



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

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**ECONOMICS P1
MARKING GUIDELINE**

MARKS: 150

This memorandum paper consists of 19 pages.

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

1.1.1 B production ✓✓

1.1.2 C leakages ✓✓

1.1.3 B free floating ✓✓

1.1.4 C decline in mineral exports ✓✓

1.1.5 A leading ✓✓

1.1.6 A extrapolation ✓✓

1.1.7 B the prevention of dumping ✓✓

1.1.8 B progressive ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 D – Producers and consumers can buy and sell goods anywhere in the world ✓

1.2.2 I – The relationship between export prices and import prices ✓

1.2.3 G – Offers opportunities for borrowing and saving ✓

1.2.4 F – Expenditure by firms on capital goods ✓

1.2.5 B – Goods which are non-rivalrous in consumption ✓

1.2.6 C – A business cycle caused by innovations and wars ✓

1.2.7 A – Increase in real GDP ✓

1.2.8 E – The state of an economy in which no one is made better off without someone made worse off ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

1.3.1 Phillips Curve ✓

1.3.2 Subsidies ✓

1.3.3 Flat rate ✓

1.3.4 Households/consumers ✓

1.3.5 Transfer payments ✓

1.3.6 Globalisation/international trade ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS**2.1.1 Give TWO examples of non-durable goods.**

- Food/beverages ✓
- Fuel ✓

(Accept any other relevant response.)

(Any 2 x 1) (2)

2.1.2 How will foreign direct investment benefit the South African economy?

- Provide capital for new enterprises / expansion on existing enterprises / increased competition. ✓✓
- Increase in income / revenue for business / state / more profits. ✓✓
- Creation of more job opportunities / improve the standard of living. ✓✓
- Increase economic growth. ✓✓
- Diversify the economy / a wider range of products. ✓✓
- Bring in new technology and knowledge. ✓✓

(Accept any other relevant response.)

(Any 1 x 2) (2)

2.2 DATA RESPONSE**2.2.1 What method of calculation was used in the table above to determine the gross domestic product?**

- Income method ✓

(1)

2.2.2 Give ONE example of taxes on products.

- VAT ✓
- Sins tax / excise duty ✓
- Fuel levy ✓

(Any 1 x 1) (1)

2.2.3 Name the missing item labelled (A).

GVA (GDP) at basic prices ✓✓

(2)

2.2.4 How would you convert GDP to GNP?

GDP plus primary income from the rest of the world ✓ minus primary income to the rest of the world ✓ / GDP plus / minus net income. ✓

(2)

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

$$1\,576/3\,385 \checkmark \times 100 \checkmark = 46,55\% \checkmark\checkmark \text{ or } 47\% \checkmark\checkmark \quad (4)$$

2.3 DATA RESPONSE

2.3.1 What is represented by the line $E = Y$ in the above graph?

- Expenditure is equal to income. $\checkmark\checkmark$
 - It represents the various equilibrium positions with increased expenditure. $\checkmark\checkmark$
- (2)

2.3.2 Describe the concept *multiplier*.

- The multiplier describes the fact that changes in spending/ expenditure have an impact on income that is greater than the original change in spending. $\checkmark\checkmark$
 - It describes the relationship between the change in the level of injections and the resulting change in the equilibrium level of output. $\checkmark\checkmark$
- (Accept any other relevant response.)
- (2)

2.3.3 Explain the relationship between the multiplier and the marginal propensity to consume (mpc).

The larger the mpc, the larger the multiplier, the smaller the mpc, the smaller the multiplier. $\checkmark\checkmark$

(2)

2.3.4 Calculate the multiplier for the above scenario. Show ALL calculations.

$$\begin{aligned} K &= 1/1 - \text{mpc} \\ &= 1/1/1 - 0,5 \checkmark \\ &= 1/0,5 \checkmark \\ &= 2 \checkmark\checkmark \end{aligned} \quad (4)$$

2.4 Differentiate between real flow and money flows in the circular flow model.

Real flows

- The flow of goods and services between the various participants are called real flow. ✓✓

This includes:

- Factors of production from household to firms. ✓✓
- Goods and services from firms to households. ✓✓
- Goods and services from the government. ✓✓
- Goods and services from the foreign sector to households , businesses and the government (imports) ✓✓
- Goods and services to the foreign sector (exports) ✓✓ (Any 2 x 2)

Money flows

- The flow of money earned and spent between the various participants. ✓✓

This includes:

- Payment for factors of production in the form of rent, profit, wages and salaries and interest from firms to households. ✓✓
 - Payment for goods and services by households and firms to the government. ✓✓
 - Payment of taxes by households and firms to government ✓✓
 - Payments for exports by the foreign sector. ✓✓
- (Accept any other relevant response) (Any 2 x 2) (8)

