



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2011

**ECONOMICS
MEMORANDUM**

MARKS: 300

This memorandum consists of 18 pages.

SECTION A**QUESTION 1 (LO1 – LO4)**

1.1

LO1	1.1.1	B ✓✓	circular flow.		
	1.1.2	B ✓✓	Jugler cycles		
	1.1.3	C ✓✓	Direct investments		
LO2	1.1.4	C ✓✓	market forces.		
	1.1.5	B ✓✓	benefit		
	1.1.6	A ✓✓	cartel.		
LO3	1.1.7	B ✓✓	GEAR		
	1.1.8	C ✓✓	Skills Support Programme		
	1.1.9	A ✓✓	ad valorem		
LO4	1.1.10	C ✓✓	headline		
	1.1.11	B ✓✓	inbound		
	1.1.12	A ✓✓	Pollution	(12 x 2)	(24)

1.2	1.2.1	Foreign exchange market ✓✓			
	1.2.2	Oligopoly ✓✓			
	1.2.3	Economic development ✓✓			
	1.2.4	PPI ✓✓			
	1.2.5	Subsidies ✓✓		(5 x 2)	(10)

1.3	1.3.1	D ✓✓			
	1.3.2	G ✓✓			
	1.3.3	A ✓✓			
	1.3.4	F ✓✓			
	1.3.5	B ✓✓			
	1.3.6	C ✓✓			
	1.3.7	J ✓✓			
	1.3.8	E ✓✓		(8 x 2)	(16)

TOTAL SECTION A: 50**SECTION B (ANSWER ANY THREE QUESTIONS FROM THIS SECTION.)****QUESTION 2 (LO1 AS1 – AS4)**

2.1	2.1.1	capital ✓✓			
	2.1.2	exogenous ✓✓			
	2.1.3	privatisation ✓✓			
	2.1.4	portfolio ✓✓		(4 x 2)	(8)

2.2 THREE monetary policy instruments

- Interest rates ✓✓
 - Cash reserve requirements ✓✓
 - Open market transactions ✓✓
 - Moral persuasion ✓✓
 - Exchange rate policy ✓✓
- (Any 3 x 2) (6)

- 2.3 2.3.1 The rate at which one currency is exchanged for another currency. ✓✓ (2)
- 2.3.2 R6,50 ✓✓ (2)
- 2.3.3 12 May 2011 ✓✓ (2)
- 2.3.4 **Depreciation**
 ➤ A decrease in the value of a currency because of market forces (floating exchange rate system). ✓✓
Devaluation
 ➤ A deliberate decrease in the value of a currency because of government intervention (fixed exchange rate system). ✓✓
 (2 x 2) (4)
- 2.4 2.4.1 Money flow ✓✓
 Real flow ✓✓ (4)
- 2.4.2 Foreign Sector ✓✓ (2)
- 2.4.3 Any withdrawal of money / income from the circular flow. ✓✓ (2)
 E.g. Taxes ✓✓
 Imports ✓✓
 Savings ✓✓ (Any 1 x 2) (4)
- 2.5 **Briefly explain the term 'Medium-Term Expenditure Framework'.**
- Also known as the main budget. ✓✓
 - It consists of three year rolling expenditure and revenue projections for the national and provincial governments. ✓✓
 - Each year the next year will be added. ✓✓
 - It is presented to the parliament by the minister of Finance in February of every year. ✓✓
 - It highlights government's role, functions and contributions to provinces and local authorities. ✓✓
 - It removed some of the secrecy from the annual budget and gives information over a longer term. ✓✓ (Any 4 x 2) (8)
- 2.6 **Discuss the 'length' of a business cycle.**
- Measured from peak to peak or from trough to trough. ✓✓
 - Refers to the time (years) taken to complete one cycle. ✓✓
 - Longer cycles show strength ✓✓
 - A cycle that lasts for 10 years is stronger than one lasted for 3 years. ✓✓
 - Cycles may overshoot. / When the activity of some indicators increases beyond its normal level, the upswing and the downswing can overshoot. ✓✓ (Any 4 x 2) (8)

QUESTION 3 (LO2 AS1 – AS3)

- 3.1 3.1.1 JSE ✓✓
 3.1.2 demerit ✓✓
 3.1.3 economic ✓✓
 3.1.4 fixed ✓✓ (4 x 2) (8)

