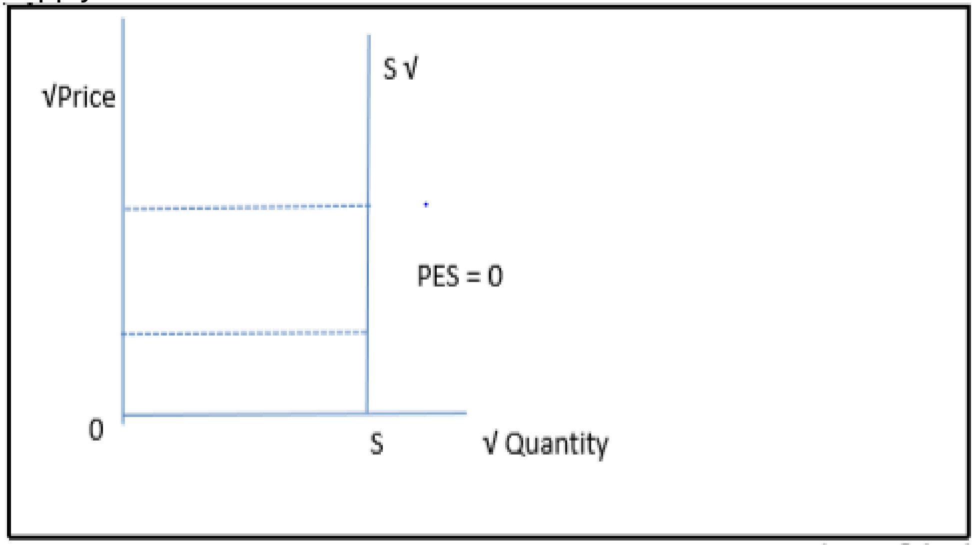
**BODY**

Price elasticity of supply is composed of the following categories:

Perfectly inelastic supply ✓

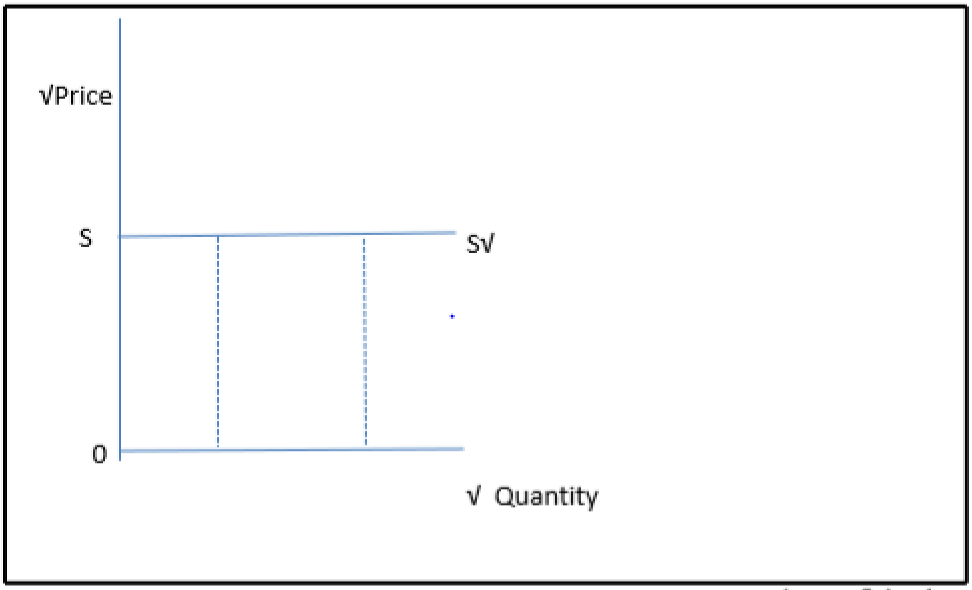
- Any % change in price will have no effect on quantity supplied ✓✓

- Producers are unable to increase supply at all  PES= 0 ✓✓
- Supply curve is a vertical curve. ✓✓



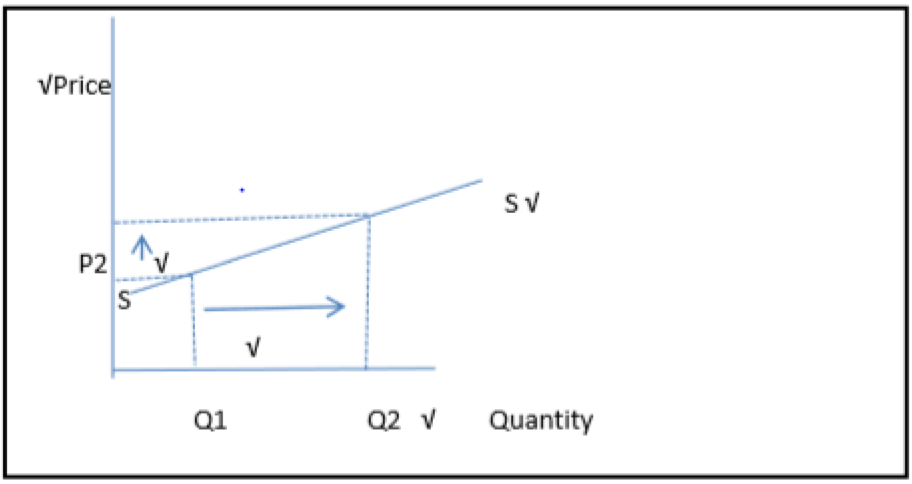

(Max 6 incl. graph)

**Perfectly elastic supply** ✓
- Even the smallest change in price will cause an infinitely large change in quantity supplied ✓✓
- PES =∞ ✓✓
- Supply curve is horizontal. ✓✓




(max 6 incl. graph)

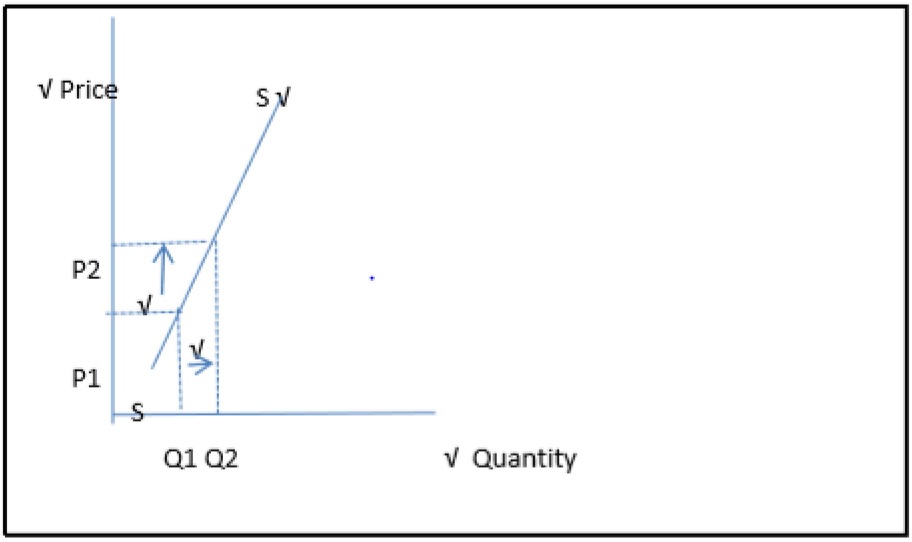
**Relatively elastic supply** ✓
- Percentage change in quantity supplied is more than the % change in price ✓✓
- Producers are easily able to increase production. ✓✓
- PES> 1. ✓✓
- Supply curve is flat, the slope of the graph starts on the y-axis, at a level above zero. ✓✓




(max 6 incl. graph)

**Relatively inelastic supply** ✓

- Percentage change in the quantity supplied is less than the percentage change in price ✓✓
- Producers struggle to adapt to the price increase. ✓✓
- PES < 1. ✓✓

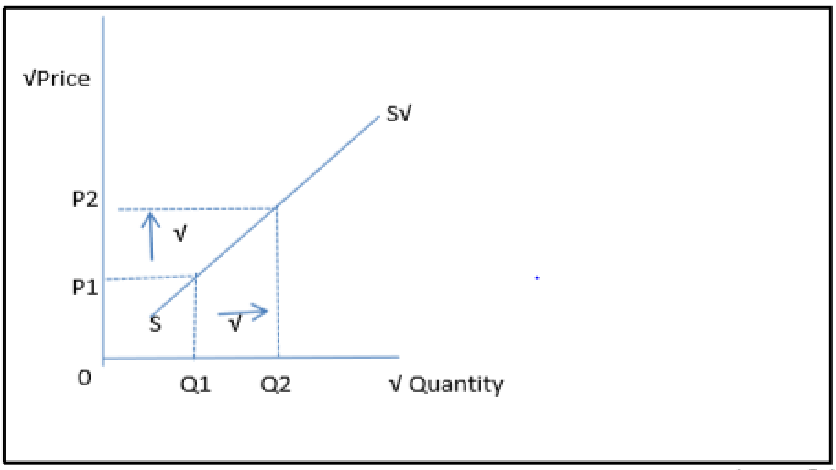



(max 6 incl. graph)

**Unitary elastic supply** ✓

- A change in price will cause exactly the same change in quantity supplied ✓✓
- The supply curve looks exactly like the normal supply curve that slopes upwards from left to right at 45 º angles. ✓✓

- PES = 1. ✓✓




(max 6 incl. graph)

(26)

**ADDITIONAL PART**
Explain the price elasticity of supply for maize in the short and long term.

Short term
- In the short run most supply curves are inelastic ✓✓ as suppliers do not have sufficient time to respond to price change. ✓✓
- If the maize price increases, farmers need a full growing season to adjust their production to the price increase. ✓✓
- A fall in price will not necessarily result in a rapid reduction in the quantity supplied. ✓✓ ✓✓
- Farmers with maize will probably still be forced to harvest and sell maize at the lower price rather than lose all their income ✓✓

Long term
- The price elasticity becomes elastic in the long term. ✓✓
- In the long-term famers can adjust their levels of production in response to changes in price. ✓✓ (10)

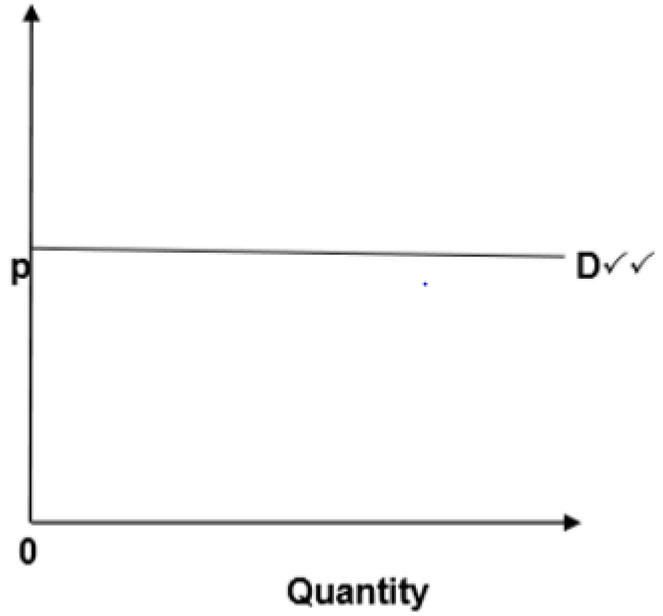
CONCLUSION
- The key to predicting elasticity of supply is knowing whether the producers are able to increase production. ✓✓
- A producer's ability to adapt to price changes depends on the cost, availability and mobility of factors of production. ✓✓
  (Accept any relevant conclusion.) (Any 1 x 2) (2)

**QUESTION 8**

**(PRICE ELASTICITY OF DEMAND) 40 MARKS**
- With the aid of graphs, explain in detail the different categories of demand elasticity. (26)
- Briefly debate whether a supplier of chocolates and a supplier of petrol would both use price increases to increase their profits (10)
  A maximum of 8 marks allocated for headings/sub-headings and examples)[40]

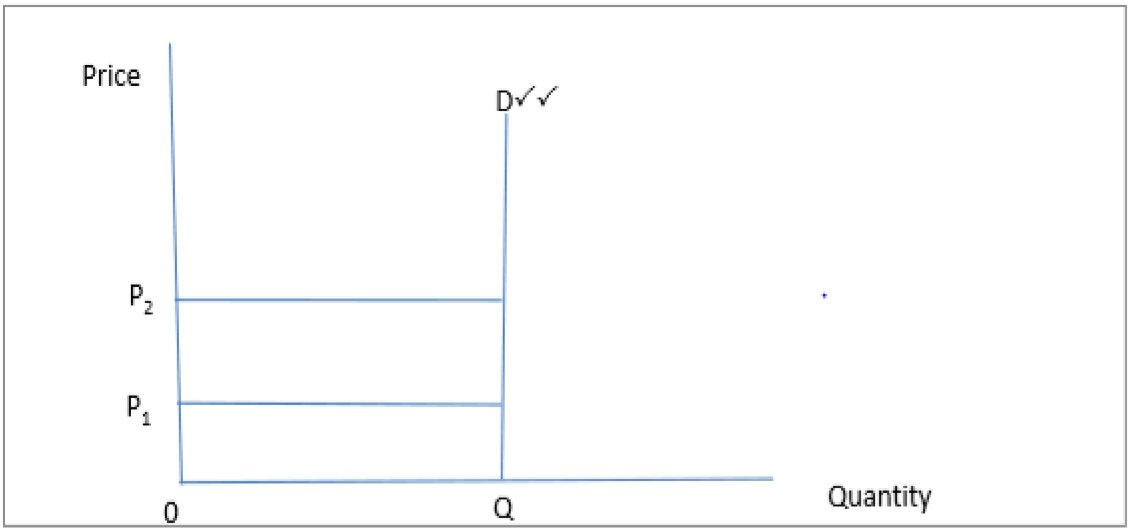
INTRODUCTION
Price elasticity of demand measures how much consumers respond or how sensitive they are to price changes. Responsiveness of quantity demanded to a change in price. ✓✓
(Accept any other correct and relevant introduction) (2)

BODY
**Perfectly elastic demand** ✓



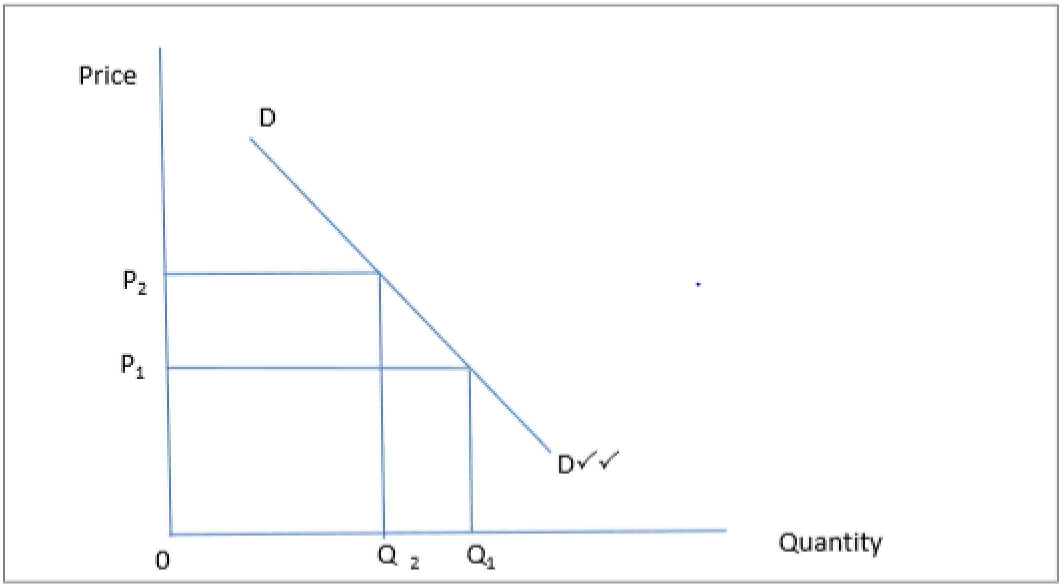

- The smallest change in price results to an infinite large change in quantity demanded. ✓✓
- It is also referred to as infinite elasticity. ✓✓
- The price elasticity of demand is ∞. ✓✓ (5)

**Perfectly inelastic demand** ✓



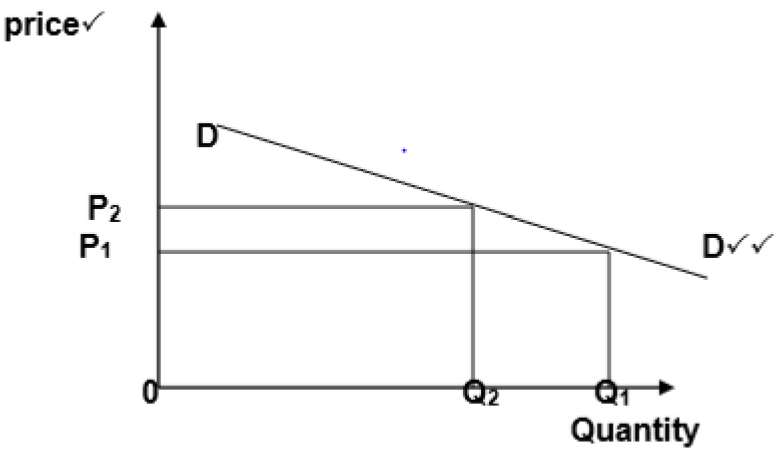

- The demand shows no response to all price changes ✓✓
- The price elasticity of demand is zero✓✓
- It implies a change in price will cause no change in the quantity that consumers demand ✓✓ (5)

**Unitary elastic demand ✓**



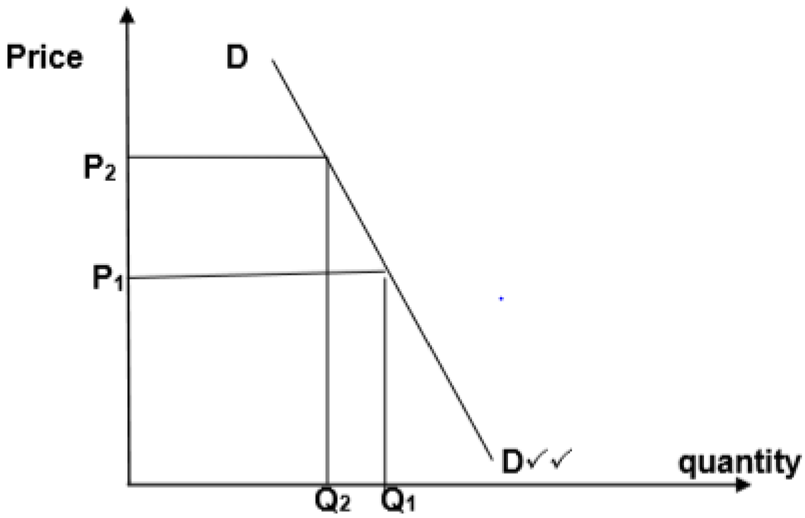

- Occurs when a specific change in price causes exactly the same change in quantity demanded ✓✓
- If a price increases by 10%, quantity demanded also increases by 10% ✓✓
- The value of elasticity is equal to one ✓✓ (5)

**Relatively elastic demand ✓**




- Occurs when a small change in price causes a large change in quantity demanded ✓✓
- Price elasticity is greater than one, but less than infinity ✓✓
- To improve revenue, prices should be reduced ✓✓ (5)

**Relatively inelastic demand ✓**




- Occurs when quantity demanded does not respond as strongly to changes in price ✓✓
- Price elasticity is less than one but greater than zero ✓✓
- To improve revenue, prices should be increased ✓✓ (5)
  (Max. 8 marks for listing and examples)
  (Max. 5 marks for each type of elasticity) (26)

**ADDITIONAL PART**
What reasons would you give for the reaction of consumers to price changes?

- The availability of close substitutes: if a close substitute is available the demand of a product will be very elastic, because consumers will choose to buy the substitute product. ✓✓
- The demand for essential product such as basic food stuff, medicine, electricity are price inelastic because they are necessary for survival. ✓✓
- Consumers respond easily to increase in prices for durable goods, because durable goods last for a long period of time, expenditure can be delayed. ✓✓
- If prices decrease, consumers rush to buy the product because they see it is bargain. ✓✓
- Changes in price of habit-forming products will not have an influence on quantity demanded. ✓✓
- Consumers are sensitive to price changes if a product lasts for a longer period of time. ✓✓
- If a product has only one possible use, consumers will be sensitive to its price increase. ✓✓ (Accept any other correct relevant response) (10)

CONCLUSION
It is important for producers to study the buying patterns of consumers so as to plan accordingly. ✓✓
(Accept any relevant Higher Order conclusion) (2)

**QUESTION 9**

**PRICE ELASTICITY**

- With the aid of relevant graphs, discuss FIVE degrees of price elasticity of demand (26)
- A couple of factors are determents of the elasticity of demand. Briefly discuss substitution possibilities as one of those factors. (10)

**INTRODUCTION**

Elastic is an economic term referring to the change in behaviour that buyers and sellers have in response to a price change for a good or service. The quantity of that good or service reacts to price changes, and the degree to which it reacts determines how elastic or inelastic it is. The elasticity of a good or service can vary according to the amount of close substitutes, its relative cost and the amount of time that has elapsed since the price change occurred. So in other words, elasticity is a measure of responsiveness or sensitivity.✓✓ **Max. 2**

**BODY: MAIN PART**

- **The FIVE degrees of price elasticity of demand are:**
  - Perfectly elastic demand:✓✓
  - Perfectly inelastic demand:✓✓
  - Relatively elastic demand:✓✓
  - Relatively inelastic demand:✓✓
  - Unitary elastic demand:✓✓

**1. Perfectly Elastic Demand:**

- When a small change in price of a product causes a major change in its demand, it is said to be perfectly elastic demand✓✓
- When there is an **infinite** demand at a particular price and demand becomes zero with a slight rise in the price, then demand for such a commodity is said to be perfectly elastic. ✓✓
- This curve shows that consumers are willing to purchase any quantity at a certain price (R30 in the graph below), but if the price is raised only fractionally, the quantity demanded falls to zero. ✓✓

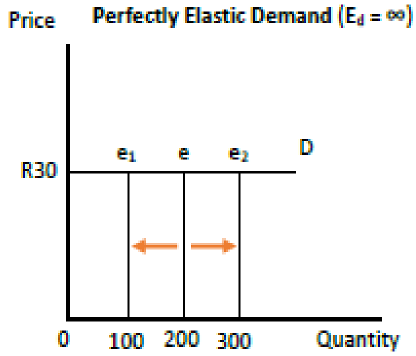
- In such a case, $E_d = \infty$ and demand curve D is a horizontal straight line parallel to quantity-axis as shown below✓✓


| Price (in R) | Demand (in units) |
|---|---|
| R30 | 100 |
| R30 | 200 |
| R30 | 300 |

- As seen in the table above, the quantity demanded can be 100 units, 200 units, 300 units and so on at the same price of R30. ✓✓
- In the graph above, the quantity demanded can be 100, 200 or 300 at the same price of R30.✓✓
- It must be noted that perfectly elastic demand is an imaginary situation in a market because it is unlikely to occur in the real world.✓✓
- It's only possible for an individual producer in a perfect market because there are many sellers selling a homogenous product like maize.✓✓

**2. Perfectly Inelastic Demand:**

- In such a case, $E_d = \infty$ and demand curve D is a horizontal straight line parallel to quantity-axis as shown below✓✓

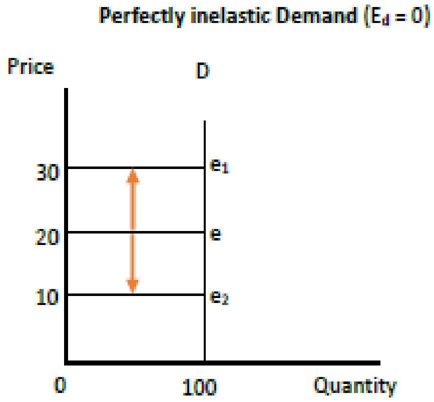



| Price (in R) | Demand (in units) |
|---|---|
| R30 | 100 |
| R30 | 200 |
| R30 | 300 |

- As seen in the table above, the quantity demanded can be 100 units, 200 units, 300 units and so on at the same price of R30. ✓✓
- In the graph above, the quantity demanded can be 100, 200 or 300 at the same price of R30.✓✓
- It must be noted that perfectly elastic demand is an imaginary situation in a market because it is unlikely to occur in the real world.✓✓
- It's only possible for an individual producer in a perfect market because there are many sellers selling a homogenous product like maize.✓✓

**2. Perfectly Inelastic Demand:**

- A perfectly inelastic demand is one when there is no change produced in the demand of a product with change in its price✓✓
- When there is no change in demand with change in price, then demand for such a commodity is said to be perfectly inelastic. In such a case, $E_d = 0$ and the demand curve D is a vertical straight line parallel to price-axis as shown below.✓✓
- This shows that consumers plan to purchase a fixed amount of the product, irrespective of its price.✓✓
- If the demand for a product is perfectly inelastic, the producers can raise their revenue by raising the price of the product.✓✓




| Price (in R) | Demand (in units) |
|---|---|
| R10 | 100 |
| R20 | 100 |
| R30 | 100 |

- As seen in the table above, the quantity demanded remains constant at 100 units, whether the price is R10, R20 or R30. In the graph above, the quantity demanded remains constant at 100 as the price changes from 20 to 10 or 20 to 30.✓✓
- It must be noted that perfectly inelastic demand is an imaginary situation.✓✓

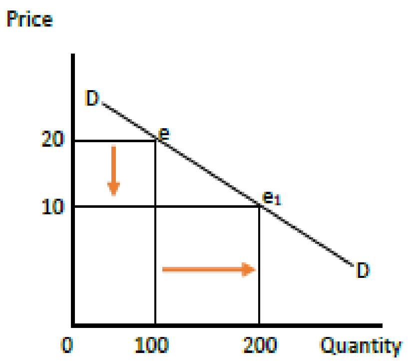
**3. Relatively Elastic Demand:**

- Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product✓✓
- When percentage change in the quantity demanded is more than percentage change in price, then demand for such a commodity is said to be elastic. In such a case, $E_d > 1$. ✓✓

- ❖ The relatively elastic demand curve is flatter and its slope is inclined more towards quantity-axis, as shown below:✓✓

| Price (in R) | Demand (in units) |
|---|---|
| R20 | 100 |
| R10 | 200 |

Relatively Elastic Demand ($E_d > 1$)




- ❖ As seen in the table, the quantity demanded rises by 100% due to a 50% fall in price. In the graph above, the quantity demanded rises from 100 to 200 with a fall in price from R20 to R10.✓✓
- ❖ As percentage change in quantity demanded, is proportionately more than the percentage change in price, the elasticity of demand is more than 1.✓✓
- ❖ Commodities like DVD players, etc. generally have highly elastic demand.✓✓
- ❖ This situation of elastic demand exists in monopolistic competition where there are many sellers selling heterogeneous / differentiated products.✓✓

**4. Relatively Inelastic Demand:**

- ❖ Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product✓✓
- ❖ When percentage change in the quantity demanded is less than percentage change in price, then demand for such a commodity is said to be less elastic or inelastic. In such a case, $E_d < 1$. ✓✓
- ❖ The relatively inelastic demand curve is steeper and its slope is inclined more towards price-axis, as shown below:✓✓

- ❖ When percentage change in the quantity demanded is equal to percentage change in price, then demand for such a commodity is said to be unitary elastic.✓✓
- ❖ In this case, $E_d = 1$ and the demand curve is a rectangular hyperbola.✓✓

- ❖ Rectangular hyperbola is a curve under which the total area at all points will be the same. It means, in the graph below, area of 0-15-e-100 is equal to the area of 0-10-$e_1$-150:✓✓

## QUESTION 10

**PRICE ELASTICITY**

With the aid of graphs, discuss the following types of price elasticity of demand:

- Perfectly inelastic. (8)
- Relatively elastic (8)
- Unitary elasticity (10) (26)

Evaluate the reasons for consumer reactions to price changes.