3.2 **THREE aims of the competition policy in South Africa.**

- To prevent the abuse of economic power. ✓✓
- To regulate the growth of the market power by means of mergers and takeovers. ✓✓
- To prevent restrictive practices, such as price fixing, collusion and price discrimination. ✓✓
- To increase efficiencies in the markets. ✓✓
- Contribute to developmental objectives. ✓✓ (Any 3 x 2) (6)

- 3.3 3.3.1 By the interaction of demand and supply ✓✓ (2)

- 3.3.2
- Each business produces only a small portion of the total production. ✓✓
 - If the business charges a higher price, buyers will obtain the goods elsewhere. ✓✓
 - The business can sell all the production at the market price, so they will not reduce the price. ✓✓ (3 x 2) (6)

- 3.3.3 Normal profit ✓✓ (2)

- 3.4 3.4.1 Production Possibility Curve (PPC) ✓✓ (2)

3.4.2 **Productive inefficiency**

- The business is not producing goods at the lowest possible cost. ✓✓✓
- It can reduce costs without producing fewer goods or lower quality goods ✓✓✓

Allocative inefficiency

- The product mix does not reflect consumer's preference. ✓✓✓
- Resources are not allocated at the right proportions. ✓✓✓
- The quantities preferred by the consumers are not available. ✓✓✓ (Any 2 x 3) (6)

- 3.4.3 The producer must allocate resources to change the mix of the products that reflects the demands of the consumers. ✓✓ (2)

3.5 *TWO characteristics of a perfectly competitive market*

- **Large number of buyers and sellers** ✓✓
 - A single seller or buyer is not able to influence the market ✓✓
 - **Products are homogeneous** ✓✓
 - It makes no difference to buyers from whom they buy products. ✓✓
 - **Complete freedom of entry and exit** ✓✓
 - There are no legal, financial, technological or other barriers restricting the movement of buyers and sellers. ✓✓
 - **Factors of production are completely mobile** ✓✓
 - All factors of production can move freely from one market to another. ✓✓
 - **Full knowledge of market conditions** ✓✓
 - Buyers and sellers have perfect knowledge of the prevailing market conditions such as price. ✓✓
 - **No collusion** ✓✓
 - Each seller acts independently of the others. ✓✓
 - **No government intervention** ✓✓
 - There is no government control that could affect the buyers or sellers. ✓✓
- (Any 2) (2 x 2) (8)

3.6 *Discuss 'long-term profit' under monopolistic competition.*

- Economic profit in the short-term attracts new businesses. ✓✓
 - Economic profit will disappear because of competition. ✓✓
 - Long-term AC will be equal to the price of the product. ✓✓
 - Normal profit is the maximum profit that can be made under the market conditions. ✓✓
 - Long-term profit will be the same as that of perfect competition. ✓✓
- (Any 4 x 2) (8)
- [50]**

QUESTION 4 (LO3 AS1 – AS4)

- 4.1 4.1.1 GDP per capita ✓✓
- 4.1.2 IDZs ✓✓
- 4.1.3 protectionism ✓✓
- 4.1.4 Lorenz ✓✓
- (4 x 2) (8)
- 4.2 **THREE purposes of per capita income figures.**
- Indicate economic development ✓✓
 - Indicate living standards ✓✓
 - Compare living standards ✓✓
- (3 x 2) (6)
- 4.3 4.3.1 Accelerated Shared Growth Initiative for South Africa ✓✓
- (2)
- 4.3.2
- To half unemployment and poverty by 2014. ✓✓
 - Growth rate of 6%. ✓✓
 - To create equitable growth. ✓✓
- (Any 2 x 2) (4)
- 4.3.3
- Tourism ✓✓
 - Business Process Outsourcing ✓✓
- (4)

- 4.4 4.4.1 When communities change from rural to an urban place of residence, workplace or lifestyle. ✓✓(or any relevant definition) (3)
- 4.4.2 ➤ Employment opportunities ✓✓
 ➤ Higher wages ✓✓
 ➤ Better life ✓✓ (Any 2 x 2) (4)
- 4.4.3 Social indicator ✓✓✓ (3)
- 4.5 **TWO South African approaches to improve business efficiency.**

Taxes ✓✓

- Reduction in corporate and personal taxes. ✓✓
- Bracket creeping on personal income tax has been attended to. ✓✓
- VAT has been kept at 14% for a long time. ✓✓