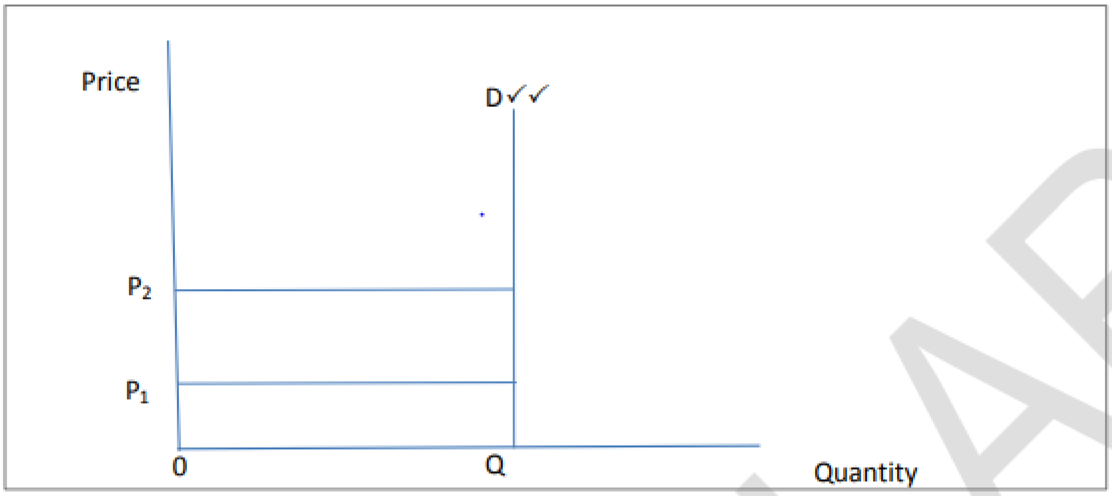
**INTRODUCTION:**

Price elasticity of demand measures how much consumers respond to or how sensitive they are to price changes. Responsiveness of quantity demanded, against a change in price. ✓✓ (Accept any other correct and relevant introduction) (2)

**MAIN PART**

**Perfectly inelastic**

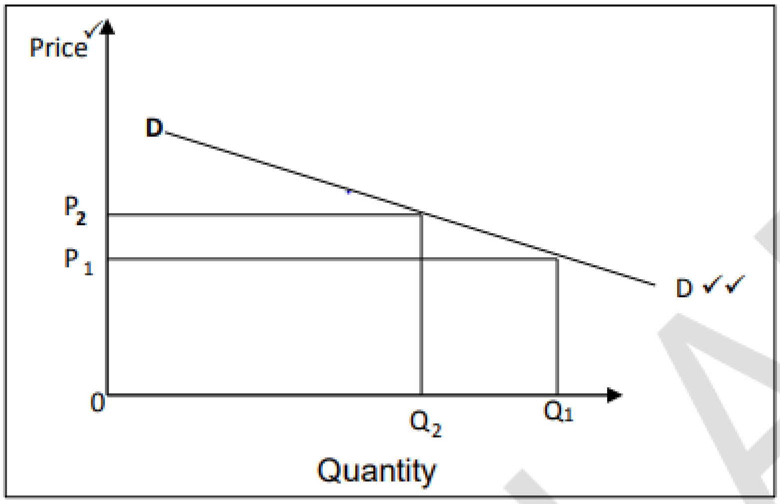
**Perfect inelasticity of demand ✓**




- The demand shows no response to any and all price changes. ✓✓
- The price elasticity of demand is zero. ✓✓
- It implies a change in price will cause no change in the quantity that consumers demand. ✓✓ (MAX 8)

Relative elasticity

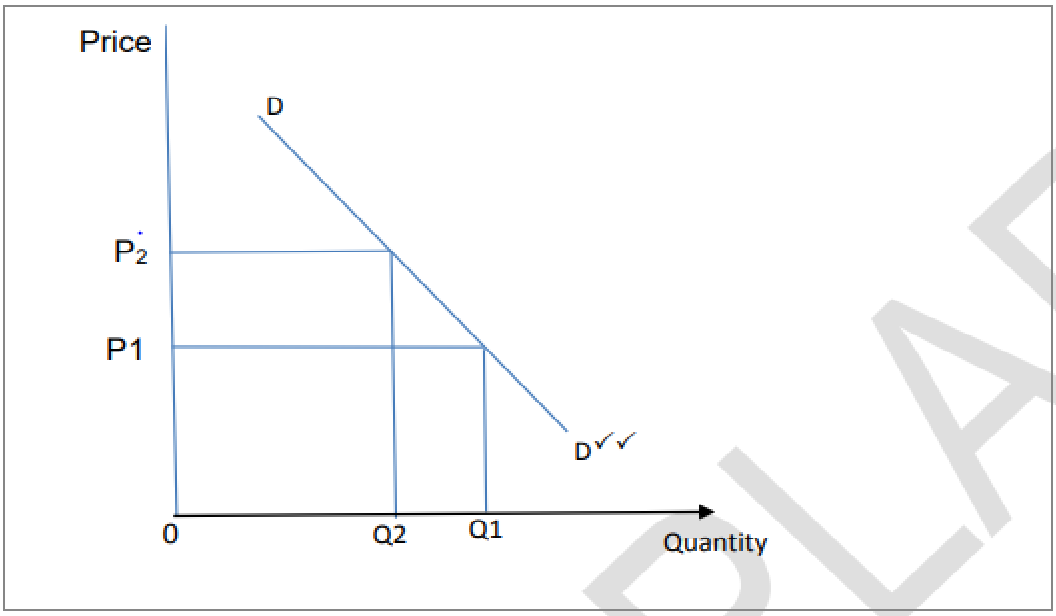
**Relative elasticity of demand ✓**




- Occurs when a small change in price causes a large change in quantity demanded. ✓✓
- Price elasticity is greater than one, but less than infinity. ✓✓
- To improve revenue, prices should be reduced. ✓✓ (MAX 8)

**Unliterary elastic**

**Unitary elastic demand ✓**




- Occurs when a specific change in price causes exactly the same change in quantity demanded. ✓✓
- If a price increases by 10%, the quantity demanded also increases by 10%. ✓✓
- The value of elasticity is equal to one. ✓✓ (MAX 10)

**ADDITIONAL PART**
**Evaluate the reasons for consumer reactions to price changes.**

- Consumers will react to an increase in the price of a good with a close or identical substitute good, by buying less of the original goods and more of the substitute goods. ✓✓
- Consumers will not react to a price increase for essential goods such as staple foods, medicines etc. as these goods are necessary for survival, ✓✓ however a decrease in the prices of these goods can lead to more quantities of these goods being bought and stored (where possible) for later use. ✓✓
- Consumers will continue to buy habit forming substances such as alcohol or cigarettes, regardless of price changes as these goods are addictive, ✓✓ however if there is a possibility of the removal (or limiting the supply) of these goods, consumers will buy large quantities before the removal and after the products are reintroduced ✓✓such as in the case with the ban on these goods during lockdown levels 3 – 5. ✓✓
- If goods with limited utility (single function products) become too expensive, consumers will buy less of these goods as they have limited uses. ✓✓
  (Accept any other correct relevant response) (10)

**CONCLUSION**

It is important for producers to study the buying patterns of consumers so they can plan prices accordingly. ✓✓
(Accept any relevant conclusion) (2)

# TERM 3 & 4 CONTENT PROGRESSION

| Grade 10 | Grade 11 | Grade 12 |
|---|---|---|
| Growth, Development & Globalisation / <br><br>Economic Redress | Examination and debate of globalisation, its relevance to the North/South divide, and its effects (negative and positive) on South Africa. | Econ Growth and Development (North/South divide) Comparison of South African growth and development policies in terms of international benchmarks, and highlight the North/South divide |
| | Explanation of economic growth and development | South Africa's industrial development policies and their suitability in terms of international best practice |
| Unemployment | Factors of production and their remuneration (Term 1) | Economic and Social Indicators |
| None | None | Inflation |
| None | None | Tourism |
| | Environment deterioration | Environmental sustainability |
| Population and Labour force | Factors of production and their remuneration (Term 1) | |
| Labour Relation | | |
| | Composition of Money and Banking in SA | |
| | Wealth creation and patterns of distribution (inequality) | |

# ECONOMIC PURSUITS

# TOPIC 1: ECONOMIC GROWTH (WEEK 7-9)

| SECTION A: TYPICAL EXAM QUESTIONS |
|---|

**SUB TOPIC:**

**QUESTION 1:** **Section A – Short Questions**

| **HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options. |
|---|

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 D. Lorenz curve ✓✓
1.1.2 C. Progressive✓✓
1.1.3 A. Per capita income✓✓
1.1.4 A. Property subsidy✓✓
1.1.5 A. 0 and 1✓✓
1.1.6 C. Greater degree of inequality
1.1.7 B. Economic growth rate ✓✓
1.1.8 B. Economic growth ✓✓
1.1.9 A. Level of per capita income✓✓
1.1.10 B. Perfectly unequal ✓✓
1.1.11. C. Standard of living✓✓
1.1.12 C To improve the lives of rural communities✓✓
1.1.13 C Help understand international conditions✓✓
1.1.14 B More calls are made in South Africa compared to other African countries✓✓

**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.**

1.2.1. L. Value of all assets that individuals, businesses and government own

1.2.2. E. A statistical measure used to express the inequality of income distribution

1.2.3 G. The practice of passing on wealth from one generation to the next.

1.2.4. A. This expresses the number of year a new born infant will live if the prevailing patterns of mortality remain the same throughout this person’s life

1.2.5. K. The increase in the production capacity of the economy

1.2.6. B. Is the reward that owners of factors of production receive for using it in the production process

1.2.7 I. Refers to the wealth, comfort, material goods and necessities available to a certain socio-economic class in a certain geographical area.

1.2.8 C. Show how a nation's wealth is distributed across its population.

1.2.9 J. A measure of the total output of a country and divide it by the population size of a country.

1.2.10 D. This is used to help beneficiaries acquire ownership of fixed residential property.

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. *No abbreviations will be accepted.***

1.3.1 Per capita income ✓
1.3.2 Gini-Coefficient ✓
1.3.3 Productivity ✓
1.3.4 Lorenz curve✓
1.3.5 Statistics South Africa✓
1.3.6 Wealth ✓
1.3.7 Income distribution ✓
1.3.8 Preferential procurement✓
1.3.9 Equity✓
1.3.10 Standard of living ✓

**SECTION B**

**QUESTION 2:**

| |
|---|
| **HINT:** When the question requires you to "list" or "name", you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1 |

**2.1 Name TWO social indicators related to income distribution.**

- Lorenz curve ✓
- Gini Coefficient✓
- Quintile Ratio✓
- Head Count Index✓
- Human Development Index✓
- Poverty Line/poverty gap✓

(Accept any other correct relevant response) (2x1)

**2.2 Name TWO factors that influence the income levels.**

- Level of education and tertiary qualifications✓
- Regional location with higher incomes in urban areas compared to rural areas. ✓
- Economic sector with primary sector earnings being lower than the tertiary sector earnings. ✓
- Extent employment equity where income differences are due to race and gender discrimination. ✓

(Accept any other correct relevant response) (2x1)

**2.3 Name TWO factors that promote economic growth**

- Greater capital investment ✓
- Labour productivity✓
- Availability of raw materials✓ and
- Technology✓ (2x1)

**2.4 List TWO ways in which wealth can be created**

- Savings ✓
- investments✓
- Inheritance✓
- Profits from running a business✓ (2x1)

(Accept any other correct relevant response)

**2.5 Mention any TWO uses of per capita GDP.**

- Compare standard of living ✓
- Indicate standard of living✓
- Indicate economic development✓ (2x1)

**2.6 Mention any TWO methods the government use to distribute income**

- Progressive income tax system ✓
- Transfer payments✓
- Land reform ✓
- Cash benefits ✓
- Benefits in kind ✓
- The National Minimum Wage✓ (2x1)

**QUESTION 3:**

| **HINT:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2 |
|---|

**3.1 How is the standard of living in a country determined?**

- Per capita real GDP ✓✓
- The number of material goods✓✓
- Quality of life✓✓
- Number of holidays per year✓✓
- Number of patients per doctor✓✓
- Infant mortality rates✓✓
- Percentage population literacy✓✓
- Religion and participation in sporting activities✓ ✓ (1 x 2)

**3.2 What is the use of the Gini-coefficient?**

- Gini-coefficient measures income inequality✓✓

(Accept any other correct relevant response)

**3.3 How does wealth differ from income?**

- Wealth consists of property, vehicles and equipment owned at a specific point in time. ✓✓
- Income is the reward that owners of factors of production receive for using it in the production process. ✓✓

(Accept any other correct relevant response) (1x2)

**3.4 What effect does a low economic growth rate have on the economy?**

- Will cause increase in poverty✓✓
- Malnutrition✓✓
- Less job opportunities✓✓
- Hunger/ starvation ✓✓

(Accept any other correct relevant response) (1x2)

**3.5 Why does South Africa need to increase its economic growth rate?**

- Growth of the economy is important because the population is getting larger✓✓
- Job creation is essential as the population grows✓✓
- Provision of good and service ✓✓and
- Improve welfare of the people in South Africa✓✓

(Accept any other correct relevant response) (1x2)

**3.6 What is the meaning '*per capita income'*?**

- Measures the total output of a country and divides it by the total number of people in the country. ✓✓
- Per capita GDP is important when comparing one country to another✓✓
- It shows relative performance of countries ✓✓and
- A rise in per capita GDP signals growth in the economy and tends to translate as an increase in productivity. ✓✓

(Accept any other correct relevant response) (1x2)

**3.7 What is *'income inequality'* ?**

- Income distribution that is not in proportion to the number of persons in the population. ✓✓

(Accept any other correct relevant response) (1x2)

**3.8 What do we measure using the Lorenz curve?**

- Income and wealth inequality in the economy between households ✓✓ (1x2)

**3.9 What effect will an increase in the income tax rate have on the inequality gap between the rich and the poor?**

- The intention of a progressive income tax scale is to decrease the inequality gap between rich and poor / It might cause the poor to become poorer, as they pay a proportionally bigger part of their income on tax. ✓✓ (1x2)

**3.10 What effect will HIV/Aids have on future economic growth?**

- Future economic growth will decrease/decline. ✓✓ (1x2)

**3.11 How important is economic growth in the economy?**

- Reduction in poverty ✓✓
- Reduction in unemployment ✓✓
- Improvement in government's budget deficits ✓✓
- Improvement in standards of living ✓✓
- Higher average incomes✓✓
- Improved public services✓✓
- Money can be spent on protecting the environment ✓✓
- Encourages investment✓✓ (1x2)

**QUESTION 4:**

**4.1 DATA RESPONSE**

**4.1.1. What is represented by the graph above?** **(1)**

GDP growth rate per quarter. ✓

**4.1.2. In which year, South Africa's growth rate was at the lowest?** **(1)**

2019 (-3.2) ✓

**4.1.3. Describe the concept Gross Domestic Product.** **(2)**

Total value of final goods and services Π produced within the boundaries of the country for a given period of time. ✓✓

**4.1.4. Briefly explain why the South African growth rate was -2,0 in quarter 1of 2020.**

The economy contracted for the third consecutive quarter in Q1 2020, mining and manufacturing was the biggest drag on growth✓✓ (2)

**4.1.5. Distinguish between economic growth and economic development**

Economic growth is an increase in the amount of goods and services produced over a period. ✓✓

Economic development is structural changes in the economy that can lead to an increase in the standard of living and an increase in the economic welfare of the poor. ✓✓ (4)

**4.2 DATA RESPONSE**

**4.2.1 Name any other development strategy that has been used in South Africa.**

- Reconstruction and Development Programme (RDP) ✓
- National Growth Path (NGP) ✓
- Accelerated Shared Growth Initiative of South Africa (AsgiSA) ✓
- Expanded Public Works Programme (EPWP) ✓
- Growth, Employment and Redistribution (GEAR) ✓
- JIPSA✓ (1)

**4.2.2 Give an example of what the citizens of South Africa can do to uplift** themselves.

- Open their own businesses / self-employment. ✓
- Get more training / skills. ✓
- Be involved in community projects. ✓
- Attend ABET classes ✓ (1)

**4.2.3 Briefly describe the term economic development**

- It is an improvement in the standard of living of the people of a country. ✓✓ (2)

**4.2.4 Explain the main aim of the National Development Plan.**

- To eliminate poverty and reduce inequality by 2030✓✓ (2)

**4.2.5 How will South Africa's skills base be improved through the NDP** implementation?

South Africa's skills base will be improved by investing in education and training. ✓✓

- increasing enrolment in higher education institutions by implementing free higher education. ✓✓
- forming partnerships with the private sector to create more learning-on-the- job opportunities / learnership. ✓✓
- creating more job opportunities ✓✓ (4)

## 4.3. DATA RESPONSE

**4.3.1 Which economic concept is depicted in the graph above?**

- Lorenz curve. ✓ (1)

**4.3.2 Provide the label for line A.**

- Line of equality ✓ (1)

**4.3.3 Briefly describe the term wealth.**

- Wealth is assets that are owned by individuals, enterprises and the Government. ✓✓ (2)

**4.3.4 Why does South Africa have one of the highest rates of inequality in the world?**

- The legacy of apartheid caused racial inequalities in income and wealth. ✓✓ (2)

  (Accept any correct relevant response)

**4.3.5 Explain the relationship between the Gini coefficient and the Lorenz curve?**

- Mathematically, the Gini coefficient is derived from the Lorenz curve by dividing the area of inequality by the total area of the Lorenz curve✓✓.
- If the area of inequality increases, the Gini coefficient will increase proportionately ✓✓
- The Gini coefficient measures income inequality and the Lorenz curve is a graphical illustration of income distribution. ✓✓

  (Accept any relevant correct response) (4)

## 4.4. DATA RESPONSE

**4.4.1 Name the type of indicator under which life expectancy is classified**

- Social indicator ✓ (1)

**4.4.2 Give ONE reason for low life expectancy levels in Africa.**

- HIV/Aids/Poverty ✓

  (Accept any other correct relevant response) (1)

**4.4.3 Explain the term life expectancy.**

- This expresses the number of year a new born infant will live if the prevailing patterns of mortality remain the same throughout this person's life ✓✓ (2)

  (Accept any other correct relevant response)

**4.4.4 What impact will HIV/AIDS have on productivity levels**

- Production levels will decrease due to ill health, ✓✓
- High level of absenteeism, ✓✓
- hospitalisation, etc.✓ (2)

  (Accept any other correct relevant response)

**4.4.5 Describe the factors which brought about the improvement in life expectancy from 52,1 years to 61,2 years**

- More affordable medication/ free antiretroviral drugs✓✓
- Availability of antiretroviral drugs✓✓
- A healthier life style✓✓
- Education and awareness campaign ✓✓ (4)

(Accept any other correct relevant response)

**4.5 DATA RESPONSE**

**4.5.1 Which international institution provided the data in the extract?**

- World bank✓ (1)

**4.5.2 When did the income disparities in South Africa increase drastically**

- 2009✓ (1)

**4.5.3 Explain the term *'Gini coefficient'***

- **The Gini coefficient** is a summary of a numerical measure of how unequally one variable is related to another. It is a number between 0 and 1, where perfect equality has a Gini coefficient of 0 and absolute inequality yields a Gini coefficient of 1. ✓ (1)

**4.5.4 Explain why South Africa has one of the highest rates of inequality in the world**

- Inequality inherited from the apartheid regime✓✓
- Poverty ✓✓
- Unemployment✓✓
- Life expectancy✓✓
- Land ownership✓✓
- Increase in population✓ ✓ (2)

(Accept any other correct relevant response)

**4.5.5 Briefly describe any TWO constraints to economic growth.**

- A Low level of investment/lack of capital investment✓✓
- A cumbersome regulatory environment✓✓
- Low levels of education and training/a lack of skilled workforce✓✓
- A low level of productivity✓✓
- The overvaluation and volatility of South Africa's currency. ✓✓
- Deficiencies in state organisation, capacity and leadership. ✓✓
- Lack of infrastructure✓✓ Any 2 x2 (4)

4.6 **DATA RESPONSE**

**4.6.1 What percentage is the enrolment in secondary education?**

- 57%✓ (1)

**4.6.2 What impact does the literacy rate have on wealth?**

- Few job prospects✓ (1)

**4.6.3 What has led to the low enrolment in tertiary education?**

- Matric failure✓✓
- Failure to meet admission requirements✓✓
- Lack of motivation✓✓
- Socio-economic reasons✓✓
- Teenage pregnancy✓✓
- Poverty✓✓
- Drug abuse✓✓ (2)

(Accept any other correct relevant response)

**4.6.4 Explain how lack of education can lead to low standard of living.**

Lack of education can lead to:

- Low income per capita✓✓
- Lower access to goods and services✓✓
- Poor housing✓✓
- Low standard of health✓✓
- Low life expectancy✓✓

(Accept any other correct relevant response) (2)

**4.6.5 How should higher education inequalities be addressed to improve the standard of living of South Africa**

The standard of living could be improved by:

- Proper training and skilling of school management to became efficient and effective. ✓✓
- Provisioning of sound educational infrastructure in the form of laboratories and libraries. ✓✓
- Up skilling and reskilling of teachers. ✓✓
- Insisting on a sound teaching and learning atmosphere. ✓✓ (4)

(Accept any other correct relevant response)

**4.7 DATA RESPONSE**

**4.7.1 Identify the curve (Z) in the above graph**

- Lorenz curve ✓ (1)

**4.7.2 What does the straight-line OB imply?**

- Line of equality ✓ (1)

**4.7.3 Identify the shaded area (Y).**

- Area of inequality ✓✓ (2)

**4.7.4 What is the relationship between line OB and curve Z?**

- The more the Lorenz curve (Z), deviates from the straight line (OB), the more the uneven is the distribution of wealth. ✓✓ (2)

**4.7.5 Briefly explain the concept Gini coefficient.**

- The Gini coefficient is a number that is calculated to indicate the degree of income inequality. ✓✓
- The Gini coefficient can vary from zero (meaning perfect equality/fairest distribution) to one (meaning perfect inequality/unfair distribution). ✓✓ (4)

## 4.8 DATA RESPONSE

### 4.8.1 Name the curve that is used to represent the above data.

- Lorenz curve✓ (1)

### 4.8.2 Which country has the highest income inequality?

- Namibia✓ (1)

### 4.8.3 Which country has the most equality level?

- Japan with 24.9%✓✓ (2)

### 4.8.3 What is income distribution?

- Income redistribution refers to the processes used to distribute income and wealth more evenly among the inhabitants of a country. ✓✓ (2)

### 4.8.4 Convert the Gini Indexes to Gini coefficient for South Africa and France

- South Africa: 57,8/100 = 0.578✓✓
- France: 32,7/100 = 0.327✓✓ (4)

## 4.9 DATA RESPONSE

### 4.9.1 Mention ONE other sources of wealth other than inheritance

- Savings✓
- Gifts✓
- Appreciation of assets✓
- Entrepreneurial activities✓
- luck✓ (1)

### 4.9.2 Give an example of what the citizens of South Africa can do to uplift themselves

- open their own business/ self-employment✓
- get mire training/skills✓
- be involved in community projects✓
- Attend ABET classes✓ (1)

(Accept any other correct relevant response)

### 4.9.3 Name TWO methods used to measure inequality of wealth

- Lorenz Curve ✓
- Gini coefficient ✓ (2)

### 4.9.4 What makes wealthy people to be essential in the economy?

- They are essential for economic growth and development through saving and investment ✓✓ (2)

**4.9.5 Explain how individuals create wealth.**

- Individual save when they abstain from consuming all their incomes ✓✓
- They accumulate wealthy when they hold on to cash, makes deposits, pay premiums on assurance policies, and carry out investments✓✓ (4)

**4.10 DATA RESPONSE**

**4.10.1 Identify the stakeholder/ organisation concerned about income and wealth distribution in South Africa**

- COSATU✓ (1)

**4.10.2 What is the purpose of implementing redistribution methods?**

- To reduce income and wealth inequality✓ (1)

**4.10.3 Explain the term *'living below the poverty line'*.**

- The poverty line is the minimum level of income (based on international standards) deemed necessary to achieve an adequate standard of living in a certain country. ✓✓ (2)

**4.10.4 Who should be responsible for creating job in the economy?**

- The state, private sector and entrepreneurs should all create jobs✓✓ (2)

**4.10.5 Differentiate between land redistribution and land restitution.**

- Land redistribution aims to give more black people access to agricultural land. ✓✓
- Land restitution is an opportunity to reclaim land lost during Apartheid. ✓✓ (2 x 2) (4)

(Accept any other correct relevant response)

**4.11 DATA RESPONSE**

**4.11.1 Name any characteristic of developing countries.**

- Low standard of living ✓
- Low per capita income✓
- Unequal distribution of income ✓
- Low life expectancy ✓
- Lack of education ✓ (1)

(Accept any other correct relevant response)

**4.11.2 Which indicator is used in measuring HDI?**

- life expectancy ✓
- education ✓
- GDP per capita✓ (1)

(accept any other correct relevant response)

**4.11.3 Briefly describe the term economic development.**

- it is an improvement in the standard of living of the people of a Country. ✓✓

(accept any other correct relevant response) (2)

**4.11.4 Explain the use of per capita figures.**

- to measure standard of living in a country. ✓✓
- to compare prosperity levels of different countries. ✓✓ (2)

(accept any other relevant correct response)

**4.11.5 How can the South African government improve the quality of Human resource?**

The government can:

- invest in quality education✓✓
- provide in-service training ✓✓ (4)

| |
|---|
| **HINT:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document. |

**QUESTION 5** **Paragraph type questions – Middle Cognitive**

**5.1.1 Briefly Explain two main factors that causes economic growth**.

**Increase in aggregate supply (productive capacity)**

causes economic growth when there is:

- Increased capital
- Increase in working population
- Increase in Labor productivity
- Discovering new raw materials
- Technological improvements to improve the productivity of capital and labor

**Aggregate Demand**

can increase for the following reasons:

- Lower interest rates
- Increased wages
- Increased government spending
- Fall in value of the rand
- Increased consumer confidence
- Lower income tax which increases disposable income. (8)

**5.1.2 Discuss reasons for the unequal distribution of income.**

Unequal holding of wealth ✓ As wealth generate income in the form profits, interest and dividends, differentials in wealth cause differences in income ✓✓

- Differences in the composition of households✓ ✓
- Some households are big and others are small ✓✓
- Differences in skills and qualifications✓ Those with advanced skills and qualifications are likely to earn high income. ✓✓
- Discrimination✓ The income of some groups is adversely affected by discrimination in terms of employment opportunities, pay and promotion chances. ✓✓ (8)

**QUESTION 5.1 Paragraph type questions – Lower - cognitive**

**5.1.3 Differentiate between economic growth and economic development** (8)

| Economic growth | Economic development |
|---|---|
| • Is an increase in the productive capacity of the economy✓✓ | • Is an increase in the standard of living of people in a country✓✓ |
| • Is measured as a percentage change in real GDP ✓✓ | • Deals with issues such as education, literacy, healthcare, employment and environmental sustainability ✓✓ |
| • Concerned with goods and services✓✓ | • Concerned with people and human development✓✓ |
| • Is necessary input for economic development✓✓ | • Growth should lead to development✓✓ |

**5.1.4 Differentiate between physical wealth and financial wealth.**

- **Physical wealth** consists of real assets ✓✓
- such as land, buildings, trading stock, machines, furniture and clothes that are owned by the participants of the circular flow. ✓✓
- **Financial wealth** consists of monetary assets such as cash, bank deposits, investment, loans and shares. ✓✓
- Money alone is not wealth it is a component of wealth. ✓✓ (8)

(Accept any other correct relevant response)

**5.1.5 Discuss the availability and use of factors of production as a way of growing the economy.**

**Labour** ✓

an increase in economic growth depends largely on the availability of suitable qualified and skilled labour. ✓✓
Training and reskilling must be conducted on an ongoing basis. ✓✓ The South African government has established 25 SETAs to train workers in the skills needed in their employment sectors. ✓✓

**Capital**✓

- is divided into physical, financial and human capital. ✓✓
- To increase output (GDP), a country must have all these forms of capital in large quantities. ✓✓

**Natural resources**: ✓

- The availability of **natural resources** in large quantities is essential to increase economic growth. ✓✓
- Natural resources are the source of all production. ✓✓
- A country with an abundance of natural resources such as minerals, forestry and fisheries stands a good chance of increasing its economic growth. ✓✓

**The entrepreneur**✓

Is a risk-taker who invests money in a project in the hope it will yield a return. ✓✓
No production can take place without entrepreneurs. ✓✓

Countries with many enterprising and business-minded people have many enterprises and their economies are growing. ✓✓
(Accept any other correct relevant response) (8)

**5.1.6 Discuss how income is redistributed in South Africa.**

- A country's income distribution shows how the total income is distributed among its population. ✓✓
- This may be even or uneven. ✓✓
- If there is unequal distribution of income, small number of people will be rich and the majority will be poor. ✓✓
- Not everyone receives the same income. ✓✓
- Spending patterns will also differ, the poor will have limited choices, ✓✓while the rich would be privileged to have a large range of goods and services at their disposal✓✓

(Accept any other correct relevant response) (8)

**5.1.7 Briefly explain 'taxation' as a method of redistributing income and wealth**

- High income earners are taxed at a higher rate (progressive) ✓✓
- The income from the taxation is used to provide benefits tom poor people✓✓
- PAYE is used in South Africa as a method of redistributing wealth✓✓
- Wealth taxes – properties are taxed annually✓✓
- CGT is levied on gains earned on the sale of capital goods✓✓
- Transfer duties and taxes on securities are also levied✓✓
- Estate duties are levied on the estates of deceased person✓✓ (8)

(Accept any other correct relevant response)

**QUESTION 5.2 Paragraph type questions – Higher cognitive**

**5.2.1 Critically evaluate the reconstruction and development programme as a development strategy in South Africa.**

**Positive:**

- Was a labour-intensive public works programme ✓✓
- assisted in the reduction of poverty by providing more employment ✓✓
- It was a socio-economic policy framework that went through as a golden thread in every government plan✓✓
- Assisted in the development of human resources that the economy needs most for development✓✓
- Assisted in the increase of infrastructure development ✓✓
- Promoted the implementation of land reform ✓✓
- Helped in the provisioning of houses, water electricity and primary health care✓✓

**Negative:**

- Unemployment rate kept on rising. ✓✓
- Poverty and service delivery were never improved. ✓✓

(Accept any correct relevant response) (8)

**5.2.2 Analyse savings as a method used to create wealth.**

- Individual people can create wealth for themselves as follows improving their education and skills✓✓
- People with a post-school education (tertiary education) earn more than those without qualifications. ✓✓
- Improve an individual's employment prospects and create opportunities for wealth creation. ✓✓
- Save for the future. ✓✓
- Spending of all income in the present day means that no wealth is accumulated for the future. ✓✓
- Money should be put away for retirement or invested in some way, for example, the stock market. ✓✓ (8)

(Accept any other correct relevant response)

**5.2.3 Discuss capital formation as an important determinant economic growth?**)

- Capital goods increase the efficiency of labor and increase all the economic activities✓✓
- Increases the country's ability to produce wealth. ✓✓
- When the stock of fixed capital in a country grows at a rate that is greater than the growth rate of the labor force, it will lead to an increase in real GDP. ✓✓
- Creates jobs/job opportunities. ✓✓
- Shows how much of the new value added in the economy is invested rather than consumed✓✓

(Accept any other correct relevant response) (8)

**5.2.4 Outline entrepreneurship as the determinants of wealth creation**

- the entrepreneur is the agent that combines all the different production factors to create wealth. ✓✓
- In a modern economy, companies are often entrepreneurial agents who will employ the other factors of production ✓✓
- The wealth created through these companies will then belong to owners of companies and their wealth will increase. ✓✓
- When entrepreneurs are successful, they also increase the wealth of the owners of the production factors they use, as these all earn income through the production process✓✓

(Accept any other correct relevant response) (8)

**5.2.5 Evaluate South Africa's approach to redistribute wealth and income**

- **Black economic empowerment (BEE):** ✓BEE is a government intervention policy that was introduced in 1996 to address the inequalities of the past. ✓✓
  The aims of the BEE include to:
  • scrap the statutory policies that prevented the black majority from participating in the mainstream of the economy. ✓✓
  • increase the number of black people who have ownership and control of existing and new enterprises. ✓✓
  • increase the number of new black enterprises in priority sectors of the economy. ✓✓
  • increase the number of black people in executive and senior management positions of enterprises. ✓✓

• ensure an increase in income levels of black people and reduce income inequalities between and within race groups. ✓✓

- **Broad-based black economic empowerment (BBBEE)**: ✓ BBBEE was introduced by the Department of Trade and Industry in 2003 to increase meaningful participation of black people in the management and ownership of businesses. ✓✓
- Businesses must show a commitment towards empowering black people if the business wants to benefit from government contracts. BBBEE has contributed to an 85% increase in black employment since 1993. ✓✓
- **The development and promotion of small business**: ✓ The National Small Business Act (1996) was introduced to create suitable environment for small, medium and micro-enterprises (SMMEs). ✓✓
- Several institutions were established to provide financial help to entrepreneurs. Institutions such as Khula and Ntsika were established to help finance SMME programmes. ✓✓
- **Labour market reforms**: ✓ Before 1994, the South African labour market had tremendous disparities in employment, occupations and incomes due to discriminatory laws and practices. ✓✓
- **The Employment Equity Act** ✓of 1998 is to ensure that employment of people is based on merit and not on any form of discrimination. ✓✓
- **The Skills Development Act** ✓of 1998 made provision for employers to pay a levy to the South African Revenue Service (SARS) for spending on staff training. ✓✓
- It also makes provision for **Sector Education Training Authorities** (SETA) to oversee training in each economic sector. ✓✓
- **The Basic Conditions of Employment Act**✓ of 1998 has improved working conditions of labour and prevented workers from being exploited. ✓✓
- **Land reform**: ✓ people who were forcibly removed from residential and farmland during apartheid or who were forced to sell their property for below market value to white buyers, have been given an opportunity to apply for **land restitution**. ✓✓
- This gives people the chance to have ownership restored or receive financial compensation. ✓✓
- Land restitution is an opportunity to reclaim land lost during apartheid. ✓✓
- **The New Growth Path**: ✓ the government's New Growth Path aims to speed up economic and social development by tackling joblessness, poverty and inequality. ✓✓
- It aims to do this by focusing on supporting knowledge and capital intensive industries such as IT, scientific research and manufacturing. ✓✓
- **Preferential procurement**: The Green Paper on Public Sector Procurement Reform of 1997 recommended that government use its purchasing power to improve black businesses. ✓✓
- Instead of government buying supplies directly from the market, it should award tenders to black people. ✓✓
- **Women empowerment**: legislation on the empowerment of women is aimed at elevating the status of women. ✓✓
- Women particularly in rural areas suffer the most poverty. ✓✓
- The Gender Commission advocates for gender equality in employment, society, business and political sectors. ✓✓ (8)

**5.2.6 How is the Lorenz curve related to the Gini coefficient?**

- The Gini coefficient index is calculated using the Lorenz curve. ✓✓
- The Gini coefficient is equal to the area of inequality as shown on the Lorenz curve, divided by the entire area below the equal distribution line on the Lorenz curve✓✓.
- The Gini coefficient is a number that is calculated to indicate the degree of income inequality. ✓✓

- The Gini coefficient measures precisely the degree of inequality shown on the Lorenz curve. ✓✓
- It is the ratio of the area between the Lorenz curve and the line of equal distribution and the total area below the line of equal distribution. ✓✓
- The Gini coefficient can vary from zero (meaning perfect equality/fairest distribution) to one (meaning perfect inequality/unfair distribution). ✓✓
- It can also be expressed as a number from 0 to 100 that is called the **Gini Index.** ✓✓

(8)

**5.2.7 Why are indigenous knowledge systems (IKS) important for the economic development of a country?**

- It is the key to sustainable social and economic development according to the Development Bank. ✓✓
- Learning from indigenous knowledge can help you to understand local conditions and provide a productive framework for activities aimed to help communities. ✓✓
- Indigenous knowledge offers problem-solving plans or strategies for local communities, especially the poor. ✓✓
- It represents an important contribution to global development knowledge. ✓✓
- Indigenous knowledge is an under-utilised resource in the development process. ✓✓

(8)

**5.2.8 Examine the impact of high population growth on a developing economy such as South Africa**

- When a developing country experiences a large increase in population growth, it will put strain on government's existing income and spending capacity which is already limited ✓✓such as building more public healthcare facilities ✓or increasing the number of grants or the amount of the grant✓
- Increases in population means that in the long run, more employment opportunities need to be created and increases in employment are limited in developing countries. ✓✓
- If the increased population is not contributing to the economy, they become a financial burden to working relatives✓✓ or taxpayers as taxes will be increased to ensure sufficient government income which will be used to support the poor and those in need. ✓✓
- High population growth can cause increases in pollution and settlements which may lead to disruptions in production or decreases in exports (loss of export earnings) due to the destruction of the environment/natural resources. ✓✓ (8)

**SECTION C**

| |
|---|
| **HINT:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination, you will need to answer only one. |

**ESSAY STRUCTURE**

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|---|---|
| **Introduction**<br>The introduction is a lower-order response.<br>• A good starting point would be to the main concept related to the question topic<br>• Do not include any part of the question in your introduction.<br>• Do not repeat any part of the introduction in the body<br>• Avoid saying in the introduction what you are going to discuss in the body | Max 2 |
| **Body**:<br>**Main part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>**Additional part:** Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest | Max 26<br><br>Max 10 |
| **Conclusion**<br>Any Higher or conclusion include:<br>• A summary of what has been discussed without repeating facts already mentioned in the body<br>• Any opinion or value judgement on the facts discussed<br>• Additional support information to strengthen the discussion/analysis<br>• A contradictory viewpoint with motivation, if required<br>• Recommendations.<br>• Draw a graph and explain | Max 2 |
| **TOTAL** | **40** |

**QUESTION 7**

- **Discuss the methods used by the government to redistribute income and wealth.**
- **Why do we have uneven distribution of income?**

**INTRODUCTION**

One of the macroeconomic objectives of the government is to ensure economic equity in the country. ✓✓

Therefore, the government must introduce measures to reduce the size of the income gap between the rich and the poor. ✓✓

(Any relevant introduction) (2)

**Redistribution methods**

**Taxation** ✓

- Taxation is one tool used by government to redistribute income. ✓✓
- Most governments use a progressive tax system to redistribute income.✓✓
- In terms of the progressive tax, those who earn more pay more tax. ✓✓
- The additional income generated by the change in the tax rate, can be used to finance social security programmes. ✓✓
- In this way, the government redistributes income from the rich to the poor.✓✓

**Social security** ✓

- Government uses revenue from taxation to pay for its social security programmes. ✓✓
- Transfer payments such as old-age pensions and disability grants are paid out of tax revenue. ✓✓
- The government also provide non-cash benefits such as food parcels, free education, and free medical services to the poor. ✓✓
- These benefits help to improve the standard of living of the low-income groups and reduce the inequality gap. ✓✓

**Minimum wage** ✓

- The government can impose a minimum wage requirement. ✓✓
- No employer is allowed is allowed to pay his workers a wage lower than a certain minimum ✓✓
- This is to ensure that workers meet at least the minimum standard of living. ✓✓

**Redress policies** ✓

- There are several policies that have been implemented by the South African government to redress the inequalities of the past. ✓✓
- A variety of policies have since been introduced to empower these previously disadvantaged groups. ✓✓

**Black Economic Empowerment** ✓

- BEE is a government intervention policy that was introduced in 1996 to address the inequalities of the past. ✓✓
- This act provides the foundation for the transformation of the South African economy so that black people who own and manage and control the country's economy can increase significantly and income inequalities will decrease substantially. ✓✓

**Land restitution and land redistribution** ✓

- The purpose is to return land to those who lost it because of racially discriminatory laws and practices. ✓✓
- Land redistribution focuses on land of residential and productive use. ✓✓
- It is based on a willing-buyer willing-seller-principle. ✓✓
- Government aims to redistribute 30% of the country's agricultural land to previously disadvantaged people. ✓✓
- Land is a major wealth asset if properly used. ✓✓

**Property subsidies** ✓

- Properties are used to help beneficiaries acquire ownership of fixed residential property. ✓✓
- The government housing subsidy scheme provides six funding options to all eligible people earning less than R3 500 per month. ✓✓
- The subsidy may also be used to supplement loans from banks. ✓✓

**ADDITIONAL PART**
**Why do we have uneven distribution of income?**

**Unequal holdings of wealth** ✓

- As wealth generates income in the form of profits, interest and dividends, differentials in wealth cause differences in income. ✓✓

**Differences in the composition of households**✓

- Some households are big and others are small. ✓✓

**Differences in skills and qualifications** ✓

- Those with advanced skills and qualifications are likely to earn higher incomes.

**Discrimination**✓

- The income of some groups is adversely affected by discrimination in terms of employment opportunities, pay and promotion chances. ✓✓ (10)

**CONCLUSION**
In South Africa, economic redress is applied to improve the standard of living of all people. This is done by improving everyone's access to economic resources through equal opportunities. ✓✓ (2 )
**(Any relevant conclusion accepted)** **[40]**

**QUESTION 8**
Discuss in detail the following methods used to redistribute income and wealth:

- Taxes (10 marks)
- Cash grants (8 marks)
- Natura benefits (8 marks)

Examine the government's efforts to redress economic inequality in South Africa (10 marks)
[40]

**INTRODUCTION**

Redistribution refers to processes that distribute income and wealth more evenly among the inhabitants of a country to reduce inequality.
(Accept any correct relevant introduction) (2)

**MAIN PART**
**Taxes**

- Several forms of taxes and wealth taxes have been implemented to address the uneven distribution of income in South Africa. ✓✓

- High income earners and wealthy people are taxed to provide cash benefits and benefits in kind to low-income earners and other poor people.
- Progressive individual income tax✓where high income earners are taxed at higher rates ✓✓
- Wealth taxes✓ in South Africa, properties such as houses and factory buildings in urban areas are taxed annually. ✓✓
- Capital gains tax (CGT) ✓is levied on gains (profits) earned on the sale of capital goods, e.g. properties and shares. ✓✓
- Transfer duties ✓are paid when properties are bought. ✓✓
- Inheritance tax ✓is levied when money is inherited from a deceased person or family member. ✓✓
- Estate duties ✓the estates of deceased persons above the value of R3,5 million are taxed ✓✓
- Land tax ✓on farms has been introduced to address income inequality.✓✓
- These taxes are used to finance development expenditures which benefit the poor more often✓✓ (Max. 10)

**Cash grants**

- The main cash grants in South Africa are old-age pensions, disability grants, child support grants and unemployment insurance. ✓✓
- These are also known as social security payments. ✓✓
- South Africa is the biggest welfare state in the world and has allocated R567 billion for 2019/2020 fiscal year. ✓✓
- These kinds of grants help redistribute income. ✓✓
- A major part of GDP is spent on social grants. ✓✓ (Max. 8)

**Natura benefits**

- These are payments in kind:
- These consist of primary health care, basic education, protection, and infrastructure ✓✓
- Poor households also receive welfare grants, free municipal services such as limited quantities of free water and electricity, sanitation, and housing subsidies per household per month. ✓✓
- These payments do not contribute to the accumulation of assets for generating long-term wealth. ✓✓
- They satisfy basic needs and help redistribute income and wealth ✓✓

(Max.8)

**ADDITIONAL PART**

**Examine the government's effort to redress economic inequality in South Africa**

The South African government has the following measures to redress economic inequality:

**Broad Based Black Economic Empowerment** ✓

- This act provides the foundation for the transformation of the South African economy so that the numbers of black people who own, manage and control the country's economy can increase. ✓✓
- Income inequalities will decrease substantially. ✓✓
- One indication of the level of transformation is black shareholding on the JSE. ✓✓

**Land restitution and land redistribution** ✓□

- Land restitution – purpose is to return land to those who lost it because of racially discriminatory laws after 1913 ✓✓
- Land redistribution – focuses on land for residential and productive. ✓✓
- The government aims to redistribute 30% of the country's agricultural land to previously disadvantaged people. ✓✓

**Property subsidies** ✓

- These are used to help beneficiaries acquire ownership of fixed residential property. ✓✓
- The government's housing subsidy scheme also (RDP houses) provides funding options to all eligible people earning less than R3 500 ✓✓
- Fixed residential properties are ideal wealth assets because they can also be used as collateral for loans of any kind ✓✓

**Affirmative Action** ✓

- The practice or policy of favoring previously disadvantaged groups. ✓✓
  (Accept any correct relevant response)

**CONCLUSION**

The South African government acted to intervene in the workings of the market system to ensure a more rapid redistribution of wealth and income. ✓✓
(Accept any correct higher order conclusion.) (2)

**QUESTION 9** **[40]**

- Discuss the methods used to increase economic growth in detail. (26)
- How can human and natural resources be used to ensure economic development? (10)

**INTRODUCTION**

Economic growth means an increase in the production of goods and services in a country (over a year) in physical terms (in numbers). ✓✓
Economic growth is therefore measured and expressed in terms of real GDP. ✓✓
(Any relevant introduction) (2)

BODY MAIN PART
Methods of growing the economy

**a. Increases in productivity** ✓

- Productivity can be described as the relationship between real output (the quantity of goods and services produced) and one unit of factor input. ✓✓
- Productivity increases can occur in five ways: ✓✓

1 Output increases while input remains the same.
2 Output increases faster than input. ✓✓
3 Output increases while input declines. ✓✓
4 Output remains constant while input declines. ✓✓
5 Output declines at a slower rate than input. ✓✓

**b. Availability and utilisation of factors of production** ✓

- In terms of the labour force, growth will occur if the ratio of the working population to the total population increases. ✓✓

- In terms of land and natural resources an increase is rarely possible. ✓However, land, for example, can be used for new purposes that will render better returns (for example to grow canola rather than wheat). ✓✓
- In terms of capital, capital widening and deepening should be pursued to achieve growth. ✓✓

**c. Technological change** ✓
- Technology is any instrument or technique, product or process, physical equipment or method whereby something is made or done, which extends human ability. ✓✓
- If new ways are discovered so that more goods and services can be produced with similar inputs, technology has improved. ✓✓
- Most of the time, new technology is acquired through capital investments. ✓✓

**d. Effective government policies and administration**. ✓
- Effective policies mean policies that will ensure that pre-set objectives are met. ✓✓
- Government should have policies in place that will realise, for example, more exports, growth in tourism and the expansion of manufacturing industries. ✓✓
- Use of effective fiscal and monetary policies. ✓✓
- Efficient administration means that the policies are executed in a manner that minimises time wastage, inconvenience and costs. ✓✓
- Nepotism (favouritism), corruption (the use of public office for private gain) and indifference or laziness increase transaction costs for enterprises. ✓✓

**e. Investment**. ✓
- An increase in capital per worker will generally increase output✓✓ In other words, the more equipment used by people at work, the more likely they are to produce. ✓✓
- To increase capital requires investment and that investment requires savings. ✓✓
  (Headings and examples max 8 marks) (26)

**ADDITIONAL PART**
- Natural resources are extracted through primary sector activities, which creates employment and income opportunities for unskilled and semi-skilled workers who make up the largest part of South Africa's labour force. ✓✓
- Global production relies on natural resources, creating export opportunities that create employment and income opportunities which increase living standards. ✓✓
- South Africa receives a lot of income from the tourism industry due to the availability of natural resources (environment) that are set aside for tourist attractions, improving the living standards of the individuals employed in the tourism industry. ✓✓
- People that are skilled will be able to find employment, which will increase income and living standards✓✓ therefore improving human resources through education and training can create economic development. ✓✓
- Increased health expenditure and upgrading public health services will ensure a healthier labour force (healthier human resources) ensuring workers attend work more frequently and do not suffer a loss of income due to illness
  (consistent living standard). ✓✓
- (Accept any correct and relevant higher order response) (Max 10)

**CONCLUSION**

To improve the standard of living of all the people of South Africa, higher growth rates are needed. ✓✓ Under the Accelerated and Shared growth for South Africa (AsgiSA) programme, a continuous growth rate of 6% was identified as the minimum to reduce unemployment meaningfully. ✓✓The most recent target of the government, in terms of the NGP, is to realise a growth rate that will reduce unemployment by 5 million by 2020. ✓✓

(Any relevant higher order conclusion) (Max 2)

# ECONOMIC PURSUITS

# TOPIC 2: ECONOMIC DEVELOPMENT (WEEK 1 -3)

| **SECTION A: TYPICAL EXAM QUESTIONS** |
|---|

**QUESTION 1:** **Section A – Short Questions**

**:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

HINT: Learners must know their concepts well, as this will assist in a better understanding of the content in general. Leaners are encouraged to revise these types of questions that are found in Section A of the paper

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

**ANSWERS**

| | | |
|---|---|---|
| 1.1.1 | A | development✓✓ |
| 1.1.2 | A | level of per capita income✓✓ |
| 1.1.3 | B | Reducing child mortality✓✓ |
| 1.1.4 | A | per capita income✓✓ |
| 1.1.5 | C | Expanded Public Works Program✓✓ |
| 1.1.6 | B | Economic growth rate✓✓ |
| 1.1.7 | C | Reconstruction and Development Program✓✓ |
| 1.1.8 | B | RDP✓✓ |
| 1.1.9 | D | IDZ✓✓ |
| 1.1.10 | B | human✓✓ |
| 1.1.11 | D | Gross National Income✓✓ |

**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.**

**ANSWERS**

1.2.1 C (Unique practices of locals in a given culture or society) ✓
1.2.2 G (The change in the number of people in a country over time) ✓
1.2.3 D (A measure of standard of living) ✓
1.2.4 A (Measures the level of development of countries) ✓
1.2.5 I (Measures the level of development of countries) ✓
1.2.6 F (A policy aimed to increase the ownership of agricultural land to black people in the economy) ✓
1.2.7 H (This institution was established in 1983 to promote economic development in Southern Africa) ✓
1.2.8 E (A trade agreement between a group of emerging markets) ✓
1.2.9 B (Include protection, sanitation and water) ✓
1.2.10 K (The estimated minimum level of income needed to secure the necessities of life) ✓
1.2.11 M (Not wanted for itself but for its ability to help in producing other goods) ✓
1.2.12 L (A vocational skills training organisation in South Africa) ✓
1.2.13 J (A program in which government funding is invested in infrastructure development and educational skills development) ✓

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. *No abbreviations will be accepted.***

**ANSWERS**

1.3.1
Land restitution✓
1.3.2 Per capita income✓
1.3.3 Indigenous Knowledge System✓
1.3.4 Human development Index✓
1.3.5 Developing country✓
1.3.6 Economic development✓
1.3.7 Social services✓
1.3.8 Productivity✓
1.3.9 Dependency burden✓
1.3.10 Sustainable development✓
1.3.11 Jipsa✓
1.3.12 AsgiSA✓

**QUESTION 2:**

**:** When the question requires you to "list" or "name", you need not write a sentence but merely the word or a phrase. This MUST be done in bullet form. These types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

**2.1 List any TWO 'development strategies'.**

- Development through trade in agricultural products / Natural resources ✓
- Development through labour intensive development programme. ✓
- Development through educational reform. ✓
- Developing the quality of human resources / Human development ✓
- Development through industrialisation of the economy. ✓
- Entrepreneurship. ✓
- Diversification of the rural economy. ✓
- Development through foreign investments, loans and aid. / Capital ✓
- Development by accessing modern technology / Technology ✓
- Development of infrastructure. ✓
- Providing a stable macro-economic environment. ✓

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

**2.2 List TWO groups of people that are marginalised in South Africa**

- Non-whites ✓
- Women ✓
- Immigrants/Refugees ✓
- Disabled people ✓

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

**2.3 List the TWO aims/purposes of government's intervention in the economy**

- To strengthen the functioning of the markets. ✓
- To promote economic growth and development. ✓
- To ensure the redistribution of income and wealth. ✓

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

**2.4 Mention any TWO uses of per capita GDP.**

- Compare standard of living. ✓
- Indicate standard of living. ✓
- Indicate economic development. ✓

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

**2.5 List any 2 development policies that where implemented in South Africa since 1994**

- RDP ✓
- GEAR ✓
- Jipsa ✓
- AsgiSA ✓
- National Skills Strategy ✓

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

**2.6 In what TWO ways can a country ensure the promotion of quality human resources?**

- Implementing programs to improve healthcare and nutrition and to control diseases ✓
- Improving education, reducing illiteracy rate and training workers in productive skills ✓
- Trained employees can use capital equipment effectively and efficiently ✓

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

**2.7 State any TWO characteristics of developing countries.**

- Low standard of living ✓
- Low levels of productivity ✓
- High population growth ✓
- Dependency burdens ✓
- High levels of unemployment ✓
- Dependent on the primary sector ✓
- Deficient infrastructure ✓

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

**2.8 Name any TWO of South Africa's developmental endeavours.**

- Reconstruction and Development Programme (RDP) ✓
- Growth, Employment and Redistribution (GEAR) ✓
- Joint Initiative on Priority Skills Acquisition (JIPSA).
- Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓
- National Skills Development Strategy (NSDS) ✓
- Government Funding Institutions such as KULA Enterprises✓

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

## QUESTION 3:


These types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences; learners must ensure that their answer addresses the question asked

**3.1 Why do you think the government should spend more on infrastructure development?**

- To promote economic growth ✓✓
- To reduce unemployment ✓✓
- To improve living standards ✓✓
- To reduce poverty ✓✓
- To promote industrial development ✓✓ (1 x 2) (2)

(Accept any other correct relevant response)

**3.2 What impact does the Expanded Public Works Programme have on your local community?**

- Community projects are earmarked ✓✓
- Jobs are created while at the same time, community upliftment takes place ✓✓
- Poverty is alleviated ✓✓
- An income for the unemployed is provided ✓✓ (1 x 2) (2)

(Accept any other correct relevant response)

**3.3 How can technology accelerate economic development in South Africa?**

- Technological development results in cost advantages and makes countries more competitive ✓✓
- Technological industries such as telephones and computers can significantly improve productivity in developing countries ✓✓
- Management training is essential to cultivate managers who are able to use technology and apply best practice techniques ✓✓

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

**3.4 How important is an efficient infrastructure for the economy?**

- In order for the economy to grow ✓✓
- Makes it possible to do business ✓✓

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

**3.5 How is the standard of living in a country determined?**

- Per capita real GDP ✓✓
- The number of material goods ✓✓
- Quality of life ✓✓
- Number of holidays per year ✓✓
- Number of patients per doctor ✓✓
- Infant mortality rates ✓✓
- Percentage population literacy ✓✓
- Religion and participation in sporting activities. ✓✓

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

## DATA RESPONSE

All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document.

## QUESTION 4

### 4.1 Data-response

**4.1.1 What is depicted in the cartoon above?**

- Unemployment ✓

  (Accept any relevant answer) (1)

**4.1.2 What is the age group of the economically active population in South Africa?**

• 15 – 65 years ✓ (1)

**4.1.3 What is the greatest threat to labour in SA?**

- An unproductive workforce due to illness e.g. HIV / Aids ✓✓ (2)

(Accept any relevant answer)

**4.1.4 How do nominal wages differ from real wages?**

- Nominal wage is the amount that the worker receives each day, week or at the end of the month, whereas real wage is the amount of goods and services that a person can buy with the nominal wage. ✓✓

  (Accept any relevant answer) (2)

**4.1.5 Why do developing countries have a large supply of unskilled workers? Substantiate your answer.**

- Developing countries are characterised by high levels of illiteracy levels and low levels of education. ✓✓
- Large population growth with lack of education ✓✓

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

### 4.2 Data-response

**DATA RESPONSE**

**4.2.1 What percentage is the enrolment in secondary education?**

57% ✓ (1)

**4.2.2 What impact does the literacy rate have on wealth?**

- Higher literacy will lead to higher wealth prospects and visa versa / lower literacy leads to lower wealth prospects ✓ (1)

**4.2.3 What has led to the low enrolment in tertiary education?**

- Matric failure ✓✓
- Failure to meet admission requirements ✓✓
- Lack of motivation ✓✓
- Socio economic reasons ✓✓
- Teenage pregnancy ✓✓
- Poverty ✓✓
- Drug abuse ✓✓

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

**4.2.4 Explain how lack of education can lead to a low standard of living.**

Lack of education can lead to:

- Low income per capita ✓✓
- Lower access to goods and services ✓✓
- Poor housing ✓✓
- Low standard of health ✓✓
- Low life expectancy ✓✓

(Accept any other correct relevant response) (2)

**4.2.5 How should higher education inequalities be addressed to improve the standard of living of South Africa?**

The standard of living could be improved by:

- proper training and skilling of school management to become efficient and effective ✓✓
- provisioning of sound educational infrastructure in the form of laboratories and libraries ✓✓
- up skilling and reskilling of the teachers ✓✓
- insisting on a sound teaching and learning atmosphere ✓✓

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

4.3 **Data response**

**4.3.1 Identify ONE previous strategies in the information above that were used to improve economic growth in South Africa.**

- GEAR – Growth, Employment and Redistribution ✓
- NGP – New Growth Path ✓
- NSDS – National Skills Development Strategy ✓ (1)

**4.3.2 List ONE characteristic of developing countries.**

- Low standard of living✓
- Low levels of productivity✓
- High population growth and dependency burdens✓
- High levels of unemployment✓
- Dependence on the primary sector✓
- Deficient infrastructure✓
- Low per capita income✓

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

**4.3.3 What is the main aim of the NDP?**

It provides a road map to government for 2030 / poverty relief / economic growth / economic transformation / sustainable job opportunities / income distribution ✓✓

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

**4.3.4 What negative impact will the NDP have on the taxpayers?**

- For implementation of the NDP the state will increasingly need more revenue ✓✓ more and higher taxation will be needed ✓✓
- Reduce disposable income even more ✓✓
- Higher levels of fraud and corruption affecting services to the poor ✓✓

(Accept any other correct relevant response) (2)

**4.3.5 How successful will the implementation of the NDP be in the South African economy?**

- Good progress has been made since 2014 in the construction of renewable energy sources ✓✓e.g. solar farms and wind farms ✓

- Standard of living might improve that will reduce poverty levels ✓✓ e.g. housing, social grants ✓

AND / OR

- Since 2014 there has been no improvement in the unemployment rate and this scenario might continue to exist ✓✓e.g. unemployment might increase even further ✓
- As is evident since the start of the pandemic; millions of people are now unemployed ✓✓
- The gap between rich and poor might increase further ✓✓
- The following targets set out in the NDP will be difficult to reach: an economic growth rate of 5 % (currently 0,8%) job creation of 5 million per annum ✓✓

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

**4.4 Data-response**

**4.4.1 Identify the policy in the extract that was implemented in 2006 to address the country's chronic problem of unemployment and skills shortage**
Jipsa ✓ (1)

**4.4.2 What do the Acronym AsgiSA stand for?**
Accelerated and shared growth initiative for South Africa ✓ (1)

**4.4.3 What is the main aim of the NDP?**
NDP aims to eliminate poverty and reduce inequality of the past. (2)

**4.4.4 Briefly describe the term *economic development*.**
An increase in the overall living standard of all the people in a country. ✓✓ (2)

**4.4.5 How can South Africa realise the main aim in NDP identified above?**

- By drawing to the energies of its people ✓✓
- Growing an inclusive economy ✓✓
- Building capabilities ✓✓
- Enhancing the capacity of the state ✓✓
- Promoting leadership and partnership throughout the society ✓✓ (2 x 2) (4)