Capital formation ✓✓

- Depreciation has been revised to encourage investment ✓✓
- Provided start-up capital and loans to SMMEs. ✓✓

Human resources ✓✓

- School education has been transformed ✓✓
- SETAs were established to facilitate work-related training. ✓✓
- Labour Relations Act – for the promotion of social justice and peaceful labour relations. ✓✓

Free advisory service

- Advice on development of export markets, management of SMME's, agriculture, etc. ✓✓ (Any 2) (2 x 2) (8)

- 4.6 **Briefly explain any TWO advantages of import substitution.**

Increased employment ✓✓

- More workers will be employed to produce goods that substitute foreign goods. ✓✓

Improvement in GDP. ✓✓

- Increased employment and production of goods will stimulate the economy ✓✓

More Choice. ✓✓

- Because goods are locally produced, more foreign exchange will be available for importing other goods. ✓✓

Diversification ✓✓

- Local producers will produce a variety of goods ✓✓ (Any 2) (2 x 2) (8)

[50]

QUESTION 5 (LO4 AS1 – AS3)

- 5.1 5.1.1 hyperinflation ✓✓
 5.1.2 domestic ✓✓
 5.1.3 Agenda 21 ✓✓
 5.1.4 global warming ✓✓ (4 x 2) (8)

5.2 **THREE reasons for the growth of tourism.**

- Increase in disposable income. ✓✓
- More awareness of leisure and recreation ✓✓
- Reduction in working hours. ✓✓
- Increase in advertising ✓✓
- Awareness of the benefits of holidays and travel ✓✓
- Easy availability of foreign exchange ✓✓ (Any 3 x 2) (6)

5.3 5.3.1 The cost of a shopping basket of goods and services of a typical or average South African household during a specific period. ✓✓ (2)

- 5.3.2
- Free State ✓✓
 - Eastern Cape ✓✓
 - Northern Cape ✓✓ (Any 1 x 2) (2)

5.3.3 **Core inflation**

- Excludes items from the CPI basket that have highly volatile prices and items with prices that are affected by government intervention and policy. ✓✓✓

CPIX inflation

- Excludes mortgage interest rates from the basket of goods and services. ✓✓✓ (Any 2 x 3) (6)

5.4 5.4.1 **Preservation**

- The protection and maintenance of environmental assets or resources in their present condition. ✓✓

Conservation

- The sustainable use and management of natural resources. ✓✓ (4)

- 5.4.2
- Ecological system. ✓✓
 - Heritage site ✓✓
 - Indigenous forest ✓✓
 - Wetland ✓✓
 - River mouth ecosystem ✓✓
 - Species of animals ✓✓
 - Birds ✓✓
 - Insects and flowers ✓✓ (Any 1 x 2) (2)

- 5.4.3
- Buying or expropriation. ✓✓
 - Subsidies. ✓✓
 - Government controls ✓✓ (Any 2 x 2) (4)

5.5 How Indigenous Knowledge Systems (IKS) will encourage tourism in South Africa.

- Tourists seek authenticity and uniqueness at destinations. ✓✓
- They want to understand the indigenous culture, history and environment. ✓✓
- South African Heritage sites have several aspects in which tourists are interested. ✓✓
- E.g. Mapungubwe and Early stone age settlement in Limpopo ✓✓
- South African world heritage sites represent the extreme of our indigenous environmental uniqueness. ✓✓
- The customs, rituals and ceremonies of people. ✓✓ (Any 4 x 2) (8)

5.6 TWO public sector measures to ensure environmental sustainability.

- **Allocating property rights** ✓✓
 - People look better after things if it belongs to them ✓✓
 - **Payment for environmental usage** ✓✓
 - A fee for consumers/producers for the waste they produce and dump in the environment (effluent charges) ✓✓
 - Fuel- and vehicle taxes / Fuel levies
 - **Green tax** ✓✓
 - This tax increases the price of the product – tyres ✓✓
 - Levies surcharge on the use of pesticides, plastics and carbon ✓✓
 - **Tradable permits / Waste control** ✓✓
 - Specific regulations for acceptable levels of pollution ✓✓
 - Tradable permits for decrease of pollution ✓✓
 - **Environmental subsidies** ✓✓
 - Subsidies are given to encourage recycling ✓✓ (Any 2) (2 x 2) (8)
- [50]**