**4.5 Data-response**

**4.5.1 Why do female traditional healers implement a strategy for management of indigenous knowledge systems?**

- To improve the lives of rural communities ✓
- Sustainable use of natural resources with nutritional and medicinal value ✓ (1)

**4.5.2 Name a health-related problem that can be cured by extracts of wild plants.**

- Coughs ✓
- Headaches ✓
- Heal wounds ✓ (1)

**4.5.3 Describe the term *Indigenous Knowledge System (IKS*).**
Local knowledge that is unique to a certain culture or society ✓✓
(Accept any other correct relevant response) (2)

**4.5.4 Explain the importance of indigenous knowledge systems as part of local community development.**

- It provides culture-fit, problem-solving solutions ✓✓
- Provides knowledge that has practical application for a local community's daily survival ✓✓

- Is seen as key to sustainable social and economic development according to the Development Bank ✓✓
- Learning from IKS can help you to understand local conditions ✓✓ and provide a productive framework for activities aimed to help communities ✓✓
- Represents an important contribution to global development process ✓✓
  Accept any other correct relevant response). (2)

**4.5.5 Why does the government implement policies to protect and promote indigenous knowledge systems?**

- To consult local communities for their views and ideas before development and projects are implemented ✓✓
- It is important for the welfare of the majority of South Africans. ✓✓
- 25% of modern medicines are made from plants first used traditionally ✓✓
  (Accept any other correct relevant response). (2 x 2) (4)

Useful Tips

All section B questions have TWO 8 marks questions. One is a M**iddle order** paragraph, the other is a **Higher order** paragraph

**QUESTION 5 Paragraph type questions – Middle Cognitive**

**5.1 Differentiate between a developing economy and a developed economy**

**Developing economy:**

- A developing economy would be an economy where all citizens do not yet have the resources available to live free, healthy and safe lives ✓✓
- The gap between the rich and the poor is very large in the developing countries ✓✓
- These countries are mostly in the southern hemisphere ✓✓
  (Accept any other relevant answer) (Max. 2 x 2) (4)

**Developed economy:**

- A developed economy would be an economy where all citizens enjoy a standard of living that enables them to live free, healthy and safe lives ✓✓
- These countries are in the northern hemisphere ✓✓
  (Accept any other relevant answer) (Max. 2 x 2) (4)

**5.2 Differentiate between economic growth and economic development.**

**Economic growth**

- It focuses on the production of goods and services ✓✓
- It is the increase in the real GDP over a period of time ✓✓
- Increase in the production capacity of the country ✓✓
  (Accept any other relevant answer) (Max. 2 x 2) (4)

**Economic development**

- It is the increase in the real per capita GDP ✓✓
- It focuses on the increase in living standards ✓✓
- It focuses on the society's wellbeing ✓✓
  (Accept any other relevant answer) (Max. 2 x 2) (4)

OR

| Economic growth | Economic development |
|---|---|
| • Is an increase in the productive capacity of the economy✓✓ | • Is an increase in the standard of living of people in a country✓✓ |
| • Is measured as a percentage change in real GDP ✓✓ | • Deals with issues such as education, literacy, healthcare, employment and environmental sustainability ✓✓ |
| • Concerned with goods and services✓✓ | • Concerned with people and human development✓✓ |
| • Is necessary input for economic development✓✓ | • Growth should lead to development✓✓ |

**5.3 Explain *low life expectancy* and *lack of education* as the characteristics of developing country.**

**Low life expectancy**

- Developing country has a low life expectancy, average 51 years, compared to 75 years for developed countries. ✓✓
- Means that a smaller portion of a developing country's population is available as an efficient labour force. ✓✓
- They are fighting an endless battle against diseases, ill health, malnutrition. ✓✓

(Accept any other relevant answer) (2 × 2) (4)

**Low standard living**

- Low living standards are also related to low levels of education. ✓✓
- The level and effectiveness of education are expressed by the adult literacy rate.✓✓
- This is a percentage of people aged 15 years and above who can read, write and speak. ✓✓
- Literacy rates in developing countries are low compared to those in developed countries. ✓✓
- Education deficiencies and the apartheid legacy have caused severe skills shortages in South Africa. ✓✓
- The most important way of escaping poverty for individuals is education. ✓✓
- An improved education system is necessary to grow the economy as a whole. ✓✓

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

**5.4 Discuss the objectives of GEAR.**

- To increase exports drastically for economic growth ✓✓
- To reduce the fiscal deficit to 3% of the GDP ✓✓
- Budget reforms aimed at strengthening the distribution effect. ✓✓
- Tax reforms and other incentives to promote job creation. ✓✓
- Expanding on infrastructure and increased government expenditure ✓✓
- To control inflation between the target area. ✓✓
- Expansion of infrastructure and increase in government investments. ✓✓

(Accept any other relevant answer) Any (4x2) (8)

**5.5 Discuss the aims of *Small Enterprise Development Agencies (SEDA)* and the *National Skills Development Strategy (NSDS)* as strategies for development.**

**Small Enterprise Development Strategy: (SEDA)**

- Involved with the provision of information / technology to small business. ✓✓
- Provides funding for the establishment of small business. ✓✓
- Also provides information on possible markets for small business. ✓✓
  (Accept any other correct relevant response) (Max. 4)

**National Skills Development Strategy: (NSDS)**

- The NSDS provides a framework for skills development in the workplace. ✓✓
- The aim was to develop a culture of high quality lifelong learning. ✓✓
- The NSDS further aimed to accelerate BBE empowerment and employment equity in the workplace. ✓✓
- The latest objectives are towards institutional learning, linked to occupationally directed programmes. ✓✓ (Max. 4)
  (Accept any other correct relevant response)

**5.6 Discuss 'low levels of productivity' as one of the characteristics of developing countries.**

- Developing countries are characterised by low levels of labour productivity. ✓✓
- Low standards of education and training. ✓✓
- Lack of physical capital such as machinery and technology. ✓✓
- Malnutrition leads to poor human development. ✓✓
- Poor management of factors of production. ✓✓
- Lack of good public services such as drinking water, sanitation, waste disposal etc. ✓✓
- High incidence of water-borne and environmental diseases. ✓✓
  (Accept any other correct relevant response) (4 x 2) (8)

**5.7 Briefly explain any TWO elements of IKS.**

Elements of IKS:

**The economic element** ✓

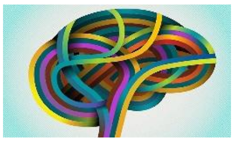
Includes

- o Agricultural activities, e.g. livestock and crop farming. ✓✓
- o Mining e.g. gold, iron and copper. ✓✓
- o Manufacturing e.g. farming equipment such as ploughs household's utensils, craft and jewellery. ✓✓
- o Services e.g. health care, medicine, medical treatment and grooming ✓✓

**The social (cultural) element** ✓

Includes

- religion and religious activities e.g. relaxation and education. ✓✓
- Living by principles of Batho-Pele (put people first) and Letsema (volunteer to do more). ✓✓
- The governance (political) element ✓✓
- Includes the authority system, e.g. kings, chiefs and headman, and judicial system, e.g. hearing and punishment. ✓✓
- (Accept any other correct relevant response) (Any 2 x 4) (8)



**TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINIKING SKILLS.**

***Higher order questions are grounded in the content. These types of questions test critical thinking, where candidates should be able to apply their knowledge, through logical reasoning and also have an awareness of their current economic climate. Content (covered by*** discuss/ examine/ describe/ analyse/explain/evaluate/compare/assess/justify/construct/calculate) ***can be assessed as higher-order questions. Answers will not necessarily be found in textbooks.***

**QUESTION 6** **Paragraph type questions – Higher cognitive**

**6.1 Examine the impact of high population growth on a developing economy such as South Africa.**

- When a developing country experiences a large increase in population growth, it will put strain on government's existing income and spending capacity which is already limited✓✓ such as building more public healthcare facilities ✓or increasing the number of grants or the amount of the grant. ✓
- Increases in population means that in the long run, more employment opportunities need to be created and increases in employment are limited in developing countries. ✓✓
- If the increased population is not contributing to the economy, they become a financial burden to working relatives✓✓ or taxpayers as taxes will be increased to ensure sufficient government income which will be used to support the poor and those in need. ✓✓
- High population growth can cause increases in pollution and settlements which may lead to disruptions in production or decreases in exports (loss of export earnings) due to the destruction of the environment/natural resources. ✓✓

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

**6.2 Why is South Africa regarded as a developing economy?**

- Low standard of living✓ Majority of citizens have a low income per capita / poor housing / low standards of health / high infant mortality rates / high levels of malnutrition / and a lack of education. ✓✓
- Low levels of productivity✓✓. Have low levels of labour productivity compared to industrialised countries because of low education standards / low level of health among workers / investment in physical capital / experienced management / lack of access to technology. ✓✓
- High population growth and dependency burdens✓. Have a high population growth rate due to high birth rates. A high population growth rate causes a number of problems such as unemployment, pressure on housing, education and health services. ✓✓
- High levels of unemployment✓ Low levels of education and training and entrepreneurial knowledge add to high rates of unemployment. ✓✓
- Dependence on the primary sector✓. Mainly dependent on agriculture or other primary sector activities, for example, fishing. A high proportion of people is employed in this sector usually at lower salaries than in other sectors. ✓✓
- Deficiency of infrastructure✓: Infrastructure such as roads, power generation facilities, communication systems are often lacking or poorly maintained, resulting in poor access to markets. ✓✓
- (Accept any correct relevant response) (4 x 2) (8)
- (max of 2 marks for mere listing of facts/headings)

**6.3 How can investment in social (human) capital improve economic development in South Africa?**

- Social capital is also known as human development. ✓✓
- The labour force can undergo training and skills development which can lead to better paying employment opportunities and therefore an increase in the satisfaction of wants. ✓✓
- This will improve productivity and work ethic. ✓✓
- A well-trained labour force will assist in the increase of competitive products in markets. ✓✓

- Output can therefore increase and economic growth can expand, this will have a positive impact on economic development. ✓✓
- This can lead to job creation and higher wages and can affect the general standard of living✓✓

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

## 6.4 How does the South African government promote indigenous knowledge systems?

- Indigenous knowledge systems in South Africa refer to the body of knowledge. ✓✓
- This body of knowledge is part of African philosophy and social practices that have evolved over many centuries. ✓✓
- The IKS (Indigenous Knowledge Systems) Policy was adopted by the Cabinet in 2004. ✓✓
- It laid the basis for recognising that indigenous knowledge continues to be very important in the survival and welfare of the majority of South Africans. ✓✓
- It recognises the importance of IKS and aims to promote and protect all aspects of this knowledge. ✓✓
- Scientists are working with indigenous communities to promote sustainable agriculture and good ecological practices. ✓✓
- IKS can also be used to reduce poverty. ✓✓
- Local-level knowledge and organisations provide the foundation for development. ✓✓

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

## 6.5 Analyse the standard of living and low levels of productivity as characteristics of developing countries.

### Low standard of living

- Standards of living are measured in terms of per capita GNI, or in terms of real per capita GNI if measured over time is involved. ✓✓
- The standard of living in developing countries is generally low, mainly due to the low income levels. ✓✓
- Resulted in poverty, inadequate housing, poor health, limited education, high infant mortality rates and low life expectancy. ✓✓
- People struggle to meet their basic needs and do not fulfil their potential. ✓✓

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

### Low levels of productivity

- Productivity levels are low due to the lack of expertise especially in key areas like sciences and technology. ✓✓
- Other conditions such as poor health, poor nutrition and lack of innovation are also common. ✓✓

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

## 6.6 Why are indigenous knowledge systems important for local communities?

IKS is important by:

- Sustaining social and economic development. ✓✓
- Helping people to understand local conditions. ✓✓
- Providing a productive framework for activities aimed to help communities. ✓✓
- Offering problem-solving plans or strategies for local communities, especially the poor ✓✓
- Representing an important contribution to global development of knowledge. ✓✓
- Underutilising resource in the development process ✓✓

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

## ESSAY STRUCTURE

: All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

**HINT: Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarizing). The mark allocations for Section C is as follows:**

| **STRUCTURE OF ESSAY:** | **MARK ALLOCATION:** |
|---|---|
| **Introduction**<br>**The introduction is a lower-order response.**<br>• **A good starting point would be to the main concept related to the question topic**<br>• **Do not include any part of the question in your introduction.**<br>• **Do not repeat any part of the introduction in the body**<br>• **Avoid saying in the introduction what you are going to discuss in the body** | **Max 2** |
| **Body:**<br>**Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate**<br>**Additional part: Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest/ Construct a graph** | **Max 26**<br><br>**Max 10** |
| **Conclusion**<br>**Any Higher or conclusion include:**<br>• **A brief summary of what has been discussed without repeating facts already mentioned in the body**<br>• **Any opinion or value judgement on the facts discussed**<br>• **Additional support information to strengthen the discussion/analysis**<br>• **A contradictory viewpoint with motivation, if required**<br>• **Recommendations** | **Max 2** |
| **TOTAL** | **40** |

**QUESTION 7**

- Critically analyse the following developmental strategies used in support of the development of countries.
  - Human resources
  - Natural resources
  - Technology (26 marks)
- Why are Indigenous Knowledge Systems (IKS) important for the economic development of a country? (10 marks)

**INTRODUCTION**

Different strategies can be used to fast-track economic development and all strategies depend on improving the quality and utilisation of the available factors of production. ✓✓
(Accept any relevant introduction.) (Max 2)

**BODY**
**MAIN PART**

### Human resources

- Refers to the labour force of the country ✓✓
- The quality of labour can be improved in different ways. ✓✓
- Education and training contributes to economic growth and development. ✓✓
- Improved literacy levels are essential for training. ✓✓
- Trained workers can use capital equipment effectively and efficiently. ✓✓
- The ability to work depends on the health of the workers. ✓✓
- Healthy people are more productive. ✓✓
- A country has to ensure that its population can be supported by the available natural resources. ✓✓
- Employment can be created through labour intensive development programmes. ✓✓
  (Accept any other correct relevant response)

### Natural resources

- An increase in agricultural production leads to an increase in the buying power of the population. ✓✓
- Supply of natural resources cannot be increased. ✓✓
- Fertilizers must be used to increase land productivity. ✓✓
- Secondary industries must be established to process primary products. ✓✓
  (Accept any other correct relevant response)

### Technology

- Technological developments can be used to reduce costs and improve competitiveness. ✓✓
- Countries must develop technologies that are good for them. ✓✓
- Technological developments will improve productivity. ✓✓
- Science and Management training is necessary for the use of technology. ✓✓
- Indigenous Knowledge Systems (IKS) can also be used. ✓✓
  (Accept any other correct relevant response) (26)

### Additional Part

**Why are Indigenous Knowledge Systems (IKS) important for the economic development of a country?**

- The development strategy should be one where people are the agents, means and end of the development process. Self-reliance at household and community levels are important. ✓✓
- IKS is seen as the key to sustainable social and economic development according to the Development Bank. ✓✓
- Learning from indigenous knowledge can help you to understand local conditions and provide a productive framework for activities aimed to help communities. ✓✓
- Indigenous knowledge offers problem-solving plans or strategies for local communities especially the poor. ✓✓
- It represents an important contribution to global development knowledge. ✓✓
- Indigenous knowledge is an under-utilised resource in the development process. ✓✓
- Indigenous knowledge is passed down from generation to generation. It is based on experience, often tested over years and years of use, adapted to local culture and environment, dynamic and changing. ✓✓
- The Indigenous Knowledge System Policy was adopted by the cabinet of SA in 2004. It recognises the principle that indigenous knowledge is important for the welfare of the majority of South Africans and as such has to be applied in branches of modern medicine, ecological practices and programs to reduce poverty. ✓✓
  (Accept any relevant answers.) (10)

**CONCLUSION**

Development strategies applied in developing countries differ from country to country, South Africa has excellent policies, but the implementation of these policies is lacking, and therefore the country seems to stagnate in this area. ✓✓

(Accept any relevant conclusion.) (Max 2)

**[40]**

**QUESTION 8: ECONOMIC PURSUITS**

- **Discuss in detail the characteristics of developing countries. (26)**
- **Explain income inequality with the aid of a graph, making specific reference to SA in your answer. (10)**

**INTRODUCTION**

Developing countries have relatively low levels of industrialisation in comparison to developed countries, which have a highly industrialised economy. ✓✓
(Accept any other correct relevant response.) (Max 2)

**BODY: MAIN PART**

1. Low standards of living✓
   - Standards of living are measured in terms of per capita GNI, or in terms of real per capita GNI if measuring over time is involved. ✓✓
   - Low living standards express poverty. ✓✓
   - Almost one third of the total population of developing countries is poor. ✓✓
   - It is worse in Africa than elsewhere✓✓
   (Accept any other correct relevant response)

2. Low per capita income✓
   - 80% of developing countries is living on less than one fifth of the total world's income. ✓✓
   - Together, the per capita income of all developing countries, is on average one 20th of the income of the rich developed nations. ✓✓
   - Developing countries have slower growth of per capita real GNI than developed countries. ✓✓
   - Since 1990 the income gap between the developed and developing countries has narrowed. ✓✓
   (Accept any other correct relevant response)

3. Unequal distribution of income✓
   - The income gap between rich and poor people in the same country is generally greater in developing countries than in developed countries.✓✓
   - This income gap is also referred to as income inequality. ✓✓
   - It is usually measured by means of the Gini coefficient. ✓✓
   - Another method to measure income inequality is the quintile ratio. ✓✓
   - The gap between rich and poor is generally greater in developing than in developed countries. ✓✓
   (Accept any other correct relevant response)

4. Low life expectancy✓
   - Many people in developing countries fight a constant battle against

malnutrition, disease and ill health. ✓✓
- In South Africa life expectancy was 52 years in 2010. ✓✓
- Some 90 % of people who are HIV-positive live in developing countries. ✓✓
(Accept any other correct relevant response)

5. Low levels of education✓
- Low living standards are also related to low levels of education. ✓✓
- The level and effectiveness of education are expressed by the adult literacy rate. ✓✓
- This is the percentage of people aged 15 yrs. and above who can read, write and speak. ✓✓
- Literacy rates in developing countries are low compared to those in developed countries. ✓✓
- This is in spite of the fact that education takes the largest share of government budgets and that enrolment for primary education increases all the time. ✓✓
(Accept any other correct relevant response)

6. Low levels of productivity✓
- Levels of labour productivity (output per worker) in developing countries are extremely low compared to those in developed countries. ✓✓
- Low levels of productivity can be explained as follows:
  - there is an absence or severe lack of complementary factor inputs, ✓✓ such as physical capital, technology, materials ✓and / or experienced management✓
  - There are too few financial resources and / or inadequate education and training to build up the stock of human capital✓✓ (e.g. managerial and entrepreneurial skills) ✓
  - Poor nutrition during childhood often severely restricts mental as well as physical growth. ✓✓
  - In adulthood it causes ill health, absenteeism and a negative attitude towards work. ✓✓

  (Accept any other correct relevant response)

7. High population growth and dependency burdens✓
- In 2011, the world population was approximately 7 billion people. More than five out of six of these people lived in developing countries. ✓✓
- Population growth: In developing countries, birth rates are very high and death rates are declining, because of the growing availability of modern medicines. ✓✓
- Children under 15 years old are non-productive members of society and must be supported by their families and other limited resources. ✓✓
- People older than 64 years who rely on their families for a livelihood add to the dependency burden. ✓✓
(Accept any other correct relevant response)

8. High levels of unemployment✓
- Developing countries, in general, do not make optimal use of their labour force. ✓✓
They suffer from:
  - Under-employment: ✓ (people both rural and urban) who are working less than they are capable of, e.g. daily, weekly or seasonally. ✓✓
  - Open unemployment: ✓ those who are able and often eager to work but for whom no jobs are available, and who are unable to create employment for themselves. ✓✓

(Accept any other correct relevant response)

9. Dependency on agriculture or primary sector
   - The vast majority of people in developing countries live and work in rural areas. ✓✓
   - Over 61 % live in rural areas and roughly 55 % of the labour force is engaged in agriculture. ✓✓
   - Productivity in agriculture is very low because of a lack of capital goods e.g. tractors, veterinary skills and fertilizers. ✓✓

   (Accept any other correct relevant response)

10. Exports
    - Primary sector goods such as agricultural produce, minerals, raw materials, fuel and forestry products are the main export goods. ✓✓
    - In developed countries most exports are manufactured goods and services. Some 50 % of South Africa's exports are manufactured goods. ✓✓

    (Accept any other correct relevant response)

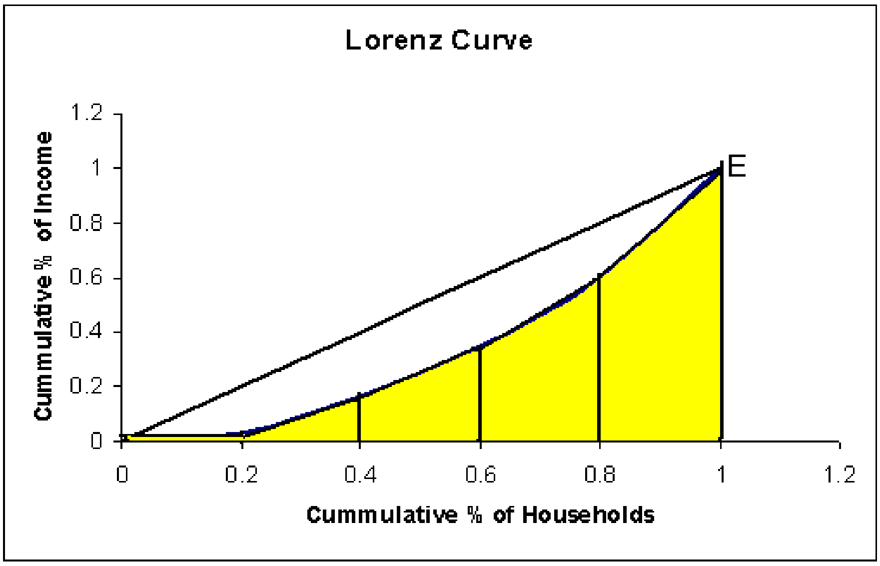
11. Deficient Infrastructure✓
    - It is almost impossible to describe the deficiencies in physical, legal, monetary and market infrastructures in developing and specifically low-income countries. ✓✓
    - Infrastructure is almost non-existent especially in rural areas. ✓✓
    - A major problem in most developing countries is that infrastructure such as roads, power generation facilities and communication systems✓ are often lacking or poorly maintained. ✓✓
    - This lack of infrastructure results in poor access to markets. ✓✓

    (Accept any other correct relevant answer.)
    (Allocate a maximum of 8 marks for mere listing of facts / examples.)
    (The rest of the 18 marks is for discussion of the headings.)

(Max 26)

**ADDITIONAL PART**

Explain income inequality with the aid of a graph, making specific reference to SA in your answer.




**Mark allocation for the Lorenz Curve**

| |
|---|
| • 1 mark for the line of equality✓<br>• 1 mark for the Lorenz curve✓<br>• 1 mark for area of inequality✓<br>• 1 mark for labelling of the vertical axis✓<br>• 1 mark for labelling of horizontal axis✓ |
| Max. 4 marks |

- The Lorenz curve is a graphical illustration of wealth / or visual illustration of income distribution. ✓✓
- The further away the Lorenz curve is from the line of equality (OE), the more unequal is income distribution. ✓✓
- The area between the 45-degree line and the Lorenz curve, is the area of inequality. ✓✓
- South Africa has one of the highest income inequality levels, which is being exacerbated by Covid-19✓✓ (6 marks for explanation.)

**CONCLUSION**

Developing countries have poor economies, low / middle-income and low-income countries where their citizens have less access to goods and services than those in developed countries. ✓✓

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

**[40]**

**QUESTION 9**

- Discuss characteristics of developing countries. (26 marks)
- How have basic services, such as health and welfare, improved in South Africa? (10 marks)

**BODY: MAIN PART**

Low standards of living✓

- Standards of living are measured in terms of per capita GNI, or in terms of real per capita GNI if measuring over time is involved. ✓✓
- For comparisons between countries, the US dollar is used. ✓✓
- Low living standards express poverty. ✓✓
- Almost one third of the total population of developing countries is poor. ✓✓
- It is worse in Africa than elsewhere✓✓

  (Accept any other correct relevant response)

Low per capita income✓

- 80% of developing countries is living on less than one fifth of the total world's income. ✓✓
- Together, the per capita income of all developing countries, is on average one 20$^{th}$ of the income of the rich developed nations. ✓✓
- Developing countries have slower growth of per capita real GNI than developed countries. ✓✓
- Since 1990 the income gap between the developed and developing countries has narrowed. ✓✓

  (Accept any other correct relevant response)

Unequal distribution of income✓

- The income gap between rich and poor people in the same country is generally greater in developing countries than in developed countries. ✓✓
- This income gap is also referred to as income inequality. ✓✓
- It is usually measured by means of the Gini coefficient. ✓✓
- Another method to measure income inequality is the quintile ratio. ✓✓
- The gap between rich and poor is generally greater in developing than in developed countries. ✓✓

  (Accept any other correct relevant response)

Low life expectancy✓

- Many people in developing countries fight a constant battle against malnutrition, disease and ill health. ✓✓
- In South Africa life expectancy was 52 years in 2010. ✓✓
- Some 90 % of people who are HIV-positive live in developing countries. ✓✓

  (Accept any other correct relevant response)

Low levels of education✓

- Low living standards are also related to low levels of education. ✓✓
- The level and effectiveness of education are expressed by the adult literacy rate. ✓✓
- This is the percentage of people aged 15 yrs. and above who can read, write and speak. ✓✓

- Literacy rates in developing countries are low compared to those in developed countries. ✓✓
- This is in spite of the fact that education takes the largest share of government budgets and that enrolment for primary education increases all the time. ✓✓
  (Accept any other correct relevant response)

Low levels of productivity✓

- Levels of labour productivity (output per worker) in developing countries are extremely low compared to those in developed countries. ✓✓
- Low levels of productivity can be explained as follows:
  - there is an absence or severe lack of complementary factor inputs, ✓✓ such as physical capital, technology, materials ✓and / or experienced management✓
  - There are too few financial resources and / or inadequate education and training to build up the stock of human capital✓✓ (e.g. managerial and entrepreneurial skills) ✓
  - Poor nutrition during childhood often severely restricts mental as well as physical growth. ✓✓
  - In adulthood it causes ill health, absenteeism and a negative attitude towards work. ✓✓
    (Accept any other correct relevant response)

High population growth and dependency burdens✓

- In 2011, the world population was approximately 7 billion people. More than five out of six of these people lived in developing countries. ✓✓
- Population growth: In developing countries, birth rates are very high and death rates are declining, because of the growing availability of modern medicines. ✓✓
- Children under 15 years old are non-productive members of society and must be supported by their families and other limited resources. ✓✓
- People older than 64 years who rely on their families for a livelihood add to the dependency burden. ✓✓
  (Accept any other correct relevant response)

High levels of unemployment✓

- Developing countries, in general, do not make optimal use of their labour force. ✓✓
  They suffer from:
- Under-employment: ✓ (people both rural and urban) who are working less than they are capable of, e.g. daily, weekly or seasonally. ✓✓
- Open unemployment: ✓ those who are able and often eager to work but for whom no jobs are available, and who are unable to create employment for themselves. ✓✓

(Accept any other correct relevant response)

Dependency on agriculture

- The vast majority of people in developing countries live and work in rural areas. ✓✓
- Over 61 % live in rural areas and roughly 55 % of the labour force is engaged in agriculture. ✓✓
- Productivity in agriculture is very low because of a lack of capital goods e.g. tractors, veterinary skills and fertilisers. ✓✓
  (Accept any other correct relevant response)

Exports

- Primary sector goods such as agricultural produce, minerals, raw materials, fuel and forestry products are the main export goods. ✓✓

- In developed countries most exports are manufactured goods and services. Some 50 % of South Africa's exports are manufactured goods. ✓✓
  (Accept any other correct relevant response)

Deficient Infrastructure✓

- It is almost impossible to describe the deficiencies in physical, legal, monetary and market infrastructures in developing and specifically low-income countries. ✓✓
- Infrastructure is almost non-existent especially in rural areas. ✓✓
- A major problem in most developing countries is that infrastructure such as roads, power generation facilities and communication systems✓ are often lacking or poorly maintained. ✓✓
- This lack of infrastructure results in poor access to markets. ✓✓
  (Accept any other correct relevant answer.)
  (Allocate a maximum of 8 marks for mere listing of facts / examples.)
  (The rest of the 18 marks is for discussion of the headings.)

(Max 26)

**ADDITIONAL PART**
**How have basic services, such as health and welfare, improved in South Africa?**

- The welfare system assists disadvantaged groups through transfer payments. ✓✓
- Some examples of these groups are individuals who need child support or disability grants. ✓✓
- Basic municipal services have improved, especially in areas where previously disadvantaged groups live. ✓✓
- These services include sewerage systems; access to clean water and electricity, and basic infrastructure such as roads. ✓✓
- Access to health care has increased significantly. ✓✓
- More clinics have been established in rural areas. ✓✓
- More recently the state has given the public the opportunity to obtain free HIV/AIDS counselling as well as free distribution of antiretroviral (ARVs) drugs, ✓✓ which can add many productive years to the life of a person living with HIV/AIDS. ✓✓
  (Accept any other correct relevant response) (10)

**Conclusion**

Developing countries should improve the quality and quantity of the labour force through improved health services, education and training. ✓✓
(Accept any other correct relevant higher order response) (2)

**[40]**

**QUESTION 10**

- Discuss the methods used to increase economic growth in detail. (26 marks)
- How can human and natural resources be used to ensure economic development? (10 marks)

**INTRODUCTION**

Economic growth means an increase in the production of goods and services in a country (over a year) in physical terms (in numbers)/Economic growth is therefore measured and expressed in terms of *real* GDP. ✓✓
(Any relevant introduction) **(Max. 2)**

**BODY**
**MAIN PART**

**Methods of growing the economy**

a. Increases in productivity ✓

- Productivity can be described as the relationship between real output (the quantity of goods and services produced) and one unit of factor input. ✓✓
- Productivity increases can occur in five ways:

1. Output increases while input remains the same. ✓✓
2. Output increases faster than input. ✓✓
3. Output increases while input declines. ✓✓
4. Output remains constant while input declines. ✓✓
5. Output declines at a slower rate than input. ✓✓

b. Availability and utilisation of factors of production ✓

- In terms of the labour force, growth will occur if the ratio of the working population to the total population increases. ✓✓
- In terms of land and natural resources an increase is rarely possible. ✓
- However, land, for example, can be used for new purposes that will render better returns (for example to grow canola rather than wheat). ✓✓
- In terms of capital, capital widening and deepening should be pursued to achieve growth. ✓✓

c. Technological change ✓

- Technology is any instrument or technique, product or process, physical equipment or method whereby something is made or done, which extends human ability. ✓✓
- If new ways are discovered so that more goods and services can be produced with similar inputs, technology has improved. ✓✓ Most of the time, new technology is acquired through capital investments. ✓

d. Effective government policies and administration✓

- Effective policies mean policies that will ensure that pre-set objectives are met. ✓✓
- Government should have policies in place that will realise, for example, more exports, growth in tourism and the expansion of manufacturing industries. ✓✓
- Use of effective fiscal and monetary policies. ✓✓
- Efficient administration means that the policies are executed in a manner that minimises time wastage, inconvenience and costs. ✓✓ Nepotism (favouritism), corruption (the use of public office for private gain) and indifference or laziness increase transaction costs for enterprises. ✓✓

e. Investment. ✓

- An increase in capital per worker will generally increase output In other words, the more equipment used by people at work, the more likely they are to produce. ✓✓
- To increase capital requires investment and that investment requires savings. ✓✓
(Accept any other correct relevant response)

**(Headings and examples max 8 marks)** **(26)**

**ADDITIONAL PART**

- Natural resources are extracted through primary sector activities, which creates employment and income opportunities for unskilled and semi-skilled workers who make up the largest part of South Africa's labour force. ✓✓
- Global production relies on natural resources, creating export opportunities that create employment and income opportunities which increase living standards. ✓✓
- South Africa receives a lot of income from the tourism industry due to the availability of natural resources (environment) that are set aside for tourist attractions, improving the living standards of the individuals employed in the tourism industry. ✓✓
- People that are skilled will be able to find employment, which will increase income and living standards ✓✓ therefore improving human resources through education and training can create economic development. ✓✓
- Increased health expenditure and upgrading public health services will ensure a healthier labour force (healthier human resources) ensuring workers attend work more frequently and do not suffer a loss of income due to illness (consistent living standard). ✓✓

(Accept any correct and relevant higher order response) (**Max 10)**

**CONCLUSION**

To improve the standard of living of all the people of South Africa, higher growth rates are needed. ✓✓Under the Accelerated and Shared growth for South Africa (AsgiSA) programme, a continuous growth rate of 6% was identified as the minimum to reduce unemployment meaningfully. ✓✓The most recent target of the government, in terms of the NGP, is to realise a growth rate that will reduce unemployment by 5 million by 2020. ✓✓
(Any relevant higher order conclusion) **(Max 2)**

**[40]**

# ECONOMIC PURSUITS

## TOPIC 3:MONEY AND BANKING
## (WEEK 4-6)

SECTION A
1.1.1. C real wealth ✓
1.1.2. B M3✓
1.1.3. B repo✓
1.1.4. C South African Mint Company✓
1.1.5. A supply✓
1.1.6. A coin deposits✓
1.1.7. A free floating✓
1.1.8 D bank failure ✓
1.1.9 C bad management of liquidity ✓
1.1.10 B monetary system ✓

1.2

1.2.1 E.
1.2.2 D
1.2.3 G.
1.2.4 A
1.2.5 H
1.2.6 B
1.2.7 F
1.2.8 C
1.2.9 J
1.2.10 I

**1.3 Provide the economic term/concept**

1. 1.3.1 Legal tender ✓
2. ✓1.3.2 Micro lending ✓
1.3.3 South African Reserve Bank ✓
3. 1.3.4 Monetary Policy ✓
1.3.5 Repo rate ✓
1.3.6 Collateral ✓
1.3.7 Bankruptcy ✓
1.3.8 Treasury Bills ✓
1.3.9 Moral Suasion✓
1.3.10 M1

1.3.11 Cheque ✓
1.3.12 Currency ✓
1.3.13 Micro financing. ✓
1.3.14 National credit Act. ✓
1.3.15 Capital Market. ✓
1.3.16 Prime lending rate. ✓
1.3.17 Registrar of Banks. ✓
1.3.18 Money market. ✓
1.3.19 Credit creation ✓
1.3.20 Forex/Foreign exchange markets. ✓

SECTION B

2.1 Answer the following questions:

**2.1.1 Name TWO money associated instruments**

- Cheques ✓
- Debit cards✓
- Credit cards ✓
- Travelers cheques ✓
- Postal orders ✓
- Electronic fund transfer ✓ (2)

**2.1.2 TWO functions of money**

- Money as a medium of exchange ✓
- Money is a unit of account ✓
- A bearer of value ✓
- Money as a standard of different payments ✓ (2)

**2.1.3 Give the TWO forms of modern money**

- coins✓
- banknotes✓
- deposit money✓
- fiat money ✓ (2)
-

**2.1.4 List any TWO examples of credit instruments.**

- bills of exchange ✓
- shares ✓
- bonds ✓
- bills of acceptance ✓ (2)

**2.1.5 List TWO properties a commodity must have in order to serve as money.**

- Uniformity ✓
- limited supply✓
- Durability ✓
- Divisibility ✓
- general acceptance ✓
- portability / Must possible to carry it ✓ **(2)**

**2.1.6 Name TWO aims of monetary policy**

- price stability ✓
- interest-rate stability✓
- stability of financial markets✓
- stability in foreign exchange ✓ (2)

**QUESTION 3:**

| |
|---|
| **HINT:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2 |

**3.1 How do credit cards contribute positively to the economy?**

- Increasing the level of borrowing in the economy which in turn stimulates production. ✓✓
- The economy will grow and more people will be employed. ✓✓
  (Accept any other relevant correct answer)

**3.2 How is Covid -19 impacting the financial sector?**

- Social distancing requirements mean that few customers are able to be served in a physical branch putting additional strain on channels like telephone support, online and social media ✓✓
- Banks now have opened many more virtual support services, to allow clients to transact✓✓
- Many clients are savvier with online banking operations ✓✓

**3.3. How are short term borrowings made by the government from the central bank?**

- The Government sells treasury bills to central bank for short term borrowings ✓✓

**3.4 How effective is high interest as an "inflation fighter"?**

- high interest is an effective anti-inflation tool. Of course plunging the country into a deep recession will cut labour's wage demands and will cause some business firms to make price concessions ✓✓

**3.5 How does the SARB change the money supply?**

- By increasing or decreasing the amount of bank reserves which the member banks of the SARB have to their credit on the books of the SARB. Second, by **regulations which tell the member banks the maximum amount of bank deposits they may create per RAND of reserves.** ✓✓

**3.6 How do currency and coin enter the money supply?**

- It normally amounts to about 20 percent of the money supply, with bank deposits accounting for the other 80 percent. ✓✓

**3.7 How will an increase in the quantity of money affect prices of goods and services and the value of money?**

The increase in the quantity of money will be affected by:

- Increasing the prices of goods and services because of the quantity theory of money. ✓✓
- Decreasing the value of money and its purchasing power. ✓✓ (4)

## QUESTION 4

## DATA RESPONSE

| |
|---|
| **HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document |

4.1 Study the picture below and answer the questions that follow

4.1.1 **What is illustrated above that is put in place by SARB?**

M1 ✓ 1

4.1.2 **Name any ONE secondary instrument used as a payment method in South Africa** 1

- Bank deposits✓
- Electronic funds transfer (EFT) ✓
- Cheques (up to 2020) ✓

4.1.3 **Describe how does inflation affect money as a store of value**

- Inflation erodes the buying power of money ✓✓
- The price of the imported goods may rise because of the depreciation of the local currency against the currency of the country which we import from. ✓✓
- The producers have to pay more for the importing of goods and therefore they will increase the prices of the local products that they produce. ✓✓
- If the producers decide to raise their profit margins, then the cost of production will increase and the products will be more expensive. ✓✓

**4.1.4 Discuss the aims of monetary policy**

- To protect the value of the currency in order to ensure economic growth in the country ✓✓
- To control money supply and credit levels in the financial sectors. i.e. banks must not be at risk of failure ✓✓
- To establish interest rates that will encourage investments and savings but are affordable to those wanting to borrow money ✓✓
- To obtain exchange rates that are to the advantage of the country ✓✓

**4.2 Study the following article and answer the questions that follow**

**4.2.1 What role does Mr Lesetja Kganyago play in South African Reserve Bank currently?**

- Governor of the South African Reserve bank

**4.2.2 What is the current inflation rate of South Africa?**

- 3%-6% ✓

**4.2.4 How will businesses be affected by cutting repo rates by a few basis points**

- A reduction in the repo rate will lead to the rand becoming more vulnerable to inflation, thus makes the business to drop in profit in the long run. ✓✓

**4.2.5 Differentiate between micro-lending industry and village financial services cooperatives.**

- Micro-lending industry is the provision of small, low-interest loans to low-income individuals and groups. ✓✓
- Village financial services cooperatives- Member-owned and controlled and provide helpful access to financial services in rural communities. ✓✓

4.3 **DATA RESPONSE**

**4.3.1 Identify the cost responsible for the skyrocketing of small money loans?**
The initiation fee ✓

**4.3.2 Name one cost that will remain constant?**
The monthly service fee ✓

**4.3.3 Describe the effect on the cost of the loan if the monthly service fee is removed?**
It will decrease the cost of credit / make credit more affordable because the consumer will pay less ✓✓

**4.3.4 Calculate the total cost of credit for a R500 loan over one month.**
R25 + 79+50✓=R154✓

**4.3.5 What impact will this high cost on small money loans have on low income earners?**
The cost of credit will become too expensive for poor people / unaffordable✓✓

- Poor people will have less money to spend on goods and services / more poverty✓✓
- Poor people will struggle to pay their loans✓✓
- People might default on the loans and be blacklisted making access to future credit very difficult ✓✓

(Accept any other correct relevant response)

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

**4.4.1 Name TWO risks that banks face**

- Liquidity risk ✓
- Credit risk ✓
- Interest rate risk ✓
- Investment risk ✓

- Capital risk

**4.4.2 How does the South Africa Reserve bank deal bank failures?**

The South African reserve bank ensures that banks are managed in terms of the Banks Act, and that depositors are not exposed to unnecessary risk ✓✓
(Accept any other correct relevant response) (2)

**4.4.3 Who are the victims of bank failure**

Depositors ✓
Shareholders ✓

**4.4.4 Briefly explain medium of exchange and measure of value as functions of money**

**Medium of exchange**

It is generally accepted as a means of payment. ✓✓Goods, services and labour are exchanged for money. ✓✓

**Measure of value**

Money provides a measure that enables us to put a value on goods and services. ✓✓
If a price is allocated to something, money serves as a measure of value. ✓✓

## 4.5 DATA RESPONSE

**4.5.1 Name the central bank in South Africa**

South Africa Reserve bank ✓

**4.5.2 Mention any other instrument of the used in monetary policy, besides interest rates.**

Open market transactions✓
Moral suasion ✓
Cash reserve requirements ✓
Exchange rate control / exchange rate policy ✓

**4.5.3 Briefly describe the term *repurchase rate***

It is the rate at which commercial banks borrow funds from the Reserve Bank to meet the gap between the demand for loans and how much they have on hand to lend. ✓✓
(Accept any other correct relevant response.)

**4.5.4 Briefly explain government's banker as a function of the central bank**

The central bank is the main banker of the state;
It renders services to the state similar to those commercial banks render to their clients. ✓✓
Government departments deposit their funds with the central bank and draw cheques on their accounts. ✓✓
The central bank also provides loans, foreign exchange and financial advice to the government (the Treasury) ✓✓
(Accept any other correct relevant response) (Any 1 x 2)

**4.5.5 How will a cut in interest rates influence consumer spending?**

A cut in interest rates will result in:

- the commercial banks lowering the prime lending rate ✓✓
- A low prime rate encourages people to borrow more. ✓✓
- Increasing amount of money available for spending. ✓✓
- Spending on goods and services also increasing. ✓✓

(Accept any other correct relevant response)

**4.6 DATA RESPONSE**

**4.6.1 Name any TWO major banks in South Africa according to this picture**

First National Bank (FNB) ✓
Standard bank✓
ABSA ✓

**4.6.2 Mention a value-added service provided by banks**

- Financial advice ✓
- Insurance products ✓
- Safety deposits boxes✓
- Stock brokering services
  Accept any other relevant correct response

**4.6.3 Explain why money can retain its value over a long time**

- Used to restore personal wealth ✓✓
- A good medium for the storage of wealth ✓✓
- Value of money must not change with the passage of time ✓✓

(Accept any other correct relevant response)

**4.6.4 What are the basic principles of credit creation by banks**

- Making loans available ✓✓
- The banks use deposits to create credit ✓✓
- They make the funds deposited by some clients available to other members in the form of loans ✓✓

(Accept any other correct relevant response)

4.7 Study the information below and answer the questions that follow

**4.7.1 Name ONE financial intuitions which deals with coins**

FNB✓
STANDARD BANK ✓
CAPITEC BANK✓
ABSA✓
NEDBANK✓
TYMBANK

**4.7.2 Use the information above to calculate the value of M1,M2 and medium-term deposits**

M1 = cash + demand deposits = R140m + R980m = R1 120m ✓

**4.7.3 Briefly explain the term endogenous money**

Endogenous money means there is not independent money supply curve, but that money supply depends on the demand for money and the cost of credit✓✓

**4.7.4 Discuss the basic function of a financial intermediary**

The role of a financial intermediary is to receive funds from surplus units in the form of deposits , and transfer it to deficit units by granting credit to the deficit units. ✓✓

**4.7.5 Explain what a security is and why it is created**

A security represents a contract that implies certain an amount or amounts that are owed to another party✓✓. When a surplus unit provide funds to an intermediary or a deficit unit, a contract is compiled that will indicate that the value that the surplus unit provide will be repaid on a particular date, plus interest which is the amount that will be paid for the privilege of using the funds ✓✓

The date on which the security will expire will also be indicated on the security. On this date the amount that was borrowed (called the capital amount) should be repaid. The dates on which interest will be paid will also be indicated on the security. The holder will benefit because the capital amount as well as the interest will be paid to the holder of the security✓✓

## 4.8 DATA RESPONSE

**4.8.1 Who is crying for help on the illustration above**

- Consumers /bankers ✓

**4.8.2 Name one essential function of a bank?**

- accepting deposits from the people✓
- giving loans and advances to them

**4.8.3 Briefly explain the concept *cash reserve ratio* (crr)**

- CRR refers to that minimum percentage of deposits with the commercial banks which the commercial banks must keep with the central bank. ✓✓

**4.8.4 What is an overdraft facility**

- In overdraft facility, a current account holder is allowed to withdraw more than his balance in the account up to an agreed limit. ✓✓

**4.8.5 Discuss the advantages of e-banking**

- It is safe and convenient ✓✓
- There is no need to carry large amounts of cash✓✓
- Funds are transferred instantly ✓✓

## QUESTION 5 Paragraph type questions – Middle Cognitive

| |
|---|
| **HINT:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document. |

5.1 **Discuss money as a *medium of exchange* and a *store of value*.**

**Money as a medium of exchange**

- Money is generally accepted and approved by law as means of payment all over the world
- Goods are exchanged for money. ✓✓
- This makes exchange much easier. ✓✓
- Employees can get paid in money for their efforts. ✓✓
- Consumers can buy the things they desire with money and satisfy their needs and wants in this way. ✓✓
- It gives more choices of what to buy and where to buy it than in the case of barter. (Max 4)

**Money as a store of value**

- Money has value and it can retain value over a long time. ✓✓
- People do not have to spend all the money they earn – they can hold the money and spend it over time. ✓✓
- Money can be saved (stored) to accumulate wealth or to be used for future wants ✓✓
- Without money, you would only be able to store physical goods, for example, storing grain in earlier times. ✓✓
- Perishable items had to be traded immediately, because of the risks involved in storing it. ✓✓ (Max 4)

**5.2 Discuss the quantity theory of money**

- This theory states that whenever the quantity of money increases ceteris paribus, prices will increase and therefore ✓✓
- The value of money will decrease ✓✓
- The amount of money used in the period (MV) is equal to the money value of all transactions in a period (PT) ✓✓
- If anyone component of the money side increases, the goods side must also increase ✓✓ (8)

**5.3 Discuss the success of the establishment of the Micro Finance Regulatory Council (MFRC).**

The establishment was successful because:

- Interest rates have been restricted to 10 times the prime lending rate ✓✓
- The micro-lenders must ensure that the consumer's rights are protected. ✓✓
- Micro-lenders are compelled to register with the authority. ✓✓
- The council aims to promote sustainable growth of the money-lending industry. ✓✓
- Role players must now assess the financial situation of the borrower before they are permitted to grant the loan✓✓

**5.4 Why would there be so many different rates of interest existing at the same time?**

There could be many different rates of interest existing at the same time because of the following reasons:

- Loan amount – the bigger the loan the higher the interest rates ✓✓
- Duration or term of the loan- the longer the term the higher the interest rates ✓✓
- Creditworthiness/ risk-the higher the risk the higher the interest rate will be ✓✓
- Costs – costs of the intermediary to administrate and manage its venture will determine the gap between the interest earned by lenders and paid by borrowers, the higher the costs, the bigger the gap will be . ✓✓ (8)

**5.5. Distinguish between direct and indirect financing**

- Direct financing takes place when deficit units borrow directly from surplus units ✓✓ without the assistance of a financial intermediary ✓✓

- Indirect financing takes place when surplus units deposit funds with financial intermediaries, ✓✓and deficit units borrow from financial intermediaries✓✓

**5.6. Explain why money will not be a good measure to preserve wealth during periods of inflation.**

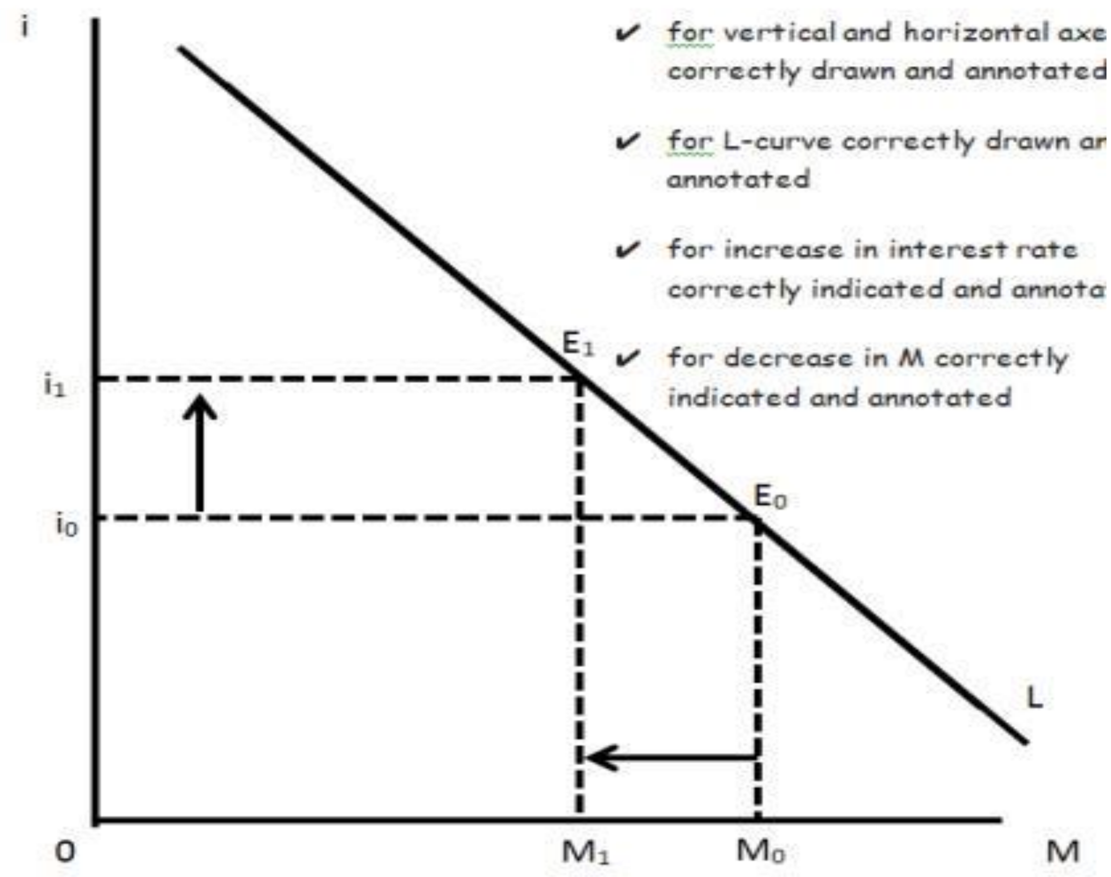
- During inflation the prices of goods and services increase, i.e. the amount of money that you have to pay to acquire the goods and services increases ✓✓
- If you hold your wealth in the form of money the value will not increase with inflation, ✓✓ therefore you will be able to buy less goods and services due to inflation (the purchasing power of your money decreases) ✓✓
- Holding wealth in the form of money therefore does not preserve the value of your wealth during periods of inflation ✓✓
  (Accept any other relevant correct explanation)

**5.7 Explain with the aid of a diagram why the SARB may decide to increase the repo rate and how this increase in the repo rate will affect the money market.**

The intermediate objective of the SARB is to keep the inflation rate low . The tool that the SARB uses to attain this target is the short-term interest rate level which is determined by the level of the repo rate✓✓.
When the inflation rate is expected to increase, the SARB will increase the repo rate ✓✓

We can use a diagram to explain how the money supply will be affected:

When the repo rate increases, the interest rate at which banks provide credit to consumers and businesses also increase (e.g. from i0 to i1) . At a higher interest rate (i1) the demand for credit will be lower ✓, therefore the banks will be able to provide fewer loans and thus less money will be created. The money supply will decrease (M1)
When the repo rate increases, the interest rate at which banks provide credit to consumers and businesses also increase (e.g. from i0 to i1) ✓. At a higher interest rate (i1) the demand for credit will be lower ✓, therefore the banks will be able to provide fewer loans and thus less money will be created. The money supply will decrease (M1) ✓.




**5.8 Briefly discuss the qualities of money.**

General Acceptability

It is the very essence of money. Unless a person knows that the money which he accepts in exchange for his goods or services will be taken without any objection by others as well, he will not accept it

It will cease to be current. In order to possess general acceptability, a commodity should have some intrinsic utility independent of its value for monetary purpose. Gold and silver are generally acceptable to all without any hesitation because they are used for ornamental and other purposes and can be easily sold as bullion, besides being used for monetary purposes.

Portability

A commodity fit to be used as money must be such that is can be easily and economically transported from one place to the other. In other words, it must possess high value in small bulk. Precious metals possess this quality. In the case of oxen and grain, a small value occupies a large bulk and weight; hence, they are unsuited as money commodity.

Durability

As money is passed from hand to hand and is kept in reserve, it must not easily deteriorate, either in itself or as a result of wear and tear. “It must not evaporate like alcohol, nor purely like animal substance, nor decay like wood, nor rust like iron.

Destructible articles, such as eggs, dried cod fish, cattle or oil has certainly been used as currency; but what is treated as money one day must not soon afterwards be eaten up." Gold coins are very lasting; they take about 8,000 years to wear out completely. Silver coins are not equally lasting but wear out fairly slowly. As such gold and silver are considered to be excellent money commodities.

Homogeneity

All portions or specimens of the substance used as money should be homogeneous, that is, of the same quality, so that equal weights have exactly the same value. In order that a commodity may be used as a measure of value, it is essential that its units are similar in all respects. Gold and silver are of the same quality throughout; their various parts are similar in chemical and physical composition and their consistency is the same throughout the mass

Divisibility

The money material should be capable of division; and the aggregate value of the mass after division should be almost exactly the same as before. If we use diamond as money and by chance it drops from our hand and breaks, we will suffer an enormous loss. This is not the case with precious metals. Their portions can be melted and remelted together any number of times without much loss.

Malleability

The money material should be capable of being melted, beaten and given convenient shapes. It should be neither too hard nor too soft. If the former, it cannot be easily coined; If the latter, it would not last long. It should also possess the attribute of impressionability so that it may easily receive the impressions.

Recognisability

By it, we mean the capability of a substance for being easily recognised and distinguished from all other substances. As a medium of exchange, money has to be continually handed about; and it will cause great inconvenience if every person receiving it has to scrutinise, weigh and test it.

It should have certain distinct marks which nobody can mistake. Gold and silver are at once recognised by their distinctive colour, metallic and heavy weight for small bulk, and, as such, satisfy this condition admirably.

Stability of Value

Money should not be subject to fluctuations in value. Fluctuating standard of value is just like a changing yard or kilogram. The value of a material, which is used to measure the value of all the other materials, must be stable.

The ideal money commodity should, as such, possess utility, portability, durability, homogeneity, divisibility, malleability, Cognoscibility and stability of value

**QUESTION 6 Paragraph type questions – Higher cognitive**

**6.1 How can the government stabilize the value of money in a country?**

The government stabilise the value of money by:

Stabilising the general price level. ✓

Impossible to keep the price level constant. ✓✓

Keeping inflation at a minimum level. ✓✓

Using monetary policy as an instrument to control inflation e.g. interest rates. ✓✓
Increasing the interest rate if inflation rises above the Reserve Bank's upper limit✓✓, to curb spending and decrease demand, again stabilising the value of money. ✓✓ (8)
(Accept any other correct relevant response)

**6.2 Analyse the consequences of bank failures**

The bank will be unable to pay deposits to depositors. ✓✓
Confidence in the banking sector is lost, resulting in widespread cash withdrawals ✓✓
Investors will be unable to obtain loans to expand or start businesses, leading to a decline in economic growth ✓✓
Employers of the bank will become unemployed, increasing the burden on government ✓✓
Bank failures have a negative multiplier effect on the economy – decline in investments, decrease in demand, retrenchments all leading to a recession. ✓✓
(Accept any other correct relevant response) (8)

**6.3 Analyse the instruments that the SARB has available to influence the liquidity deficit of the banking sector.**

Cash-reserve requirement ✓: since banks have to keep 2.5% of their cash reserves with the SARB as part of their cash-reserve requirement✓, this increases the liquidity deficit of the banking sector✓. Tax-and-loan account✓: when funds are transferred from the government's tax-and-loan accounts with commercial banks to the government's account with the SARB✓, the cash reserves available to the banks decreases and thus the liquidity deficit of the banking sector increases✓ Open market operation✓: when the SARB sells government stock in the open market✓, the amounts used to pay for these stocks flow to the SARB, therefore the cash reserves of the banks decrease and the liquidity deficit of the bank increases✓.
(8)

**6.4 Analyse the role of the SARB in maintaining financial stability**

Financial stability has to do with making sure that the financial sector and financial institutions operate smoothly✓.
It involves the following: Bank supervision ✓: involves issuing of banking licenses and ensuring that banks adhere to capital and liquid asset requirements✓. Overseeing the National Payment System✓ to ensure a safe payment environment✓.
Acting as banker to other banks✓: holds cash reserves of the banking sector and transfer amounts owed by banks to the other banks✓.
Sole issuer and destroyer of banknotes and coins✓.
Act as lender of last resort✓ to ensure that a bank's depositors will not be at risk✓. (8)

**6.5 How and why the central bank can influence the money supply**

The central bank can use interest rates ✓ to influence the amount of money that is created in the economy. When the interest rate is high, the demand for credit is low and less money will be created ✓. When the interest rate is low, the demand for credit is high, and more money will be created ✓.

The central bank may at times try to limit the growth in the money supply by increasing the interest rate level ✓, as excessive growth in the money supply may cause an increase in prices (inflation) ✓.