QUESTION 6 (LO1 and LO2)

- 6.1 6.1.1 floating ✓✓
 6.1.2 exchange ✓✓
 6.1.3 normal ✓✓
 6.1.4 imperfect ✓✓ (4 x 2) (8)

6.2 List the THREE phases of a business cycle

- Prosperity / Boom ✓✓
- Recession ✓✓
- Depression ✓✓
- Recovery ✓✓
- Upswing / Expansion ✓✓
- Downswing / Contraction ✓✓
- Trough ✓✓
- Peak ✓✓ (Any 3 x 2) (6)

6.3 DATA RESPONSE

- 6.3.1 Loss ✓✓ (2)
- 6.3.2 The Average Cost curve is higher than Average Revenue / Marginal Revenue / Price. ✓✓
At the market price P, the total cost will exceed total revenue. ✓✓
(2 x 2) (4)
- 6.3.3 e ✓✓
Where MR = MC ✓✓ (2 x 2) (4)

6.4 DATA RESPONSE

- 6.4.1 ➤ Non-rivalry. ✓✓
➤ Non-excludability ✓✓
➤ Social benefits outstrip private benefits ✓✓
➤ Infinite consumption ✓✓
➤ Non-rejectability ✓✓ (Any 2 x 2) (4)
- 6.4.2 **Community goods**
➤ It is impossible to prevent people from using it. ✓✓
Collective goods
➤ It is possible to exclude free-riders by levying fees, charges, tolls etc. ✓✓ (2 x 2) (4)
- 6.4.3 ➤ Producers cannot withhold the goods for non-payment. ✓✓
➤ Producers are not able to establish a market price ✓✓ (Any 1 x 2) (2)

6.5 'Specialisation' and 'mass production' as effects of international trade.

Specialisation

- Leads to increase in living standards. ✓✓
- Specialisation and trade result in every country having more goods traded, but at the same cost. ✓✓
- Without trade most countries would have to go without most of the goods they need. ✓✓
- E.g. oil from the Arab countries and maize from South Africa. ✓✓

Mass production

- Demand from international consumers will lead to mass production. ✓✓
- Will make goods affordable and profitable. ✓✓
- E.g. electronic goods, computers etc. ✓✓
- Small countries can only compete with large countries if they can export their goods to other countries. ✓✓ (Any 2) (2 x 2) (8)

6.6 TWO features of 'fiscal policy'.

It is goal-bound✓✓

- Through fiscal policy, government determines economic and social goals. ✓✓
- The budget is used to achieve these goals. ✓✓

It is demand biased✓✓

- Fiscal policy is the main policy instrument used in demand side policies. ✓✓

It is cyclical✓✓

- Business cycle has a direct effect on fiscal policy. ✓✓
- During upswing higher income and profits will lead to higher aggregate demand and expenditure. ✓✓
- Higher income and profit will lead to higher tax. ✓✓

(Any 2) (2 x 2) (8)

[50]

SECTION C (ANSWER ANY TWO QUESTIONS FROM THIS SECTION.)

QUESTION 7 (LO1 AS3)

Critically analyse the problem of public sector provisioning in South Africa.

INTRODUCTION

- Public sector plays an important role in the provision of service delivery. ✓✓✓
- In recent years public sector is facing enormous challenges in providing services to the community. ✓✓✓ (max. 3) (3)

BODY

➤Accountability✓✓

- Refers to the explanations of one's actions, decisions and expenditures. ✓✓
- Public requires assurances that the required quantities and quality of public goods and services are delivered. ✓✓
- Good governance needs accountability from public officials. ✓✓
- Systems are required to evaluate economic and financial accountability. ✓✓
- Public officials should not abuse powers granted to them. ✓✓
- Public Financial Management Act requires departments to follow rules of transparency✓✓
- It is enforced by ministerial responsibilities, parliamentary questioning, treasury control and AG.✓✓ (max. 4 x 2) (8)

➤ **Efficiency** ✓✓

- Goods and services are not provided in the desired quality or quantity. ✓✓
- Public goods are provided efficiently if pareto efficiency is achieved. ✓✓

Inefficiency is caused by:

- Bureaucracy – official rules and procedures ✓✓
- Incompetence – lack of skill, qualifications, training, experience and attitude. ✓✓
- Corruption – abuse of a person's position for private gain ✓✓

(max. 4 x 2) (8)