However, for the economy to grow it is necessary that adequate money is created ✓.Therefore the central bank may at times try to encourage growth in the money supply by decreasing the interest rate level, to allow for economic growth (8)

**6.6 How can banks influences the growth of economies**

1) Create employment

One of the biggest economic benefits emanating from the banking function is that they create employment to a number of a country's citizens. As they go along serving their clients bank need manpower in the form of human labour and thus in that regard, they become critical catalysts for economic growth. ✓✓

2) Facilitate national payments

Banks in the main make any economy tick. They facilitate national payments under the supervision of the Central Bank. A country's citizens are able to access their salaries through banks, international trade and other cross border payments are facilitated through commercial banks which make them pivotal in economic development. ✓✓

3) Attract funds from depositors and on lend to deficit units of the economy there by encouraging economic growth.

Through their branch infrastructure, banks are able to tap resources in the form of savings from surplus units of the economy and they then on lend that mostly to large corporations who in turn use the money to grow commerce and industry thus developing the economy. In the case of governments, the government borrows mostly to fund infrastructure development which acts as a catalyst for economic development. ✓✓

4) Cut (Reduce) Transaction costs

As intermediaries one of the functions of a bank is to minimize transaction costs. Through intermediation, banks provide an avenue/platform for parties that are unfamiliar to each other to meet and transact thus in the process reducing cost of doing business with one another. Banks gather information on borrowers in bulk, and by the mere fact that they have that infrastructure that both borrowers and lenders utilizes, this results in the cost of doing business going down for parties ✓✓

5) Facilitate and participate in the dissemination of monetary policy objectives.

Banks are an agent to The Central Bank of any country. They assist in the dissemination of monetary policy objectives. As an example when there is a fight against inflation spearheaded by the Central Bank, banks are the main tool that the central bank will use in terms of curbing growth in money supply. When The Central Bank changes the repo rate either way, banks are expected to adopt that and allow that to filter to the rest of the economy thus impacting negatively or positively on interest rates depending on the main drive from the Central Bank

6) Maturity transformation and risk transformation.

Converting short-term liabilities to long term assets (banks deal with large number of lenders and borrowers, and reconcile their conflicting needs and in the process, they aid in economic development) Banks also play a big role in converting risky investments into relatively risk-free ones. (Lending to multiple borrowers to spread the risk) ANY 4 X 2 = 8

## SECTION C

**HINT:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

<table>
<tr><th>STRUCTURE OF ESSAY:</th><th>MARK ALLOCATION:</th></tr>
<tr><td>Introduction<br>The introduction is a lower-order response.<br>• A good starting point would be to the main concept related to the question topic<br>• Do not include any part of the question in your introduction.<br>• Do not repeat any part of the introduction in the body<br>• Avoid saying in the introduction what you are going to discuss in the body</td><td>Max 2</td></tr>
<tr><td>Body:<br>Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>Additional part: Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest</td><td>Max 26<br><br><br>Max 10</td></tr>
<tr><td>Conclusion<br>Any Higher or conclusion include:<br>• A brief summary of what has been discussed without repeating facts already mentioned in the body<br>• Any opinion or value judgement on the facts discussed<br>• Additional support information to strengthen the discussion/analysis<br>• A contradictory viewpoint with motivation, if required<br>Recommendations</td><td>Max 2</td></tr>
<tr><td>TOTAL</td><td>40</td></tr>
</table>

QUESTION 7: ECONOMIC PURSUITS 40 MARKS – 40 MINUTES

- **Discuss the main functions of the SARB (26 marks)**
- **What causes bank failures? (10 marks)**

**INTRODUCTION**

- The Central bank is an institution that issues banknotes and is responsible for controlling money supply and credit in a country in the interests of everyone ✓✓

(Accept any other correct relevant answer) **(Max. 2)**

**MAIN PART**

- The bank supervises and controls all the activities of commercial banks and financial institutions ✓✓
- All banks that operate in South Africa have to register and submit reports to the central bank✓✓
- Banking is a risky business and therefore the Reserve Bank as lender of last resort has to monitor them carefully✓✓

**The SARB issues coins and banknotes ✓**

- The SARB has the sole right to produce, issue and destroy banknotes and coins in South Africa ✓✓
- -The SA Mint Company, a subsidiary of the bank, mints all the coins on behalf of the Reserve Bank ✓✓
- The SA Note Company, another subsidiary of the bank, prints all banknotes on behalf of the Reserve Bank ✓✓

**The SARB acts as banker to the government ✓**

- It conducts a cheque account for the government ✓✓
- It administers the financial accounts of the central government and provincial governments and various State-owned enterprises. ✓✓
- The SARB acts as custodian of the cash reserves of banks ✓✓
- In terms of the Bank Act 94 of 1990, all banks are required to keep a minimum cash reserve deposited at the SARB ✓✓
- This requirement prevents commercial banks from lending out too much money in the form of bank credit ✓✓
- It acts as a clearing bank to settle claims between banks ✓
- The SARB keeps accounts of the various banks ✓✓
- The claims between banks are settled on a daily basis ✓✓
- Clients from Bank A deposit cheques from Bank B into their accounts and these cheques have to be cleared ✓✓

**ADDITIONAL PART**

**What cause a bank to fail?**

- A poor economic environment makes it difficult for banks to make a profit ✓✓
- Weak and fraudulent management ✓✓
- Over-exposure to micro-lending and bad debts ✓✓
- Bad management of liquidity ✓✓
- Poor credit control (for example, not ensuring the credibility of borrowers and not monitoring loans and overdrafts carefully enough) ✓✓
- Banks fail when the SARB does not intervene ✓✓
- Banks fail when bank reserves are too low ✓✓

(Accept any other correct relevant answer) Max (10)

CONCLUSION

The primary goal of the SARB is to protect the value of the Rand and to control inflation. ✓✓

Max. 2

(Accept any other correct relevant answer)

[40]

**QUESTION 8: ECONOMIC PURSUITS 40 MARKS- 40 MINUTES**

- **Discuss the functions of the South African Reserve Bank under the following headings:**
  - **Government's banker (8)**
  - **Bank of issue (8)**
  - **Banker's bank (10)** **26 marks**
- **How will the Governor of the Reserve Bank use monetary policy to influence the quantity of money of the country?** **10 marks**

INTRODUCTION

The central bank is the monetary authority of a country. South Africa's central Bank was established in 1920. The main function of the SARB is to be the monetary authority. ✓✓

(Accept any other correct relevant introduction) Max. 2

## MAIN PART

- Government as banker
  - The Reserve bank is the main banker of the state. ✓✓
  - It renders services to the government which are similar to those commercial banks render to their clients ✓✓
  - Government departments deposit their funds with the Reserve Bank and draw cheques on their accounts ✓✓
  - The Reserve Bank also provides loans, foreign exchange and financial advice to the government ✓✓
  - Also provides monetary advice to the government ✓✓ Max. 8

- Bank of issue
  - SARB has the sole right to issue bank notes and coins. ✓✓
  - The South African Mint Company mints South Africa coins. ✓✓
  - Both these companies are subsidiaries of the SARB. ✓✓
  - In the issuing of bank notes and coins, the Bank is guided by the needs of the economy ✓✓ Max. 8

- Banker's bank
  - SARB declares and keeps the minimum cash reserves that all banks are required to hold to stay solvent. ✓✓
  - SARB acts as a clearing bank by settling inter-bank obligations. ✓✓
  - The banks do not have to repay the various cheques to one another, but the SARB will settle the balances between the banks. ✓✓
  - The SARB is the lender of last resort. ✓
  - It grants loans to the commercial banks when these banks have a liquidity problem. ✓✓
  - The SARB oversees the commercial banks. ✓✓
  - It ensures that the banks are operating in accordance with the Banks Act. ✓✓
  - The SARB makes sure that all the banks implement monetary policy ✓✓

Max. 10 marks
Max. 26 marks

**ADDITIONAL PART**

**How will the government of the Reserve Bank use monetary policy to influence the quantity of money of the country?**

The SARB can influence the quantity of money of the country by:

- increasing the supply of money by adding money to the economy ✓✓
- or decreasing the supply of money by withdrawing money from the economy ✓✓
- contraction of economic activities will happen in times of recession and depression ✓✓
- stimulating the economy by increasing the supply of money ✓✓
- cooling down the economy by reducing the supply of money during inflation ✓✓
- stimulating the economy by decreasing repo rate using interest rates and banks will decrease interest rates ✓✓
- influencing the supply of money by changing percentage of deposits that banks must keep as cash reserve ✓✓
- limiting the supply of money by selling securities to the banks or can do the opposite when it wants to increase the supply of money ✓✓
- convincing moral persuasion to ask banks to be more careful with the granting of loans or to encourage loans ✓✓

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

**CONCLUSION**

The mission of the SARB is to protect the internal and external value of the rand; It has control over all money-related issues in South Africa. ✓✓
(Accept any other correct relevant conclusion) Max. 2 marks
(10) [40]

# CONTEMPORARY ECONOMIC ISSUES

## TOPIC 1: GLOBALISATION (NORTH/SOUTH DIVIDE (WEEK 7-8)

| SECTION A: TYPICAL EXAM QUESTIONS |
|---|

**QUESTION 1:** **Section A – Short Questions**

**HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions.**

1.1.1 C (Consumption) ✓✓
1.1.2 B (Capital) ✓✓
1.1.3 B (WTO) ✓✓
1.1.4 A (Comparative) ✓✓
1.1.5 A (Botswana) ✓✓
1.1.6 B (3) ✓✓
1.1.7 C (has increased) ✓✓
1.1.8 D (Agriculture) ✓✓
1.1.9 D (developing world) ✓✓
1.1.10 C (IMF) ✓✓
1.1.11 B (It sells products in several countries)✓✓
1.1.12 D making trade rules the same all over the world ✓ ✓
1.1.13 B France ✓✓
1.1.14 A the free movement of goods and services ✓✓
1.1.15 D IMF ✓✓
1.1.16 A trade blocks ✓✓
1.1.17 A globalisation ✓✓

**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.**

1.2.1 D ✓
1.2.2 G ✓
1.2.3 E ✓
1.2.4 C ✓
1.2.5 A ✓
1.2.6 H ✓ **( 6 x 1) (6)**

**1.3 Provide the economic term/concept**

1.3.1 Internationalisation ✓
1.3.2 Multinational Enterprises ✓
1.3.3 Economic integration ✓
1.3.4 G20 ✓
1.3.5 The World Bank ✓
1.3.6 Free trade area ✓
1.3.7 Quotas ✓
1.3.8 Multinational corporations ✓
1.3.9 Free trade ✓
1.3.10 Absolute advantage ✓
1.3.11 Globalisation ✓
1.3.12 Integration ✓
1.3.13 Regionalisation ✓
1.3.14 Trade block / trade agreement ✓
1.3.15 Foreign direct investment ✓
1.3.16 Quota ✓
1.3.17 Import substitution ✓
1.3.18 African continental Free Trade Area (NOT AfCFTA) ✓

**SECTION B**

**QUESTION 2:**

| |
|---|
| **HINT:** When the question requires you to "list" or "name", you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1 |

**2.1 State two characteristics of internationalisation.**

- Increased quantities ✓
- Increased numbers ✓ (2 x 1) (2)

**2.2 Name any TWO member countries of BRICS.**

- Brazil ✓
- Russia ✓
- South Africa ✓
- India ✓
- China ✓ (Any 2 x 1) (2)

**2.3 Name any TWO Multinational Enterprises.**

- **Microsoft** ✓
- Apple ✓
- IBM ✓
- Coca cola ✓ (Any 2 x 1) (2)

**2.4 List any TWO territorial divisions of the world.**

- Local ✓
- National ✓
- Regional ✓
- Global ✓ (Any 2 x 1) (2)

**2.5 State any TWO key structures of trade.**

- Production ✓
- Communication ✓
- Logistics ✓ (Any 2 x 1) (2)

**2.6 Give any TWO elements of globalisation.**

- Trade ✓
- ICT ✓
- Interaction✓ (Any 2 x 1) (2)

**2.7 Mention TWO major divisions of the global economy.**

- North divide ✓
- South divide ✓ (2 x 1) (2)

**2.8 Give any TWO member states of the SADC region.**

- Angola ✓
- Botswana ✓
- DRC ✓
- Lesotho ✓
- Madagascar ✓
- Malawi ✓
- Mauritius ✓
- Mozambique ✓
- Namibia ✓
- Seychelles ✓
- South Africa ✓
- Swaziland ✓
- Tanzania ✓
- Zambia ✓
- Zimbabwe ✓

(2 x 1) (2)

**2.9 List any TWO causes of globalisation**

- Transportation ✓
- Changes in communication technology and global information systems ✓
- Development of technology ✓
- Trade liberalization ✓
- Capital liberalization ✓
- Multi-national Enterprises ✓
- Standardisation ✓
- Foreign direct investments ✓
- Trade agreements, i.e. GATT, WTO, MDG's, Free Trade Zones ✓ (2 x 1) (2)

**2.10 List any TWO positive consequences of globalisation**.

- Economic growth ✓
- Employment opportunities ✓
- Foreign direct investment ✓
- Balance of payments ✓
- Poverty alleviation ✓
- Increased competition ✓
- Spread of culture ✓
- Spread of education ✓
- Increased flow of data ✓
- Free movement of people ✓
  (Accept any other positive consequence) (Any 2 x 1) (2)

**QUESTION 3:**

| **HINT:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2 |
|---|

**3.1 Describe the term internationalisation**.

- It is the extension of economic activities across the national borders. ✓✓ (1 x 2)

**3.2 Describe the term globalisation**

- The ability to connect with global markets at the local level. ✓✓ (2)

**3.3 Why is it beneficial for a country to engage in free trade?**

Free trade causes international specialisation as it enables the different countries to produce goods in which they have an advantage. ✓ ✓
It promotes international trade and also promotes foreign direct investment. ✓✓
(Accept any other correct relevant response.) (2 )

**3.4 What is the purpose of AfCFTA?**

- The fifty-five member states of the Africa Union (AU) established the **African Continental Free Trade Area** (**AfCFTA**) to create a single **continent**-wide market for goods and services and to promote the movement of capital and natural persons ✓✓

(1 x 2) (2)

**DATA RESPONSE**

| |
|---|
| **HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document |

**QUESTION 4:**

**4.1.1 What is the message of the cartoon?**

- Globalisation caused the spread of Covid 19 / Globalisation should be stopped ✓
Any other relevant correct response ✓ **(1)**

**4.1.2 State one negative impact of globalisation.**

- Countries dependent on others for basics / unable to produce certain things ✓

**(1)**

**4.1.3 Define the term *globalisation***

- Globalisation is the worldwide interfacing and interaction of economies with trade as the key element and ICT making it possible. ✓✓ **(2)**

**4.1.4 Why should globalisation be stopped?**

- To combat the spread of the virus. ✓ ✓ **(2)**

**4.1.5 What will be the impact of stopping globalization on South African's economy?** **(4)**

- Production will decrease as the country relies on importing capital. ✓✓
- FDIs decrease resulting in increase in unemployment. ✓✓
- Producers will not be able to export their products to other nations. ✓✓
(Accept any other correct relevant response)

**4.2.1 What is the extract about?**

**Internationalisation** ✓✓ **(1)**

**4.2.2 State the first step international businesses take when establishing themselves**

- The first step is to establish offices abroad. ✓ **(1)**

**4.2.3 Describe the term *economic integration***

- The process in which two or more states in a broadly defined geographic area reduce a range of trade barriers to advance or protect a set of economic goals. ✓✓ **(2)**

**4.2.4 Briefly explain increased quantities as a characteristic of Internationalisation.**

- The quantity to be produced changes from all dimensions. ✓✓
- For example, more steel is produced therefore more ore, electricity, labour, capital ✓ (2)

**4.2.5 Differentiate globalization from internationalisation).**

- Globalisation
  -The process by which a company bring its business to the rest of the world. ✓✓
- Internationalisation
  -It is the practice of designing products, services and internal operations to facilitate expansion into international markets. ✓✓ **(4)**

**4.3 DATA RESPONSE**

**4.3.1 What is the message of the picture?**

- Negative effects of globalization ✓ **(1)**

**4.3.2 Which group of countries cause pollution?**

- Industrialised countries/ developed countries ✓ **(1)**

**4.3.3 Describe the term *global warming*.**

- It is climate change that is long-term rise of planet's temperatures. ✓✓ **(2)**

**4.3.4 Why are developing countries more affected by climate change than industrialised nations?**

- The economic importance of climate sensitive sectors such as agriculture. ✓✓
- Low adaptive capacity- lack of human capacity and financial capacity to respond to the threads of climate change. ✓✓ **(2)**

**4.3.5 Explain environmental degradation as a consequence of globalisation.**

- Growth is damaging the planet ✓✓
- State of the environment is continuously declining and various renewable resources e.g. fresh water, forests, plants and animals are species are being exhausted ✓✓

**(4)**

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

**4.4.1 Name ONE main function of the World Trade Organisation (WTO)**

- Promotes free trade ✓
- Provides the benefits of economic development for all countries ✓
- Negotiate lower rates ✓
- Clears trading disputes (1)

**4.4.2 Why is the USA regarded as a first word country?**

Because the USA:

- Is economically better developed ✓
- Residents have a higher life expectancy ✓
- Has an effective and functional education and health system ✓
- Has a highly developed infrastructure ✓
- Have high production and consumer levels ✓
- Is an industrialised country ✓
- Average income is very high
  (Accept any other relevant answer) (1)

**4.4.3 Briefly describe the concept *free trade***

It is the removal or reduction of trade tariffs such as import quotas and import duties✓✓ (2)

**4.4.4 Why are trade barriers bad for the economy of a country?**

People will not have access to all the products that are available in other countries; less trade ✓✓ (2)

Any other relevant response

**4.4.5 What do countries stand to gain from a free trade policy?**

- Increased access to higher quality and low-priced good✓✓
- Increased economic growth ✓✓
- Improved efficiency and innovation ✓✓
- Promotion of competition and fairness ✓✓
  (Accept any other correct relevant response) (2 x 2) (4)

4.5 Study the picture below and answer the questions that follow.

**4.5.1 What does the above picture represent?**

- North/South divide ✓ (1)

**4.5.2 From the picture above, which part of the globe represent developing countries?**

- South / lower part / below the equator ✓ (1)

**4.5.3 Briefly describe the term *wealth.***

A stock of assets that have financial value and are owned by individuals, enterprises and government. ✓✓

(Accept any other relevant correct response) (2)

**4.5.4 Differentiate between countries in the North and those in the South in terms of levels of education.**

Countries in the North have higher levels of education than countries in the South. ✓✓ (2)

**4.5.5 What are the positive effects of globalisation on South Africa?**

- More access for South Africa to world markets.✓✓
- Companies benefit from increased trade. ✓✓
- Global financial markets help to finance investment boom in South Africa and contribute to a sound banking system ✓✓

- The lowering of trade barriers has resulted in a wider variety of products and services available to consumers ✓✓
  (Accept any other correct relevant response) (2 x 2) (4)

4.6 DATA RESPONSE

**4.6.1 Explain the economic message portrayed by the cartoon above.**

North / South divide ✓
Countries of the South have fewer industries than those of the North while these in the South are dependent on countries of the North ✓ (1)

**4.6.2 From the cartoon, name the continent that is in the hands of the short man.**

Africa ✓ (1)

**4.6.3 Name TWO institutions established to manage the flow of trade between countries.** (2)

- World Trade Organisation ✓
- IMF ✓
- World Bank ✓ (2)

**4.6.4 Explain the effect of globalisation on the developing countries.**

- Globalisation has a negative effect of developing countries✓✓
- Loss of culture and identity✓✓
- The pollution of mass production in developed countries lead to drought, floods and natural disasters in developing countries✓✓ **(2)**

**4.6.5 Which factors contributed to the above scenario?**

- Capitalism ✓Is known to lead to inequality because it is based on the profit motive and the accumulative of wealth ✓✓
- Globalisation; ✓ leading cause of inequality across the world. Some developed countries exploit poor countries to a point where developing countries become dependent on developed countries for survival✓✓
- Immigration; ✓ When immigration patterns between countries are uneven, it leads to inequality✓✓
- Rate of development ✓ Countries of the North and South have different levels of economic growth. A slow rate of developing refers to developing or under-developed countries in the South, while a high rate refers to development refers to the North. ✓✓
- Emergence of economic powers ✓ Developed countries with access to capital obtain economic power. They can produce goods most efficiently, develop and produce new technologies, and export most goods to other countries. ✓✓
- The competition between emerging power economies makes it difficult for developing economies to survive✓✓
- International infrastructure ✓Countries of the North have the most transport systems✓✓ International communications networks are almost completely under the control of the countries of the North and the South pays heavily for these services✓✓
- New technologies ✓ The research, development and production of new technologies are in the hands of large corporations in the North✓✓
- Financial aid and debt ✓ Many countries in the South obtain funds on credit from wealthy countries in the North, usually at high interest rates✓✓. These high interest rates cause debt to accumulate, borrowers end up paying out more than they receive in the form of investment✓✓ (2 x 2) (4)

4.7

**4.7.1 What is globalisation?**

Worldwide interfacing and interaction of economies with trade as the key element ✓ ✓

**4.7.2 Does globalisation benefit all countries?**

No ✓ **(1)**

**4.7.3 Briefly describe concept *free trade*.**

- Free trade means that there is free movement of goods and services between countries ✓✓ (2)

**4.7.4 Discuss any negative impacts of free trade according to the cartoon.**

- Workers are losing their jobs ✓✓
- There are massive layoffs ✓✓
- Lack of rights for workers ✓✓
- Slave wages are paid. ✓✓ (2)

**4.7.5 Describe the role of the WTO.**

- Facilitate international trade agreements ✓✓
- Ensures that international trade agreements are honoured. ✓✓
- Acts as a mediator in trade disputes. ✓✓ Any 2 x 2)
  (4)

4.8 DATA RESPONSE

**4.8.1 Which economic concept do you associate with the phrase 'The world is round, we'll get there'**?

Globalisation ✓ (1)

**4.8.2 What does the abbreviation WTO stand for?**

World Trade Organisation ✓ (1)

**4.8.3 Briefly explain the concept *free trade.***

It is the removal or reduction of trade tariffs such as import quotas and import duties ✓✓ (2)

**4.8.4 Explain the relationship between comparative advantage and free trade**.

Free trade results in specialisation: a country will concentrate on products which can be produced at the least cost, compared to other countries ✓✓
(Accept any other correct relevant response) (2)

**4.8.5 What do countries stand to gain from a free trade policy?**

- Increase access to higher quality and low-priced goods ✓✓
- Increase in economic growth ✓✓
- Improves efficiency and innovation ✓✓
- Promotes competition and fairness ✓✓
  (Accept any other correct relevant response) (4)

4.9 Study the information and answer the questions that follow

**4.9.1 Identify ONE country that forms part of BRICS**

- Brazil ✓
- Russia ✓
- India ✓
- China ✓
- South Africa ✓ (1)

**4.9.2 Has the BRICS agreement resulted in any significant improvements to the SA economy?**

- Yes – Trade agreements ✓

**4.9.3 Briefly describe the term *trade block.***

- A grouping of countries to get more control over the global economy (2)

**4.9.4 What is an emerging economy?**

- Involves those economies that are not fully developed ✓✓
- Involves those economies that still depend largely on the primary sector ✓✓
- Involves those economies whose markets are very volatile ✓✓
- Developing countries that succeed in attracting fixed and portfolio investment from developed countries ✓✓
- Developing economies that show acceleration in industrialisation and economic growth ✓✓

Accept any other relevant correct answer (2)

**4.9.5 How can South Africa benefit from trade agreements such as BRICS?**

- New foreign direct investment in South Africa ✓✓
- Marketing opportunities for South African export products✓✓
- Cheaper imports of goods and services✓✓
- Larger choice of products ✓✓
- South Africa earns foreign revenue with exports✓✓
- Rebalancing the Balance of Payment ✓✓

Any relevant correct answer (2x2)(4)

**HINT:** All section B questions have TWO 8 marks questions, numbered according to questions not like in this document.

**QUESTION 5** **Paragraph type questions – Middle Cognitive**

**5.1 Explain the advantages of internationalisation.**

- It grants a true independence from local market ✓✓
- Helps to improve a general firm's image ✓✓
- Enhances productive capacity ✓✓
- Allows firms to achieve economies of scale. ✓✓ (8)

**5.2 Briefly discuss the positive effects of globalisation.)**

- It allows firms to find lower-cost ways to produce their products. ✓✓
- It increases global competition which drives prices down and create a large variety of choices for consumers. ✓✓
- Lower costs help people in both the North and the South divide live better on less money. ✓✓
- It gives rise to new industries and more jobs in developing countries. ✓✓ **(8)**

**5.3 Discuss the advantages of Multinational Enterprises**

- saving on transport costs ✓✓
- the adjustment of product design to make products more acceptable to local markets ✓✓
- a reduction in corporate taxation ✓✓
- access to local labour and capital ✓✓
- transnational enterprises make globalization happen ✓✓ **(8)**

**5.4 Briefly discuss any TWO characteristics of globalisation.**

- Global market established ✓ where goods and services can be exchanged freely between countries. ✓✓
- Trade has become open ✓ as trade barriers such as tariffs have been removed. ✓✓
- Globalisation encourages free flow of investment ✓✓ between countries and there is free movement capital and finance across the world.✓✓
- Economic integration ✓✓ is necessary and no country can survive on its own; different countries and economies are interdependent. ✓✓
- The movement of people and goods ✓✓ across the national borders is facilitated by the development of transport and communication. ✓✓
- All countries have access to cheapest and best quality ✓✓products.
- Giant international co-operations play a very important role in world trade. ✓✓

(Any 2 x 4) (8)

**5.5 Briefly explain trade liberalisation and standardisation as causes for globalisation.**

Trade liberalisation

- Trade liberalisation means the removal or reduction of trade barriers that restrict trade between countries✓✓
- These barriers include tariffs, such as duties and surcharges and non-tariffs such as licencing rules and quotas. ✓✓
- Trade liberalisation promotes free trade which allows countries to trade goods without regulatory barriers. ✓✓ Max. 4

Standardisation

- Standardisation refers to making trade rules the same all over the world, making it easier for countries to trade and invest internationally – countries have to conform to a fixed set of rules.✓✓
- Those who are subjected to the rules behave in a similar manner, which promotes globalisation. ✓✓
- The institutions include the World Trade Organisation (WTO) which facilitated international trade agreements, tariff policies and the protection of intellectual property. ✓✓

(Accept any other relevant correct response) Max. 4 (8)

**5.6 Explain *changes in employment* conditions and *changes in culture* as consequences of globalisation.**

Changes in employment conditions:

- With globalisation MNEs make FDIs in business in developing countries generating employment ✓✓
- FDIs provide rewarding employment opportunities ✓✓
- Has led to job losses in developed countries ✓✓ (2 x 2)

Changes in culture:

- There is an increase in the desire to use foreign ideas ✓✓
- Globalisation has resulted in several cultures coming together ✓✓
- People of one culture discover shortcomings in their culture when they come into contact with other cultures ✓✓
- They adapt aspects of other cultures that are more in tune with the times✓✓
  (Accept any other correct relevant response) (2 x 2)Total (8)

**5.7 Explain improvement of communication and technology as a cause of globalisation.**

Improvement of communication and technology

- The development of communication and technology has enabled countries all over the world to be connected. ✓✓
- Internet and mobile technology have allowed greater communication between different countries ✓✓
- This takes place through the use of landlines, satellites, or underwater cables. ✓✓
- The speed at which information is transferred has also increased ✓✓
- Use of modern technology such as Skype makes it possible for people in different countries to see one another on the screen of the computer. ✓✓
- Information Communication Technology has made the world small ✓✓

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

**5.8 Discuss the positive effects of globalisation.**

- Globalisation has resulted in more access for South Africa to world markets and international forums ✓✓
- The well-developed financial institutions put South Africa in a favourable position when global crisis affects other developing countries ✓✓
- Certain companies have benefited greatly from increased trade, which has caused the gap between the rich and the poor widen ✓✓
- The focus on knowledge has increased and thereby the demand for skilled and professional labour has also increased. This resulted in increased salaries for well-educated and skilled workers ✓✓ (8)

**5.9 Discuss the disadvantages of globalisation**

- The country has to deal with increasing competition ✓✓
- Crises in the financial markets influence markets in less developed countries, including South Africa ✓✓
- Unstable conditions in neighbouring countries around South Africa negatively influence the perceptions that other countries have bout South Arica which often lead to the withdrawal of investment ✓✓
- the demand for less skilled workers has decreased

- The increased production levels have led to increase in pollution that are harmful ✓✓

**5.10 Tabulate TWO differences to illustrate the North-South divide.**

| NORTH | SOUTH |
|---|---|
| • Highly developed infrastructure ✓✓<br>• High level of consumption and production ✓✓<br>• Industrialised countries ✓<br>• Average incomes are very high<br>• Developed countries (Max 4) | • Weak infrastructure<br>• Low levels of production and consumption ✓✓<br>• Non-industrialised<br>• Average income are very low<br>• Developing countries (Max 4) |

(2 x 4) (8)

**QUESTION 6** **Paragraph type questions – Higher cognitive**

**6.1 What would South Africa gain from integrating with other economies?**

South Africa would benefit in the following ways:
- Reduction in the cost of trade ✓✓
- Improved availability of a wider selection of goods and services ✓✓✓
- Improvement in employment opportunities ✓✓
- The market tends to expand leading to technology sharing and cross border investment flows ✓✓
- Political cooperation amongst member countries leading to stronger economical ties ✓✓

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

**6.2 Why would a country prefer foreign direct investment as opposed to portfolio investments?**

- Foreign direct investment is when a country establishes a business enterprise in another country while portfolio investments are investments in shares. ✓✓
- It increases the gross domestic product of the recipient country. ✓✓
- The creation of jobs is enhanced, while portfolio investments do not have that much impact in changing the lives of people. ✓✓
- Expertise from the developed countries adds to the list of advantages. ✓✓
- This leads to the improvement in the standard of living. ✓✓
- Portfolio investments are easily moved from one country to the other, ✓✓ and with FDI's it is not that easy to disinvest – it is normally the last option✓✓ (Accept any relevant answers.) (4 x 2) (8)

**6.3 How can South Africa benefit from trade agreements such as BRICS?**

- New foreign direct investment in South Africa ✓✓
- Marketing opportunities for South African export products ✓✓
- Cheaper imports of goods and services
- Larger choice of products ✓✓
- South Africa earns foreign revenue with exports. ✓✓
- Rebalancing the Balance of Payments ✓✓
(Accept any other relevant correct answer) (2x2)

**6.4 Evaluate the effect of globalisation on the economy of South Africa.**

Economic costs

- Trade liberalisation favours competitive industries and penalises uncompetitive ones, thus favouring developed countries and not developing countries.✓✓
- It requires the reconstruction and reform of economies, which is costly and smaller economies cannot afford this.✓✓
- It encourages brain drain, which creates severe shortages of skilled labour in developing countries.✓✓

Social costs

- It increases drug trafficking as some people exploit the opportunities offered by globalisation. ✓✓
- It leads to an increase in human trafficking and people are forced to work as sex slaves or drug agents. ✓✓
- It leads to identity theft and the increase of cyber-crimes.✓✓

Health issues

- As people cross border lines, so do diseases. ✓✓

Environmental costs

- The overproduction leads to exploitation of natural resources.✓✓
- The manufacturing process leads to pollution, which negatively influences the environment.✓✓
- The over-consumption leads to shortages in natural resources such as water.✓✓

Indigenous knowledge systems

- Developing nations have lost their indigenous knowledge system in the quest to become developed and compete with the developed world. ✓✓

(Accept any other relevant correct response.)
(For only listing the negative causes award a max of 2 marks.) (8)

**6.5 Evaluate the effect of the Covid-19 pandemic on globalisation.**

- With the initial lockdown there was no travel allowed, but goods was still allowed to move between countries ✓✓
- People stopped travelling, but other means of contacting people became prominent ✓✓
- There was a greater move to procuring goods via online platforms, so globalisation has continued✓✓
- Improved technology means people have access to information and events in other countries, so the pandemic seems to have promoted globalisation ✓✓

(Accept any other relevant correct answer) (8)

**6.6 Discuss in detail the AfCFTA.**

- he African Continental Free Trade Area (**AfCFTA**) represents an **important** milestone in achieving an economically integrated Africa and governments should invest in basic education and skills development he African Continental Free Trade Area (**AfCFTA**) represents an **important** milestone in achieving an economically integrated Africa and governments should invest in basic education and skills development✓✓
- The overarching **objective** behind the **AfCFTA** is the elimination or reduction of tariff and non-tariff barriers amongst the 54 Countries✓✓

- that agreed to be members of the bloc by providing a single market for goods and services, ✓✓facilitated by movement of persons in order to deepen the economic integration and prosperity. ✓✓ (8)

**SECTION C**

**HINT:** All section C questions have TWO questions 5 & 6 NOT like in this document. In the examination you will need to answer only one.

ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|---|---|
| **Introduction**<br>The introduction is a lower-order response.<br>● A good starting point would be to the main concept related to the question topic<br>● Do not include any part of the question in your introduction.<br>● Do not repeat any part of the introduction in the body<br>● Avoid saying in the introduction what you are going to discuss in the body | Max 2 |
| **Body**:<br>**Main part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>**Additional part:** Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest / Construct a graph | Max 26<br><br>Max 10 |
| **Conclusion**<br>Any Higher or conclusion include:<br>● A brief summary of what has been discussed without repeating facts already mentioned in the body<br>● Any opinion or value judgement on the facts discussed<br>● Additional support information to strengthen the discussion/analysis<br>● A contradictory viewpoint with motivation, if required<br>Recommendations | Max 2 |
| **TOTAL** | **40** |

**QUESTION 7**

- **Discuss in detail the causes of globalisation. (26 marks)**

- **Evaluate the negative impact globalization has on South African economy. (10 marks)**

**Introduction**

Globalisation is the worldwide interfacing and interaction of economies with trade as an important element, and ICT making it possible ✓✓ **Max 2**
(Accept any other relevant response)

**MAIN PART**

- **Discuss in detail the causes of globalisation. (26 marks)**

**Technological changes** ✓
-Globalisation has been made possible by technological changes. ✓✓
- Much of the changes are evolutionary and often unnoticed but extremely significant. ✓✓

- **Information technology** ✓
  - IT is based on the convergence of two initially separate technologies namely, communication technologies and computer technologies. ✓✓
  - Both technologies happen with the aid of computers and mobile phones are developed to perform similar functions. ✓✓

  -Information can be retrieved, studied, changed, distributed and stored again. ✓✓
- **New production processes** ✓
  -IT brought about new systems of production based on extensive communication and transportation networks at lower costs. ✓✓
  - e.g. components of motorcars are made in different parts of the world and assembled in other parts of the world ✓✓
  -IT permits services to be disconnected from production and traded or performed remotely e.g. accounting and call centres. ✓✓

- **Transportation and communication** ✓
  -Globalisation is very dependent on communication and transportation ✓✓
  -Transportation systems are means by which materials, products and other tangible things are transported from place to place ✓✓
  -Communication systems are the means by which information is transmitted from place to place in the form of messages, ideas, instructions, images, drawings etc ✓✓
  -IT transformed both the technologies of transportation and communication ✓✓

- **Trade liberalisation** ✓
  -Trade liberalization is the removal of restrictions ✓✓ e.g. tariffs and quotas✓
  Trade liberalization was a result of :
  The General Agreement on Tariffs and Trade (GATT) ✓
  - Members negotiated for the gradual removal of international trade restrictions and barriers and methods to increase participation and volumes of trade
  - The role was taken over by the World Trade Organisation (WTO) in 1994 ✓✓
  - WTO ensures that agreements that are reached are honoured and acts as mediator in trade disputes ✓✓

Export promotion ✓
-These are incentives the government give to manufacturers to encourage the manufacturing of goods that can be exported. ✓✓
- Part of it is to encourage foreign direct investment ✓✓
- EPZs were established ✓✓

Free trade area ✓
- countries remove all trade barriers among themselves on goods and services traded ✓✓
- each country however continues to operate its own trade barriers against the rest of the world ✓✓

**Multinational enterprises** ✓
-These are international businesses that produce goods and services in several countries without being concentrated in a single country ✓✓
Advantages include :

- saving on transport costs ✓✓
- the adjustment of product design to make products more acceptable to local markets ✓✓
- a reduction in corporate taxation ✓✓
- access to local labour and capital ✓✓
- transnational enterprises make globalisation happen ✓✓

**Capital liberalisation** ✓
-Together with free trade financial markets were also liberalised. ✓✓
-As exchange and investment controls were removed, capital was allowed to be traded in international markets ✓✓
-This allowed capital to move where it earns the highest returns. ✓✓
-For example, more rand is traded in London than in South Africa and the South African government has no control over it. The trading is done electronically. ✓✓
-Investors can move capital directly for portfolio and FDI purposes without the intermediation of banks or monetary authorities. ✓✓

**Standardisation** ✓
-It means making something confirm to a fixed set of rules. ✓✓
-Those who are subjected to the rules behave in a similar manner. ✓✓
- number of organisations were established to standardise the behaviour of countries with regard to a variety activities. ✓✓

These include:
The United Nations(UN) ✓
-works to standardise the rights of various groups of people. ✓✓ E.g. human rights, consumer rights, workers' rights and children's rights ✓

The International Monetary Fund (IMF) ✓
- Standardise trade, balance of payment and exchange rates, international lending and borrowing. ✓✓

The World Bank ✓
-Standardise economic development, measuring development
For example, HDI, rich and poor countries.

The World Trade Organisation (WTO) ✓
-Standardise international trade relationships, tariffs and other forms of protection arrangements, ownership of patents, royalties and intellectual property. ✓✓
The World Health Organisation (WHO) ✓
-Standardise healthcare, responsibilities of hospitals, clinics, and medical personnel and practitioners and training of health workers. ✓✓

The International Labour Office (ILO) ✓✓
-Standardise labour laws, worker behaviour and employer behaviour. ✓✓
(A maximum of 8 marks can be allocated for mere listing of facts and examples)
(Accept any other correct relevant response) **(Max 26)**

**Additional part**

- **Evaluate the negative impact globalisation has on South African economy. (10 marks)**

-Businesses, cities and regions that flourished in the years of isolation are in decline due to competition from abroad. ✓✓
-Globalisation brought new social and urban tensions worsened by crime and HIV and Aids. ✓✓
-There is an increase in the difference between the rich and the poor. (Increase in poverty) ✓✓
- The mass urbanisation of rural people and much greater degree of racial and cultural integration has weakened the traditional cultures. ✓✓
- Globalisation is leading to the spread of deadly diseases such as HIV and AIDS and Covid-19 resulting in a decline in economic growth. ✓✓
(Accept any other correct relevant response) **(Max 10)**

**Conclusion**
Globalisation helped the economies grow, reduced unemployment in developing countries and created markets for countries with absolute advantage. ✓✓ (Max 2)
(Accept any other correct relevant higher order response)

**QUESTION 8**

- **Compare the characteristics of the countries in the North with those in the South. (26 marks)**
- **How did the Covid-19 pandemic negatively impacted the South African economy. (10 marks)**

**Introduction**
North- South refers to the northern and southern hemisphere of the world. The South includes Latin America, Africa and Asia. **(Max 2)**
(Accept any other relevant response)
**Main Part**

- **Compare the characteristics of the countries in the North with those in the South. (26 marks)**

| Characteristic | North divide | South divide |
|---|---|---|
| Level of development ✓ | Consists of developed and well industrialised countries ✓✓ | Comprises of developing/ non-industrialised and semi-industrialised countries ✓✓ |
| Standards of living ✓ | People have high standards of living. ✓✓ | The economies are dominated by low standards of living (poverty) ✓✓ |
| Population growth rate ✓ | There is low population growth rate as people want to maintain high standards of living. ✓✓ | The population growth rate is high as people believe security in their children when they get old. ✓✓ |

| Characteristic | North divide | South divide |
|---|---|---|
| Age composition ✓ | Population is dominated by the elderly as the countries have high life expectancy. ✓✓ | The population has low life expectancy therefore dominated by the young age. ✓✓ ✓✓ |
| Per capita income ✓ | The population has high per capita income.<br>Countries have high job opportunities. ✓✓ | The per capita income is very low since high proportion of the EAP is unemployed. ✓✓<br>For example, South Africa's unemployment rate for the first quarter of 2021 is 32.6%. ✓✓ |
| Infrastructure ✓ | Highly developed infrastructure. ✓✓ | The infrastructure is very weak. ✓✓ |
| Education ✓ | The education system is of high standards. ✓✓<br><br>Majority of the school going age population is attending school because they can afford. ✓✓ | The education system of low standards. ✓low standards. ✓✓<br><br>A high number of school drop outs as some parents cannot afford to send their children to school because they are unemployed. ✓✓ |

(A maximum of 8 marks can be allocated for mere listing of characteristics and examples)
(Accept any other correct relevant response) **(Max 26)**

**Additional part**

- **How did the Covid-19 pandemic negatively impact the South African economy? (10 marks)**

-There was a tremendous decrease in GDP. ✓✓
- The economy contracted by 7.2% fourth quarter of 2020 as lockdown hampered the economy by disrupting trade and output. ✓✓
-Poverty increased as a result of an increase in unemployment from 32,5% in the fourth quarter of 2020 to 32,6% in the first quarter of 2021. ✓✓
-Fifty four percent of households have been pushed out of permanent jobs to informal or temporary contract. ✓✓
-Thirty four percent of households are likely to exit the middle class into vulnerability. ✓✓
-Inequalities within and among nations are being exposed and exacerbated by Covid-19, as the poor and vulnerable are unable to protect themselves. ✓✓
-The economy is losing highly qualified and experienced workforce. ✓✓ **(Max 10)**

**Conclusion**

Although there is a divide between North and South, this does not mean that all countries in the South or North are the same. The countries in the South are diverse in terms of their own power and development. Countries were impacted by the pandemic to different degrees. ✓✓
South Africa is the country with the fifth highest number of infections in the world and the highest of cases on the African continent. ✓✓

# CONTEMPORARY ECONOMIC ISSUES

## TOPIC 2 :ENVIRONMENTAL DETERIORATION (WEEK 9 TO 10)

**SECTION A: TYPICAL EXAM QUESTIONS**

**QUESTION 1:** **Section A – Short Questions**

**HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write TWO options.

**1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.**

1.1.1 D ✓✓
1.1.2 B✓✓
1.1.3 B✓✓
1.1.4 D✓✓
1.1.5 A✓✓
1.1.6 A✓✓
1.1.7 D✓✓
1.1.8 D✓✓
1.1.9 B✓✓
1.1.10 C✓✓
1.1.11 A✓✓
1.1.12 B✓✓
1.1.13 A✓✓
1.1.14 B✓✓
1.1.15 B✓✓
1.1.16 A✓✓
1.1.17 D✓✓
1.1.18 C✓✓
1.1.19 B✓✓

**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 – 1.2.16) in the ANSWER BOOK.**

1.2.1 G✓
1.2.2 J✓
1.2.3 E✓
1.2.4 L✓
1.2.5 O✓
1.2.6 B✓
1.2.7 H✓
1.2.8 K✓
1.2.9 F✓
1.2.10 M✓
1.2.11 I✓
1.2.12 A✓
1.2.13 D✓
1.2.14 C✓
1.2.15 P✓
1.2.16 N✓

1.3.1 Pollution
1.3.2 Endangered species
1.3.3 Environmental degradation
1.3.4 Sustainability
1.3.5 Deforestation
1.3.6 Conservation
1.3.7 Quotas
1.3.8 Climate change
1.3.9 Resource depletion
1.3.10 Desertification
1.3.11 Green tax /carbon tax
1.3.12 Environment sustainability
1.3.13 Conservation
1.3.14 Global warming✓
1.3.15 Preservation✓

1.3.16 The United Nations Conference on Environment and Development (UNCED) ✓

**QUESTION 2:**

| |
|---|
| **HINT:** When the question requires you to "list" or "name", you need not write a sentence but merely few words or a phrase. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1 |

**2.1 Name any TWO policies and legislation introduced by the Department of Environmental Affairs to protect the environment.**

- The National Environmental Management : Protected Areas Act (57 of 2003) ✓
- The National Environmental Management Protected Areas Amendment Act (32 of 2004) ✓
- The National Environmental Management of Biodiversity (10 of 2004) ✓
- The Coastal Management Act: Integrated Coastal Management (24 of 2008) ✓
- The National environmental Management Waste Act (59 of 2005) ✓
- The new National Environmental Management Air quality Act (39 of 2004) ✓
- Measures to reduce fuel emissions
- Awareness campaign and partnership with various organisation
- Atmospheric Pollution Prevention Act (45 of 1965)
- Conservation of Agricultural Act (43 of 1983)
- Environmental Laws Rationalisation Act (151 of 1997)
- Mineral and Resources Development Act (151 of 1997)
- National Veld and Forest Act (101 of 1998)
- National Water Act (36 of 1998)

(Accept any relevant policy r legislation) (2 x 1) (2)

**2.2 Name any TWO examples of pollution.**

- Air ✓
- Water ✓
- Soil / ground ✓
- Noise ✓

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

**2.3 Name any TWO examples of consumer waste.**

- Paper; ✓
- Glass; ✓
- Bottles; ✓
- Cans; ✓
- Plastics ✓

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

**2.4 List any TWO examples of renewable resources**

- Forests ✓
- Fish ✓
- Recycled water ✓
- Oxygen ✓

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

**2.5 Name any TWO principles for sustainable development**.

- Good governance ✓
- Eradication of poverty ✓
- Economic recovery ✓
- Accountability ✓

- Transparency ✓
- Attention to social services ✓
  (Accept any other correct relevant responses) (2 x 1) (2)

**2.6 Name any TWO of the millennium development goals.**

- Eradicate extreme poverty and hunger.✓
- Achieve universal primary education.✓
- Promote gender equality and empower women.✓
- Reduce child mortality.✓
- Improve maternal health.✓
- Combat HIV / AIDS, malaria and other diseases.✓
- Ensure environmental sustainability.✓
- Global partnership for development.✓
  (Accept any other relevant correct response.) (2 x 1) (2)

**2.7 List TWO examples of fossils fuels?**

- Oil ✓
- Natural gas ✓
- coal ✓ (2x1)(2)

**QUESTION 3:**


These types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2. Answers must be provided in full sentences; learners must ensure that their answer addresses the question asked

**3.1 What impact does HIV/Aids have on poverty?**

It focuses the world's attention on the problems and forces countries to deal with the issue✓✓
Accept any relevant correct answer (1x2)(2)

**3.2 How do Green Taxes contribute towards sustainability?**

Taxes discourage the use of resources as it will cause an increase in pollution✓✓
(1 x 2) (2)

**3.3 Why is it important for us to sustain the environment?**

The environment is an ecosystem which society and the economy depend on. If not taken care of, society would not survive, and the economy would not thrive ✓✓
(Any correct relevant response) (2)

**3.4 How do international protocols help sustainable development?**

- It focuses the world's attention on the problem, and forces countries to deal with the issue.✓✓
  (Accept relevant answer) (1 x 2) (2)

**3.5 How would the Kyoto Protocol help the environment?**

- By reducing the emission of greenhouse gases, which lead to global warming✓✓
  (Accept any relevant answer) (1 x 2) (2)

**3.6 How do international protocols help sustainable development?**

It focuses the world's attention on the problem, and forces countries to deal with the issue.✓✓

(Accept relevant answer)

**3.7 How do Green Taxes contribute towards sustainability?**

The introduction of the Marine Living Resources Amendment Act 1998 ✓✓

**3.8 How does granting property rights ensure environmental sustainability?**

People care for the things that belong to them, o when property right I granted they take good care of it✓✓

**3.9 What negative externality can be caused during the process of manufacturing** electricity?

Pollution✓✓

**3.10 How do environmental subsidies ensures environmental sustainability?**

Environmental subsidies reduce activities that cause environmental change ✓✓
These costs are recovered from taxation ✓✓
Subsidies could be for the development of new technology or equipment✓✓
Encourage product of environmentally subsidies ✓✓
Encourage recycling of waste such as bottles or cardboard

**DATA RESPONSE**

| |
|---|
| **HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document |

**QUESTION 4:**

4.1 Study the following and answer the questions that follow

**4.1.1 Identify any TWO ways from the above extract of protecting the environment.**

- Reduce the amount of water you use ✓
- Save on gasoline ✓
- Reduce the use of electricity ✓
- Prevent items from going into landfills ✓
- Save on natural resources ✓ (2 x 1) (2)

**4.1.2` Briefly describe the concept *ecosystem*.**

It is a localised group of interdependent organisms together with the environment that they inhabit and depend on ✓✓ (2)

**4.1.3 Explain price policy as a method of protecting the environment.**

- It is to increase the price of non-renewable resources especially for people who use them inefficiently ✓✓
- When supply is restricted and demand keeps on increasing, the equilibrium price will increase ✓✓
  (Accept any other correct relevant response) (1 x 2) (2)

**4.1.4 Why is it vital for human beings to protect the environment?**

- The ecosystem in which we live provides services for humans and all other species ✓✓
- Our forests remove carbon dioxide and other pollutants from the air we breathe, and also cools the temperature of the air ✓✓
- Our wet lands store storm water ✓✓
- Environment supports life ✓✓
- If the environment is protected, we are assured better health, food, quality air etc. ✓✓

(Accept any correct relevant response) (4)

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

**4.2.1 Identify TWO environmental issues (problems) that can be derived from the cartoon.**

- Cimate change ✓
- Loss of biodiversity / Deforestation ✓
- Energy crisis ✓
- Over-utilisation of ntural resources ✓
- Land degradation ✓
- Overpopulation ✓
- Pollution ✓
- Watse management ✓ Any (2 x 1) (2)

**4.2.2 Explain the term *sustainable economic development.***

Sustainable economic development is the development of an area using techniques and approaches that will help to protect the environment for future use ✓ ✓ (2 x 1) (2)

**4.2.3 Name action steps that husehols can take to reduce the amount of toxic materail we use**.

- Households can retrieve cans, paper, plastic containers and bottles ✓
- Make more use of lift clubs and public vehices to reduce te number of vehicle on the roads ✓
- Use solar power and water-saving appliances ✓
- Use non-toxic detergents ✓
- Use of proper dumping sites, specially allocated for dumping✓
- Creating environmentally friendly gardens by planting indigenous trees, water saving plants, using organic waste compost and avoiding poisonous insecticides and herbicides ✓ ✓

(Any relevant answer) (2 x 1) (2)

**4.2.4 What could the governeent do to prevent unsustainable use of the environment?**

- Appropriate government policies can increase the protection of the environment ✓✓
- Remove dangerous additives from petrol, such a lead ✓✓
- Encourage the use of environmentally friendly energy sources such a wind, wave and solar power, as opposed to power generated by fossil fuels ✓✓
- Implement regulations to reduce pollution, such as the successful policy to reduce the use of plastic shopping bags ✓✓

4.3 Study the information and answer the questions that follow

**4.3.1 Identify ONE environmental issue (problem)** (2)

- Climate changes
- Land degradation
- Overpopulation

- Loss of biodiversity / Deforestation
- energy crisis
- Pollution
- Waste management
- Global warming

- Over-utilisation of natural resources any (1 x 1 ) (1)

**4.3.2 What are brown issues in the environment?**

- Brown issues focus mainly on effects on environmental health impacts, ✓ such as water pollution ✓, air pollution ✓, water and sanitation (1)

**4.3.3 Briefly explain sustainable economic development.**

- Sustainable economic development is the development of an area using techniques and approaches that will help to protect the environment for future uses✓✓ (2)

**4.3.4 Name action steps that households can take to prevent the amount of toxic material we use.** Households van retrieve cans paper, plastic containers and bottles✓✓

- Make more use of lift clubs and public vehicles to reduce number of vehicles on the road✓✓
- Use solar-power and water saving devices ✓✓
- Use non-toxic detergents ✓✓
- Use op proper dumping sites, specially allocated for dumping ✓✓
- Creating environmentally friendly gardens by plating indigenous, water-saving plants, using organic waste compost and avoiding poisonous insecticides and herbicides ✓✓ (2)
  (Any relevant correct answer)

**4.3.5 What could the government do to prevent the unsustainable use of the environment?**

- Appropriate government policies can increase the protection of the environment ✓✓
- Remove dangerous additives from petrol, such as lead✓✓
- Encourage the use of environmentally friendly energy sources such as wind, wave and solar power, as opposed to power generated by fossil fuels ✓✓
- Ensure that all new buildings are energy efficient ✓✓
- Implement regulations to reduce pollution, such as the successful policy to reduce the use of plastic shopping bags ✓✓
  (Accept any other relevant correct answer) (2 x 2) (4)

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

**4.4.1 Name ONE factor contributing the most to soil erosion**

- Overgrazing ✓
- Deforestation ✓ (1)

**4.4.2 What is a green environmental issue?**

- Green environmental issues focus mainly on effects on the environment impacts that affect future generations' climate change, mining, biodiversity and water management. (1)

**4.4.3 Briefly describe the term *conservation.***

- Conversation deals with the sustainable use and management of both renewable and non-renewable resources to ensure that they are available for use for future generations.□✓✓

**4.4.4 How can technological innovation be used to protect the environment?**

- Replace fossil fuels with sustainable energy resources such as wind tide movement, wave movement, sun energy, hydro energy, ✓✓
- Develop systems to reduce waste in all forms, such as recycling or the production of by-products. ✓✓
- Provide specifications to product developers to produce substitute products that are environmentally friendly. ✓✓ (2 x 2) (4)

**4.4.5 How does agriculture contribute to soil degradation?**

- By cultivating land over and over again without any break periods in between. ✓✓
- When farm land is ploughed, the exposed top soil is often blown away by wind or washed away by rain. ✓✓
  (Accept any other relevant response.) (4)

4.5 Read the extract below and answer the questions that follow:

**4.5.1 Which South African Department attended the UNFCCC?**

- The Department of Environmental Affairs ✓ (1)

**4.5.2 How many African countries were represented at UNFCCC?**

- 77✓ (1)

**4.5.3 Name TWO problems mentioned in the article, about climate change in Africa.**

- Irreversible effects of climate change on water and food security, ✓ health ✓and infrastructure✓ (2)

4.5.4 **Briefly describe the term *sustainable economic development.***

- Sustainable economic development is the development of an area using techniques and approaches that will help to protect the environment for the future. ✓✓ (2)

4.5.5 **What could the government do to prevent the unsustainable use of the environment?**

- Appropriate government policy can increase the protection of the environment. ✓✓ (Focus Economics),
- Remove dangerous additives from petrol, such as lead. ✓✓
- Encourage the use of environmentally friendly energy sources such as wind, wave and solar power, as opposed to power generated by fossil fuels.✓✓
- Ensure that all new buildings are energy efficient.✓✓

- Implement regulations to reduce pollution, such as the successful policy to reduce the use of plastic shopping bags.✓✓ – (Oxford Successful Economics & Solutions for Economics)
  (Accept any other relevant correct answer.) (2 x 2) (4)

4.6 Read the extract and answer the questions that follow

**4.6.1 List any ONE factor that contribute to the loss of biodiversity**.

- habit loss ✓
- degradation ✓
- excessive nutrient load ✓
- air and water pollution ✓
- overexploitation and unsustainable use of natural resources ✓

(1 x 1) (1)

**4.6.2 What is the increase of global temperatures called?**

- Global warming ✓ (1)

**4.6.3 What is the main cause of climate change?**

Global warming ✓✓ (2)

**4.6.4 Briefly explain brown environmental issues**.

Brown environmental issues focus on the understanding that social issues cannot be separated from the environment ✓✓ (2)

**4.6.5 How does climate change affect the economic environment?**

- Loss of habitats and biodiversity negatively affects the tourism sector because tourists are attracted by the beauty of nature and indigenous plants ✓✓
- The agricultural sector is negatively affected as dry seasons are becoming longer, and wet seasons start late ✓✓
- The manufacturing of timber decreases because forests can be entirely lost ✓✓

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

4.7 Study the article below and answer the questions that follow:

**4.7.1 Why is it necessary for government to impose fishing quotas, according to the article above?**

The marine resources are dwindling/decreasing ✓ (1)

**4.7.2 Name a solution which government is planning to create alternative jobs for the communities**.

- They are planning a new harbour✓
- Looking at ecotourism✓ (1)

**4.7.3 Explain the quota system implemented by government.**

A quote system limits the quantity off fish that one person can catch per day/ restricts the number of fish that is allowed to be taken out of the ocean✓✓

**4.7.4 Discuss a reason why the poor fisherman will not benefit from these quotas.**

- The costs of having quota is very high ✓✓
- They do not have the same infrastructure as the larger companies ✓✓
- The quota is not is enough to cover costs and maintain a decent standard of living ✓✓

(Accept any relevant explanation) (2)

**4.7.5 How could we prevent our “marine resources from dwindling”?**

- Stop the over-consumption of fish✓✓
- Stop the pollution of oceans that cause the death of some fish species✓✓
- Stop the big foreign ships from cleaning out our ocean from fish✓✓
- We should encourage fish breeding programs✓✓

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

4.8 Read the extract below and answer the questions that follow

**4.8.1 How much did it cost Mpumalanga to neutralise the effects of acid rain?**

- 25 million per year ✓ (1)

**4.8.2 What is the introduction of waste matter into the environment, both directly and indirectly?**

- Pollution ✓

**4.8.3 Briefly describe the term *carbon dioxide emissions*.**

- It is a gas that creates the greenhouse effect leading to global warming. ✓✓
- Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. ✓✓
- They include carbon dioxide produced during the consumption of solid, liquid and gas fuels and gas flaring. ✓✓ (Any 1 x 2) (2)

**4.8.4 List TWO economic consequences of land degradation.**

- Dam sedimentation ✓
- High costs in cleaning water ✓
- Loss of jobs in farms ✓
-  Shortage of water ✓ (Accept any relevant answers.) (Any 2 x 1) (2)

**4.8.5 Distinguish between renewable and non-renewable resources.**

- A non-renewable resource is a natural resource that cannot be produced, grown or generated. once it is used up, there is no more available for future needs. ✓✓
- Renewable resources are resources that can replace themselves over a long period, such as forests, wild animals and fish. ✓✓ ( 2 x 2) (4)

4.9 DATA RESPONSE

**4.9.1 Give the name of ONE city in the extract where climate change conferences were held**

- Kyoto ✓
- Berlin ✓
- Durban ✓ (1)

**4.9.2 Identify the international organisation in the extract above that initiates climate change conferences.**

United nations / UN ✓ (1)