➤ **Problem of assessing needs** ✓✓

- Public sector fails to accurately assess the needs of the people. ✓✓
- Price considerations must not be used for assessing the needs of the people. ✓✓
- Inaccurate information also leads to wrong decisions. ✓✓
- Lack of skilled people. ✓✓

(max. 3 x 2) (6)

➤ **Pricing policy** ✓✓

- It refers to the methods by which public sector can price goods and services. ✓✓
- Appropriate (technical, economic, political) usage tariffs must be used. ✓✓
- The cost of community and collective goods must be met from taxation. ✓✓
- Direct/indirect subsidies can be used to fund standing charges, availability charges or price discrimination. ✓✓

(max. 3 x 2) (6)

➤ **Parastatals** ✓✓

- Created to provide goods and services to the public ✓✓
- Restructuring created problems like retrenchments ✓✓
- Lack of capacity – skilled workers leave for higher salaries in the private sector. ✓✓
- The effect of privatisation. ✓✓

(max. 3 x 2) (6)

➤ **Privatisation** ✓✓

- Refers to the sale of 51% of SOEs. ✓✓
- Leads to under provisioning or no provisioning at all. ✓✓
- Private businesses will not always take public interest into consideration. ✓✓

(max. 3 x 2) (6)

CONCLUSION

- Public sector failure occurs when government fails to manage the economy and when resources are not used optimally. ✓✓
- Public sector should pay attention to all the above mentioned problems to improve their service delivery. ✓✓

(max. 1 x 2) (2)

Use the following assessment grid together with the above to assess the discussion.

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (30 – 45 marks)

(5)
[50]

QUESTION 8 (LO2 AS2)

Discuss in detail, the characteristics of monopoly as a market structure and show the short-term equilibrium of a monopolist with the help of a graph.

INTRODUCTION

A monopoly market is a market condition in which there is only one supplier for a product and there are no close substitutes. ✓✓✓

(3)

BODY

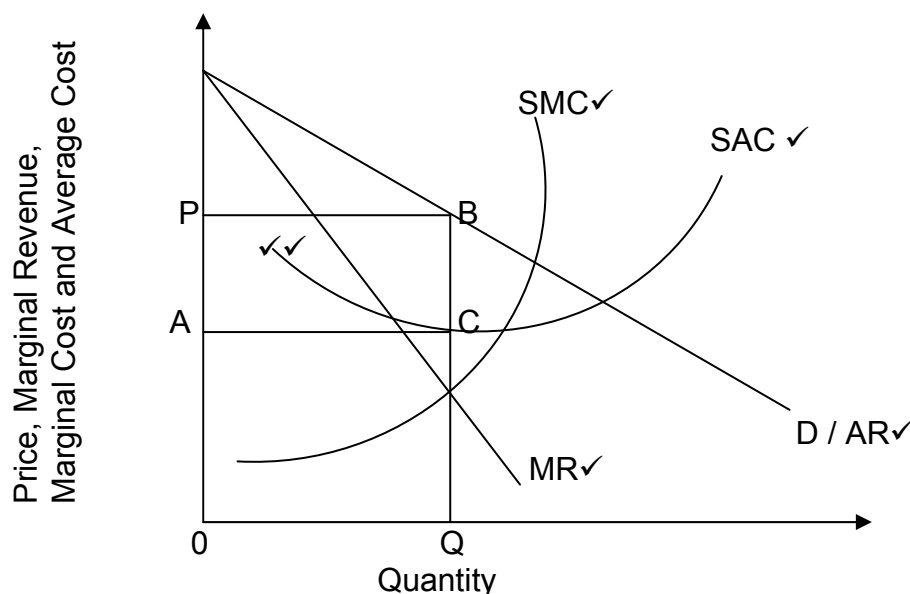
- **They are faced with demand curves** ✓✓
 - Their demand curve slopes downwards from left to right ✓✓
 - They are the only supplier of the product ✓✓
 - They can decide the price and quantity ✓✓
- **They decide on the production levels** ✓✓
 - The market demand will be decided by the price ✓✓
 - The monopolist can sell more only by reducing the price ✓✓
- **They are exposed to market forces.** ✓✓
 - Demand for the product is influenced by market forces. ✓✓
 - Monopolist's product must compete with other products. ✓✓
 - Sometimes they are faced with substitutes. ✓✓
- **They enjoy favourable circumstances** ✓✓
 - May enjoy favourable circumstances in an area being the only supplier ✓✓
- **Exploit customers** ✓✓
 - Being the only supplier, there is a possibility of consumer exploitation. ✓✓

➤ **Barriers of entry** ✓✓

- There are barriers that prevents other competitors from entering the market. ✓✓
- Natural monopolies – e.g. Eskom ✓✓
- It is because of high development costs ✓✓
- Artificial monopolies – e.g. SABC, Telkom etc. ✓✓
- Patents , licensing etc. ✓✓
- A supplier obtains exclusive right to supply a product ✓✓

(Any 15 x 2) (30)

Monopolist's short-term profit



(max. 3 x 2) (6)

- The monopolists total revenue is equal to Average Revenue multiplied by the quantity ($OP \times OQ$) ✓✓ / The total revenue is represented by the area OQBP. ✓✓
- Its total cost is equal to its Average Cost multiplied by the quantity / ($OA \times OQ$) ✓✓ / The total cost is represented by the area OQCA. ✓✓
- The difference between the two areas (APBC) is the monopolist's total profit. ✓✓
- The above monopolist's revenue is greater than the cost. ✓✓ (max. 2 x 2) (4)

CONCLUSION

- Even though monopoly is the only supplier, it is not true that they always makes economic profit. ✓✓
- Profitability depends on the demand and cost of production. ✓✓ (max. 2) (2)

Use the following assessment grid together with the above to assess the discussion.

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(5)
[50]

QUESTION 9 (LO3 AS4)

Write a detailed essay on the social indicators.

INTRODUCTION

- Social indicators are concerned with people, such as their education and health. ✓✓✓
- Various measures are used to evaluate the performance of a country in terms of the social well-being of its citizens. ✓✓✓ (max. 1 x 3) (3)

BODY

- A ➤ **Health** ✓✓
- A number of indicators are used to monitor the health of the population ✓✓
 - Infant mortality – the number of infants who die before reaching one year per thousand live births in a year. ✓✓
 - Under five mortality – the number of newborns that die before reaching the age of five years. ✓✓
 - Health expenditure – the amount of public and private health expenditure on health care as a percentage of GDP. ✓✓
 - Safe drinking water – the percentage of population who have access to safe drinking water. ✓✓
 - Sanitation facilities – the percentage of population with adequate sanitation facilities ✓✓ (max 3 x 2) (6)
- B ➤ **Nutrition** ✓✓
- Nutrition is an important indicator for the well-being of people ✓✓
 - Child malnutrition – the proportion of children who are underweight is the most important indicator of malnutrition ✓✓
 - Underweight increases the risk of death and inhibits development in children. ✓✓
 - Overweight children – there exists a relationship between obesity in childhood and the prevalence of other chronic diseases ✓✓
 - Being overweight can affect their ability to work ✓✓
 - These indicators are also used to decide on feeding schemes. ✓✓ (max. 3 x 2) (6)

- C ➤ **Education ✓✓**
- Standard of living is directly related to the level of education ✓✓
 - Public expenditure percentage – shows the percentage of public expenditure for education. ✓✓
 - Secondary enrolment percentage – shows the percentage of the designated age group attending secondary education. ✓✓
 - Youth literacy rate percentage – shows the percentage of the designated age group that are literate. ✓✓ (max. 3 x 2) (6)
- D ➤ **Housing and services ✓✓**
- Housing and services are important elements of people's lifestyles. ✓✓
 - Many South Africans are not able to buy residential property. ✓✓
 - Government facilitates home ownership through a subsidy system and loans from the private sector. ✓✓
 - The number of houses handed over to disadvantaged South Africans is an indicator of service delivery. ✓✓
 - A number of services are necessary to improve the life of the people. ✓✓
 - E.g. electricity, refuse removal, water supply, sanitation etc. ✓✓ (max. 3 x 2) (6)
- E ➤ **Urbanisation ✓✓**
- The increase in the population numbers of cities and towns ✓✓
 - Can be because of the natural growth of urban population ✓✓
 - Migration – rural to urban or international ✓✓
 - The establishment of new towns ✓✓
 - It is an important social indicator because it points out to governments and developers the need for a variety of services ✓✓ (max. 3 x 2) (6)
- F ➤ **Demographics ✓✓**
- South Africa has a relatively high population growth rate ✓✓
 - A high population growth coupled with a low economic growth harms the efforts to improve the standard of living ✓✓
 - There is a decline in the growth of population in the recent past ✓✓
 - Life expectancy expresses the number of years a newborn infant would live under the prevailing conditions ✓✓
 - There is a decrease in the life expectancy in South Africa ✓✓
 - Government needs to know the size of the labour force and tax base. ✓✓
 - Assurance companies also need to know because it can affect their profitability. ✓✓ (max. 3 x 2) (6)