**4.9.3 Describe how greenhouse gases contribute to global warming.**

Forms a blanket that traps the heat within the earth's atmosphere / A stronger greenhouse effect will warm oceans and partially melt glaciers and other ice, increasing sea level ✓✓

(Accept any other correct relevant response) (2)

**4.9.4 How can a green fund help to reduce global warming?**

It can enable the establishment and use of renewable (clean/eco-friendly) energy ✓✓ (Accept any other correct relevant response) (2)

**4.9.5 Why is global warming increasing despite the many international conferences on climate change?**

Global warming is increasing due to:

- Governments, as parties to international agreements, being unable or less interested in implementing the agreements ✓✓
- rising conflict between the goal of reversing global warming and that of increasing economic development ✓✓
- industries who are more interested in increase in profits, which is possible only when increase in production takes place ✓✓
- increased production accompanied by emission of greenhouse gases, which leads to global warming ✓✓

(Accept any other correct relevant answers) Any (2 x 2) (4)

4.10 DATA RESPONSE

**4.10.1 What is the main reason behind the poaching of Rhinos?**

Rhino horn/Money ✓

(Accept any other correct relevant response) (1)

**4.10.2 During which year did South Africa experience its worst year in Rhino poaching?**

2014 ✓ (1)

**4.10.3 Briefly describe the term *biodiversity.***

Biodiversity refers to the variety of plants and animals that inhabit the earth ✓✓

(Accept any other correct relevant response) (2)

**4.10.4 Give ONE example how an awareness of the natural fauna and flora can be created**.

- Making children and adults more aware of environmental issues through the media and school visits ✓✓
- Setting up community wildlife reserves as national parks ✓✓
- Field trips, guided environmental tours ✓✓
- Use the media like Facebook or the radio to create an awareness ✓✓

(Accept any other correct relevant response) (2)

**4.10.5 How will conservation benefit the people living near the Rhino habitat?**

Local people will benefit from all the spin-offs from the development of wildlife reserves by:

- using a variety of infrastructure like roads, water, transport and shopping facilities ✓✓
- enjoying more job opportunities that will lead to an increase in the standard of living ✓✓
- improving entrepreneurial abilities through manufacturing of handcrafts ✓✓
- enjoying social benefits like clinics and community activities ✓✓

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

**QUESTION 5 Paragraph type questions – Middle Cognitive**

**5.1 Explain basic conservation methods used to protect global natural resources**

- Conservation and biodiversity: ✓ Preserving biodiversity helps ecosystems to respond to damage or change. ✓✓ Plant species in natural areas can adapt to natural environmental changes, such a wildfire, drought and disease✓
- Forest conservation: ✓ Huge areas of the richest forests in the world have been cleared for wood fuel, timber products, agriculture and livestock. ✓✓ Effort to stop deforestation include legislation and boycotting of MNCs responsible for overexploitation✓✓
- Soil conversation: ✓ Humans have Accelerated wind and rain erosion processes by developing the land and clearing away the vegetation that holds water and soil in place✓✓
- Water conservation: ✓ The global supply of fresh water is unevenly distributed. ✓✓.Chronis water shortages exist in most of Africa and drought in common over much of the globe. ✓✓ Water pollution through urban sewerage is a serious problem✓✓
- Energy conservation: ✓✓ Energy is used for transportation, heating, cooling, lighting and industrial production. ✓ The energy supply of the world depends on many different resources. ✓✓ There is a global need to increase energy conservation and the use of renewable energy resources✓✓

(4x2)(8)

(Accept any other relevant correct answer)

**5.2 Discuss private property rights and voluntary agreements as approaches to sustaining the environment.**

Property rights

- If people had property rights to fauna and flora, they would care for them and prevent them from becoming extinct. ✓✓
- They could use their property rights for financial gain to allow guided tours. ✓✓
- When farmers get property rights to game on their farms, they look after the game and can earn income from tourists viewing the game. ✓✓
- This protects flora and fauna. ✓✓ (Any 2 x 2)

Voluntary environmental agreements:

- Organisations agree to comply voluntarily with the environmental laws and regulations. ✓✓

- An organisation that designs and implements an environmental management system which is certified by a controlling body. ✓✓
- It is regularly audited to ensure compliance with environmental regulations. ✓✓ (2 x 2) (8)

**5.3 In which way do international agreements protect the environment?**

The World Summit on Sustainable Development 2002

- Held in Sandton, Johannesburg 2002✓
- Discuss challenges like improving people's lives and conserving natural resources in a word with an ever-growing population ✓✓ and ever increased demand for food, water, shelter, sanitation, energy, health services and economic security✓
- Specific achievements
    - Biodiversity and conservation became important issues to reduce the rate of specific extinction ✓✓
    - Access to sources of energy and water for poor have been increased ✓✓
    - Lead has been removed from petrol ✓

The Kyoto protocol

- The Kyoto protocol was negotiated in 1997 and signed in 2005
- The treaty was signed by 170 countries. The USA has the world's highest emissions of carbon dioxide and has not signed the Kyoto protocol✓✓
- The Protocol determined legal binding targets for cutting greenhouse gas emissions✓✓.

  Accept any relevant correct answers

The Millennium Development Goals✓

- The MDGs are eight international development goals to all 193 United nations member states✓✓
- Goal 1: Eradication of extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3:Promote gender equality and empower woman✓✓
- Goal 4: Reduce child mortality rates
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a global partnership for development
- Concerns over environmental sustainability, has the following aims
    - Integrating the principles of environmental sustainable development into countries' policies and programs to reverse loss of environmental resources
    - Reducing the rate of biodiversity loss significantly by 2010
    - Reducing of half the proportion of people without sustainable access to safe drinking water and basic sanitation
    - Achieving significant improvements in the lives of at least 100 million slum dwellers by 2020

      Accept any other relevant answer

COP 17 conference, Durban 2011

- COP 17 was the 17th conference of the parties to the Kyoto Protocol on climate change✓✓

- Cop 17 establishes  Green Climate Fund to help developing counties to establish cleaner sources of energy and to adapt to climate change
- It is hoped that countries will contribute to the fund so that it can start operating in 2012
  Accept any relevant correct answer (4 x 2) (8)

**5.4 Briefly discuss South Africa's endeavours in renewable resources.**

- South Africa, which has always been heavily dependent on coal, is looking at ways to diversify its power-generating capacity✓✓
- The Development Bank, the Treasury and Eskom are working on  renewable program that involves independent power producer✓✓
- The government is also looking to support sustainable green energy initiatives on a national scale through a diverse range of clean energy options as envisaged in the Integrated Resource Plan 2010✓✓
- In terms of this plan, which is a 20 year projection on the electricity demand and production, about 42% of electricity generated must come from renewable resources✓✓
- The Integrated Municipal Infrastructure Project will focus on 23 of the least-resources districts, and address all the upgrades and backlogs – including electricity – needed to serve the 17 million people in these areas✓✓
- Independent power production have been introduced. Including projects that cover solar, small hydro, wind, these privately held entities and facilities sell power to the government. Contributing to the country's energy mix. ✓✓
  (4 x 2) (8)

**5.5 Explain FOUR ways to achieve environmental sustainability.**

- Impose charges for the use of the environment, e.g. Emission charges✓✓
- Tax could be imposed on the output or consumption of a product if the use of such product ha harmful effects on the environment✓✓
- Establish limits on the use of the environment and fine those  who go outside those limits✓✓
- Extending private property rights that ensure that people care for that belong to them
- Focus on externalities – it becomes more and more important to find cleaner ways of producing things✓✓
- Command and control systems  (CAC) – the traditional way of dealing with pollution is to allow it within certain limits and to fine those who go outside these limits✓✓
- Voluntarily agreements – government often enter into voluntary agreements with enterprises to reduce the amount of pollution.  It's done by bonding contacts ✓✓
- Education – people like to contribute towards protecting the environment, therefore, education can play a major role (4 x 2) (8)

**5.6 Give FOUR downstream effects of soil erosion**

- Sediment build-ups along water courses and in dams reducing capacity
- Drinking water is contaminated

- Increasing runoff during rainstorms which causes flooding
- Roads are damaged (4 x 2) (8)

**5.7 Briefly discuss the granting of property rights as a measure to sustain the** environment.

- Granting of property rights has a conservation effect as people take care of things that belong to them. ✓✓
- Give people property rights over plants and animals to prevent them from becoming extinct. ✓✓
- Plants and animals may then be preserved at little cost to the taxpayer. ✓✓
- If property rights are expanded to common goods, like clean air, those suffering because of pollution could charge the polluters for the right to pollute. ✓✓
- It is impractical to extend private property rights to air ✓✓
- But the principle of polluters paying victims to reduce pollution is sometimes followed by governments ✓✓

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

**QUESTION 6 Paragraph type questions – Higher cognitive**

**6.1 What role can society play in trying to save the environment from global warming?**

Learn about global warming.

- It is important to find and implement sources that do not pollute the environment. ✓✓
- Avoid veld fires as they lead to the emission of $CO_2$. ✓✓
- Recognise the consequences of global warming and inspire change. ✓✓
- Save energy, e.g. turning of the lights when there is no one in the room. ✓✓
- Eliminate wasteful activities during gardening. ✓✓
- Play the role of environmental activist. ✓✓
- Convince people around you to save energy e.g. recycle; this saves energy in manufacturing. ✓✓ (10)

**6.2 How does environmental degradation impact on South Africa's Economy?**

- South Africa's climate is affected by the change in global climate✓✓
- These changes I climate may have significant effects on various of South African society and the economy✓✓
- The increased temperature and changes in rainfall patterns can be expected to have severe impact on health-related issues such as skin cancer✓✓
- Climate changes could worsen desertification, land will become more ad agricultural output can be expected to decline in the absence of corrective measures being applied✓✓
- The food production which needs to increase to meet the needs of the growing population, is directly threatened by climate change✓✓
- Water supplies will decrease because of the decrease in rainfall and lead to increase in production cots✓✓
- Loss of resources, trees that may never again grow lead to deforestation✓✓

Any 4 x 2(4)

**6.3 Why do you think taking care of forests is important for the economy and the environment?**

Forests should be taken care of because:

- Human beings depend on them ✓✓
- They generate oxygen or the air that we breathe ✓✓
- They are used for the production of furniture, books and all other timber products ✓✓
- They provide habitats for animals ✓✓
- They offer watershed protection ✓✓
- They prevent soil erosion ✓✓
- They mitigate climate change ✓✓

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

**6.4 What problems would be experienced in the economy if non-renewable resources were consumed excessively?**

Many problems would be experienced if non-renewable resources are used excessively since:

- Non-renewable resources are mostly natural resources that cannot be used more than once e.g. oil, coal, minerals, natural gas. ✓✓
- They are mostly used by the secondary sector for manufacturing. ✓✓

Overuse of these resources would:

- Lead to them drying up and therefore negatively affect the manufacturing sector ✓✓
- Lead to a serious decline in economic activity ✓✓
- Lead to retrenchments and job losses being experienced in the economy ✓✓
- Cause excessive air pollution due to extraction of these resources ✓✓
- Cause acid rain which leads to global warming ✓✓ (8)

**6.5 How can humans positively impact on the environment?**

Humans may affect the environment in a positive way

- Cleaning lakes and the sea which will have positive effect on the environment✓✓
- Recycling waste and growing plants and vegetables and also planting trees will lessen the amount of waste on the environment✓✓
- Being involved in educational programs about how to conserve the environment – talking with others about the impacts of environmental degradation, making people aware of the damages they cause to the environment✓✓
- Avoiding littering or tossing waste into inappropriate places – consuming fewer resources will result ii a lower production and reduced waste ✓✓
- Conserving energy by using energy saving bulbs✓✓ Any (4 x 2) (8)

**6.6 In which way do international agreements protect the environment?**

The World Summit on Sustainable Development 2002

- Held in Sandton, Johannesburg 2002✓
- Discuss challenges like improving people's lives and conserving natural resources in a word with an ever-growing population ✓✓ and ever increased demand for food, water, shelter, sanitation, energy, health services and economic security✓✓
- Specific achievements

- Biodiversity and conservation became important issues to reduce the rate of specific extinction ✓✓
  - Access to sources of energy and water for poor have been increased ✓✓
  - Lead has been removed from petrol✓✓

The Kyoto protocol

- The Kyoto protocol was negotiated in 1997 and signed in 2005
- The treaty was signed by 170 countries. The USA has the world's highest emissions of carbon dioxide and has not signed the Kyoto protocol✓✓
- The Protocol determined legal binding targets for cutting greenhouse gas emissions✓✓

  Accept any relevant correct answers

The Millennium Development Goals✓

- The MDGs are eight international development goals to all 193 United nations member states✓✓
- Goal 1: Eradication of extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3:Promote gender equality and empower woman
- Goal 4: Reduce child mortality rates
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  - Reducing the rate of biodiversity loss significantly by 2010
  - Reducing of half the proportion of people without sustainable access to safe drinking water and basic sanitation
  - Achieving significant improvements in the lives of at least 100 million slum dwellers by 2020

    Any relevant answer

COP 17 conference, Durban 2011

- COP 17 was the 17th conference of the parties to the Kyoto Protocol on climate change✓✓
- Cop 17 establishes Green Climate Fund to help developing counties to establish cleaner sources of energy and to adapt to climate change
- It is hoped that countries will contribute to the fund so that it can start operating in 2012

  Accept any relevant correct answer

  (2x4)(8)

**6.7 Explain how he state can aid preservation of the natural forest?**

- Make a regulation that forest cannot be destroyed✓✓
- The government can buy and manage sensitive forest area to protect it from being damaged✓✓

- Regulations that all developers have to commission an independent environmental impact study (EIA) and to take its recommendations into account before they start to develop land ✓✓
- Extend private property rights to communities that will take care of the things that belong to them ✓✓
- The pricing of the environment is another method used by government to impose environmental changes✓✓
  (Accept any relevant answer)
  (Allocate a maximum of 2 marks for headings, listing and examples) (8)

**6.8 How do environmental subsidies ensure environmental sustainability?**

- Environmental subsidies reduce activities that cause environmental damage ✓✓
- These costs are recovered by taxation✓✓
- Subsidies could be for development of new technology or equipment ✓✓
- Encourage production of environmentally friendly subsidies ✓✓
- Encourage recycling of waste such as bottles or cardboard✓✓(4 x 2) (8)
  (Accept any relevant answer)
  (Allocate a maximum of 2 marks for headings, listing and examples) (8)

**6.9 How does environmental degradation lead to poverty?**

- In many African countries crop harvest are failing as consumption increases✓✓
- People are finding less nutrition food to eat✓✓
- One argument that is held is that while field are used to grow crops for bio-fuels, poorer countries, especially those around the equator are vulnerable to weather change, water shortage and urbanisation✓✓
- Al of those factor are increasing the heath ad lives of thousands✓✓
- Some scientist and environmentalists are asking that non-food items an agriculture waste be used as alternative fuel for vehicles instead✓✓
  (Accept any relevant answer)
  (Allocate a maximum of 2 marks for headings, listing and examples)(8)

ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|---|---|
| **Introduction**<br>The introduction is a lower-order response.<br>● A good starting point would be to the main concept related to the question topic<br>● Do not include any part of the question in your introduction.<br>● Do not repeat any part of the introduction in the body<br>● Avoid saying in the introduction what you are going to discuss in the body | Max 2 |

| | |
|---|---|
| **Body**:<br>**Main part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate<br>**Additional part:** Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest / Co struct a graph | Max 26<br><br>Max 10 |
| **Conclusion**<br>Any Higher or conclusion include:<br>● A brief summary of what has been discussed without repeating facts already mentioned in the body<br>● Any opinion or value judgement on the facts discussed<br>● Additional support information to strengthen the discussion/analysis<br>● A contradictory viewpoint with motivation, if required<br>● Recommendations | Max 2 |
| **TOTAL** | **40** |

**QUESTION 7**

- Discuss the various approaches that can be used to sustain the environment. (26)
- What role can society play in trying to save the environment from global warming? (10)

**INTRODUCTION**

The environment is all living and non-living organisms that occur naturally on earth including the atmosphere, water, land, minerals, plants and animals. Sustainability means managing the environment in a proper manner. ✓✓
(Accept any relevant introduction.) (2)

**BODY**

Environmental management approach The South African government has passed laws to implement environmental management as its contribution to sustainability of the environment.

Some of the laws are as follows:
Integrated Coastal Management Act, Act 24 of 2008 which is responsible for sustainability of fresh water and oceans. ✓✓
Air Management Act, Act 39 of 2004: for the sustainability of the atmosphere. ✓✓
Protected Areas Act, Act 57 of 2003: for the sustainability of land. ✓✓

Private property right✓

People do not normally care for things that they do not own. ✓
The government tries to resolve this by giving people property rights. ✓✓
This changes people’s attitudes and they in turn use land carefully and efficiently. ✓✓

Focus on externalities ✓

Externalities apply when some of the costs or benefits of an activity spill over to third parties, ✓ e.g. when children in the vicinity of a coal-fired power station get asthma as a result of smoke. ✓
This brings additional social costs to the residents who have to pay the doctors' bills for the negative externality (smoke). ✓✓

Command and control systems ✓

This strategy deals with environmental issues that rely on legislation, prescriptive legislation and strict enforcement of compliance, ✓✓ e.g. allowing for a certain maximum level of emission. ✓

Voluntary environmental agreements ✓

This approach allows organisations to agree to comply voluntarily with environmental laws and regulations. ✓✓
An organisation designs and implements an environmental management system, ✓✓ it is certified by a controlling body, and is regularly audited to ensure compliance with the environmental regulations. ✓✓

Environmental charges, taxes and subsidies ✓

This approach uses market mechanisms and economic incentives to achieve goals in environmental management. ✓✓
Local authorities in South Africa impose environmental charges on consumers, businesses and other organisations of sewage disposal and rubbish collection. ✓✓

Ecosystems approach ✓

This approach aims to consider the entire system in decision-making, rather than to respond to specific issues and challenges. ✓✓
The decision-making processes will be a collective approach that involves stakeholders from the government departments, representatives from industries and environmental groups and communities. ✓✓

Education ✓

People generally would like to contribute towards protecting the environment if they know more about the consequences of their actions and the devastation that will be caused by environmental deterioration. ✓✓

Management of human consumption approach ✓

People are a major contributor to environmental deterioration. ✓✓
Consuming fewer resources will result in a lower production output and reduced waste. ✓✓
This approach involves educating people to make individual commitments to change their lifestyles and consumption patterns. ✓✓ (26)

**ADDITIONAL PART**

Society should do the following:

- Learn about global warming. It is important to find and implement sources that do not pollute the environment. ✓✓
- Avoid veld fires as they lead to the emission of CO2. ✓✓

- Recognise the consequences of global warming and inspire change. ✓✓
- Save energy, e.g. turning of the lights when there is no one in the room. ✓✓
- Eliminate wasteful activities during gardening. ✓✓
- Play the role of environmental activist. ✓✓
- Convince people around you to save energy e.g. recycle; this saves energy in manufacturing. ✓✓ (10)

**CONCLUSION**

Protecting the environment against global warming is a very selfless and noble act. It is very important so that future generations can also enjoy the environmental space that we are enjoying now and even better. ✓✓

(Accept any relevant conclusion.) (2)

[40]

**QUESTION 8**

- Explain in detail Absolute and Comparative Advantage and how it can help or hamper globalisation. (26 marks)
- How did globalisation negatively affect South Africa? (10 marks)

[40]

Introduction

World trade is to the advantage of a country if it can sell surplus production to other countries and buy what it cannot produce itself from other countries

(Accept any relevant definition)

BODY: MAIN PART

Absolute Advantage

- The theory of absolute advantage was developed by Adam Smith✓✓
- Certain counties have an advantage over other countries with regard to the availability or ability to produce certain goods and services✓✓
- An absolute advantage means that a country has monopoly on a product or can produce it at a lower cost or higher productivity✓✓
- Where one country can produce goods with fewer resources than another✓✓
- Having an absolute advantage means producing something more efficiently than any other country in the world✓✓
- Example: South Arica has the majority of the world's diamonds and has developed the best methods to extract and refine them, we have an absolute advantage when trading diamonds✓✓
- Developed countries will usually have an absolute advantage over developing countries in manufacturing high-value goods that need advanced technologies and highly skilled technicians to make✓✓
- Countries have different absolute advantages in producing goods because of differences in soil, climate and skills ✓✓
- Countries are best off producing what they are best at✓✓ (Max 10 marks)

Comparative advantage

- The English economics David Richard used the principle of comparative advantage to determine the products the countries should specialise in✓✓
- Where one country can produce goods at a lower opportunity cost – it sacrifices less resources in production✓✓

- Even if a country has no absolute advantage, it can benefit from trade on the basis of having a comparative advantage✓✓
- A country is equipped to produce a product at lower cost than another country when specialising in that product✓✓
- This advantage can arise from better technological development, better skills, a cheaper labour supply or higher productivity✓✓
- Countries will gain if they specialise in those areas where the cost of production are lower compared to other products and services✓✓
- Imports of those goods needed by the people of the country where local production costs are high in comparison with other products and service✓✓
- A country can develop its comparative advantage over time as knowledge nod skill of it labour force develops or by improving the infrastructure in the country✓✓

(Max 10 marks)

The advantages of trade based on absolute and comparative advantages

- Natural resources are distributed unevenly ✓ between countries and some countries are better in producing some products than others. ✓✓ international trade helps to distribute resources ore evenly✓✓
- Specialisation ✓ - Countries can specialise in producing those products at which they are best ✓✓
- Better choice of products ✓ - Countries can obtain the products they otherwise might not have. ✓✓ It increases the variety of goods available to consumers✓✓
- Higher volume of trade✓ - contribute to economic growth and therefor improved standards of living in countries✓✓
- Better standard of living and higher employment ✓ - New job opportunities can be created when trade flourishes and higher incomes for households and a better level of welfare as the basic infrastructure improves✓✓
- Economic growth ✓ - increased trade provides markets for products and this stimulate production and employment ✓✓ This leads to economic growth as it attracts foreign capital investment in new enterprises, state revenue increases and the infrastructure improves✓✓
- Greater awareness of global problems ✓ -it highlights social economic and environmental problems and stimulated id of these problems✓✓ (Max 8 marks)

**The disadvantages of trade based on absolute and comparative advantages**

- Market power ✓ - A country that most powerful might force a less powerful country to trade at terms that are less beneficial to the weaker country✓✓
- Transport ✓ - costs involved in international trade increase production costs when there is some distance between the counties✓✓
- Trade barriers✓ -Obstacles to trade imposed such tariffs, quotas and other unfair barriers such as safety regulations will decrease the benefit from international trade ✓✓
- Dependency✓ - if a country becomes too dependent on one of a few industries and the price fall in that industry, massive unemployment will occur✓✓
- New / infant industries ✓ - international trade can damage infant industries in a country, because their production costs are high at the beginning✓✓
- Over-specialisation✓ - might have negative effects if a war starts or a natural disaster occurs and import-export ceases✓✓
- When import become higher than exports, the balance of payment of the country become negative✓✓ (Max 8 marks)
  (Allocate max 8 marks for headings, listing and examples)

ADDITIONAL PART

How did globalisation negatively affect South Africa?

- The country has to deal with increasing competition✓✓

- Crisis in the financial markets of developed countries influenced our markets✓✓
- Unstable conditions in the neighbouring countries around South Africa negatively influenced the perceptions that other countries have about South Africa which often lead to the withdrawal of investments✓✓
- The demand for less skilled workers has decreased✓✓
- The increased production levels have led to increased pollution and practices that are harmful to the environment✓✓
- The dumping of cheap products have collapsed industries like the clothing manufacturing industries, chicken industries and steel industries✓✓
- South Africa is measured by the ae standards as other developing countries and compete for Foreign Direct Investment. ✓✓ Downgrading by international agencies have a negative impact on our debt repayment of international loans ✓✓ as well as our ability to secure new loans to cover deficits on our Balance of Payment and National Budget✓✓ (Max 10)

Conclusion
The success of an economy and the living standards of its citizens depends on how efficient its economic sector utilize the functional integration of economic activities and international network formation, as well as using the benefits of regionalisation. ✓✓
(Accept any relevant conclusion) (Max 2)

**QUESTION 9 CONTEMPORARY ECONOMIC ISSUES**

**40 MARKS – 40 MINUTES**

- **Discuss in detail the advantages that a country has and should use, to produce goods and services in an international market. (26 marks)**

- **In which way is South Africa negatively affected by the North/South divide? (10 marks)**

**INTRODUCTION**
World trade is to the advantage of a country if it can sell surplus production to other countries and buy what it cannot produce itself from other countries. ✓✓
**OR**
Globalisation is the process by which the people of the world are incorporated into a single world society. ✓✓
**OR**
Globalisation is the breaking down of trade barriers to promote the free movement of goods and services, labour and capital in a global economy. ✓✓

**(Max 2)**

**BODY: MAIN PART**
**Absolute advantage** ✓
- Absolute advantage in trade exists when one country can produce a good using fewer resources (at a lower cost or more efficiently) than another country is able to. ✓✓
- Certain countries have an advantage over other countries with regard to the availability or ability to produce certain goods and services. ✓✓
- An absolute advantage means that a country has a monopoly on a product or can produce it at the lowest cost (or with higher productivity). ✓✓
- Having an absolute advantage means producing something more efficiently than any other country in the world. ✓✓
- Example: South Africa has the majority of the world's diamonds and has developed the best method to extract and refine them. Therefore South Africa has an absolute

advantage when trading diamonds ✓ or Brazil has an absolute advantage in the production of coffee ✓and Mexico in silver,✓ etc.

- Developed countries usually have an absolute advantage over developing countries in manufacturing involving technology, as they have more capital available and highly skilled workers. ✓✓

**Comparative advantage**✓

- Comparative advantage in trade exists if a country has a lower relative cost of producing a good in comparison with another country. ✓✓
- Even if a country has no absolute advantage, it can benefit from trade on the basis of having a comparative advantage. ✓✓
- Comparative advantage means a country is equipped to produce a product at a lower cost than another country when specialising in that product. ✓✓
- This advantage can arise from better technological development, better skills, a cheaper labour supply or higher productivity. ✓✓

  Example: South Africa has a comparative advantage in certain agricultural products, precious stones and metals, making the country an important trading partner. ✓
- A country can develop its comparative advantage over time for, e.g. by developing the knowledge and skills of its labour force or by improving the infrastructure in the country. ✓✓

**Advantages of trade in absolute and comparative advantage**

- **Natural resources are distributed unevenly between countries**✓
  - Some countries are better at producing some products than others. / International trade helps to distribute resources more evenly. ✓✓
- **Countries can specialise** ✓
  - They produce those products at which they are best. ✓✓
- **Countries can obtain the products they might not have**. ✓
  - It increases the variety of goods available to consumers. ✓✓
- **Economic growth and development**✓
  - Higher volumes of trade contribute to economic growth and improved standards of living in countries. ✓✓
- **Better standard of living and greater employment**✓
  - New job opportunities can be created when trade flourishes under absolute and comparative trade, resulting in higher income for households and better level of welfare as the basic infrastructure, health care and education have improved. ✓✓
- **Greater awareness of global problems**✓
  - Highlight social, economic and environmental problems and stimulate aid. ✓✓

**Disadvantages**✓

- A country that is more powerful might force a less powerful country to trade at terms that are less beneficial to the weaker country. ✓✓

- **Transport** ✓
  - Transport costs involved in international trade increase production costs when there is some distance between the countries. ✓✓

- **Trade Obstacles** ✓
  - Obstacles to trade such as tariffs, quotas and other unfair barriers such as safety regulations imposed by some countries will decrease the benefits from international trade. ✓✓

- **Dependence**✓
  - If a country becomes too dependent on one or a few industries and the prices decrease in that industry, massive unemployment will occur. ✓✓

- **Protecting infant industries**✓
  - Infant industries find it difficult to compete and survive against established industries. ✓✓

- **Over-specialisation** ✓
  - This has negative effects if a war starts or a natural disaster occurs and imports-exports ceases. ✓✓

- **Balance of Payment problems**✓
  - If imports are higher than exports, the Balance of Payment of the country becomes negative. ✓✓

  **(Headings and examples max 8 marks – max main section 26)**

**BODY: ADDITIONAL PART**

- **Dependency on the primary sector –** South Africa still depends largely on the primary sector as a source of income / minerals are exported to Northern countries ✓✓
- The countries in the South, including South Africa, are still densely populated in certain areas✓✓
- **Large unemployment levels** – South Africa has a large group of youth which is unemployed – even graduates do not easily find jobs / lack of funds for skills ✓✓
- **Low life expectancies in the country** – factors such as TB / malaria / HIV and Aids are major problems / insufficient healthcare, especially in rural areas ✓✓
- **Increasing levels of poverty** – estimates are that 50% of the South African population is in poverty / inability of government to create economic growth and FDI's. ✓✓
- **Lack of economic growth and development** – aspects such as droughts, corruption, mismanagement and disinvestments are major concerns. ✓✓
- **Low literacy levels and high school and tertiary dropout rates** – lack of direction, motivation, funds, etc. are negative factors. ✓✓

  (Any relevant answer) **(Max 10)**

**CONCLUSION**

The world has become a global village and integration and trade are important for any economy to grow. All countries need to compete against each other for market share and the developing countries cannot compete with the highly subsidised developed countries' industries. ✓✓
(Any relevant answer) **(Max 2)**