G ➤ **Income distribution ✓✓**

- Gini Coefficient is calculated from the information provided by a Lorenz curve. ✓✓
- A Lorenz curve shows the distribution of income among the population. ✓✓
- The Gini coefficient shows the proportion of the population who lives on less than a proportional income. ✓✓
- The value of the Gini coefficient can be between 0 and 1 and higher the value, the more unequal the distribution of income is. ✓✓
- The Gini coefficient for South Africa indicates that it is essential that the government employs policies to redistribute income. ✓✓
- Its main policy tools are progressive personal income tax, BEE etc. ✓✓
- The head count index is the percentage of people living below the poverty line income ✓✓
- This indicator is important because government must know the extent of poverty ✓✓
- It can also be used to adjust the budget to provide sufficient social services ✓✓

(max. 3 x 2)

(6)

CONCLUSION

These social indicators inform governments and businesses of the need to change in the provision of goods and services. ✓✓

(2)

Use the following assessment grid together with the above to assess the discussion.

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(5)

[50]

QUESTION 10 (LO4 AS1)**Policies to combat inflation****INTRODUCTION**

- Economists have different opinions on the policies that would effectively fight inflation. ✓✓✓
- Government uses different policies to keep inflation under control. ✓✓✓
(max. 1 x 3) (3)

BODY**➤ Fiscal measures**

- Fiscal measures are taken by the minister of finance to control inflation. ✓✓
- These are through policies of taxation and government spending. ✓✓
- The excess demand can be reduced by increasing direct taxation. ✓✓
- Indirect taxation such as VAT, customs and excise duties can also be increased. ✓✓
- A levy on loans can be introduced or increased. ✓✓
- Government can cut back on expenditure by postponing, reducing or cancelling government projects. ✓✓
- Deficit budget can be financed through non-inflationary sources. ✓✓
- A surcharge on imported goods can control inflation. ✓✓
- An alternative fiscal approach on the supply-side can also be used. ✓✓
- E.g. reducing direct taxation to encourage people to work hard. ✓✓
- Reducing company tax to encourage investments. ✓✓
- Reducing taxation on interests and dividends to encourage savings. ✓✓
(max. 8 x 2) (16)

➤ Monetary measures

- Monetary authorities must adjust the quantity of money to the needs of the economy. ✓✓
- Inflation caused by excess demand can be reduced by reducing the supply in the economy. ✓✓
- To encourage savings, repo rate and interest rates can be increased. ✓✓
- Monetary authorities can restrict the granting of credit by financial institutions / limit increase in money supply. ✓✓
- Control of credit increase. ✓✓
- Availability of credit decreases. ✓✓
- They can also apply moral pressure on financial institutions. ✓✓
- Relaxing of exchange controls are also used to control inflation ✓✓
(max. 5 x 2) (10)

➤ **Other measures**

- Increasing productivity can be a long-term measure to control inflation. ✓✓
- Price control is regarded as a direct method to control inflation. ✓✓
- A wage policy – wages can only be increased only if there is increase in productivity. ✓✓
- Stricter conditions for consumer credit can restrict excessive demand. ✓✓
- Encouraging personal savings is still regarded as a means of combating inflation. ✓✓
- Import control can be relaxed to increase the supply of goods. ✓✓
- A floating exchange rate for a country's currency so that prices are automatically adjusted to international conditions. ✓✓
- Inflation targeting can be used as a measure to control inflation. ✓✓

(max. 7 x 2) (14)

CONCLUSION

- Fiscal and monetary measures alone cannot combat inflation. ✓✓
- A number of other measures can also be used in combination with fiscal and monetary measures. ✓✓

(max. 1 x 2) (2)

Use the following assessment grid together with the above to assess the discussion.

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (30 – 45 marks)

(5)
[50]**TOTAL SECTION C: 100****GRAND TOTAL: 300**