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

- Provide more jobs. ✓✓
 - Using artisans, technicians and engineers that will lead to economic growth and economic development. ✓✓
 - Processing more resources. ✓✓
 - Transferring a greater variety of skills to workers e.g. mining, agriculture and manufacturing industries. ✓✓
- (Accept any other relevant response.) (Max. 8) (8)

[40]

QUESTION 3**3.1.1 Name TWO indicators related to international trade.**

- Terms of trade ✓
- Exchange rate ✓ (2 x 1) (2)

3.1.2 How does depreciation of the rand impact on export of goods and services?

- There will be an increase in exports. ✓✓
- Goods and services will be cheaper for international buyers. ✓✓
(Accept any other relevant response.) (Any 1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 Name ONE brand from the extract which is imported from Korea.**

Samsung / Hyundai ✓ (1)

3.2.2 Identify the challenge faced by South Africa to succeed in the international markets from the extract.

Competing in an unfair global economy. ✓ (1)

3.2.3 Briefly describe the term *protectionism*.

Protectionism refers to government policies and regulations which are designed to benefit local producers of goods and services in their competition with imported goods, thus helping them to survive. ✓✓
(Accept any other correct relevant response.) (Any 1 x 2) (2)

3.2.4 What measures can government take to ensure that local industries are protected?

The government can:

- Install import quotas ✓✓
- Charge higher tariffs for imported goods ✓✓
- Ban certain goods previously imported / restrict certain goods previously imported. ✓✓
(Accept any other relevant response.) (Any 1 x 2) (2)

3.2.5 **In your opinion, how can local support boost the South African economy?**

By exporting:

- Surplus production. ✓✓
- Foreign currency is earned for the country. ✓✓
- Employment opportunities are created. ✓✓
- Increased consumption of locally produced products takes place. ✓✓

(Accept any other relevant information.)

(Any 2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **At what stage does the economy experience inflation in the above diagram?**

Prosperity / Boom ✓✓

(1 x 2) (2)

3.3.2 **Describe the term *business cycle*.**

- It refers to the successive periods of increasing or decreasing of economic activity. ✓✓

(Accept any other relevant response.)

(1 x 2) (2)

3.3.3 **What is indicated by the trend line?**

- It indicates the general direction of the economy. ✓✓
- The trend represents the average position of a business cycle. ✓✓

- The trend line indicates a growing economy. ✓✓

(Accept any other relevant response.)

(Any 1 x 2) (2)

3.3.4 **Explain how the government can stimulate economic activity in an effort to smooth out business cycles.**

- Use expansionary monetary policies e.g. reducing interest rates. ✓✓
- Use expansionary fiscal policies e.g. reducing taxes. ✓✓
- Increased government expenditure e.g. capital investment projects. ✓✓

(Accept any other relevant response.)

(Any 2 x 2) (4)

3.4 How effective is international trade for South Africa?

- Due to specialisation South African textiles manufacturers cannot compete with Chinese producers and have to close down. ✓✓
 - This led to many workers to lose their jobs and this will be addressed and managed by the government. ✓✓
 - South Africa has more minerals that it can use but less oil that it needs. ✓✓
 - Many SA companies try to establish themselves in African countries in order to secure the advantage of the spending power of millions of people. ✓✓
 - Mass production should always lead to increased demand. ✓✓
 - Producers are able to increase production efficiency – more domestic factors of production will be employed and a higher standard of living will materialise. ✓✓
 - International trade is at the heart of globalisation ✓✓ e.g. in IT, communication and transport. ✓
 - Expanded trade will stimulate more international trade. ✓✓
 - Domestic economic growth follows with further increases in the standard of living. ✓✓
- (Accept other relevant responses.) (Any 4 x 2) (8)

3.5 What impact will the deficit on the current account have on the economy?

- It will have a negative effect on the economy. ✓✓
 - Foreign exchange reserves will be reduced / fall to settle international debts. ✓✓
 - Domestic prices of goods and services will be higher / increased and will lead to inflation / imported inflation. ✓✓
 - It will have a negative effect on economic growth. ✓✓
 - Ensures employees are not placed in position within a company because of their race. ✓✓
 - They are promoted and encouraged to move up the ranks if they meet the minimum criteria. ✓✓
- (Accept any other relevant response.) (Max. 8) (8)

[40]

QUESTION 4: MACRO-ECONOMICS

4.1 4.1.1 **Name TWO forms of import substitution.**

- Tariffs ✓
- Quotas ✓
- Subsidy ✓
- Exchange control ✓
- Physical control ✓

(2 x 1) (2)

4.1.2 **How has the government promoted economic equity in terms of education commitments?**

- School feeding schemes (subsidised) ✓
 - Free textbooks to some schools. ✓
 - No-fee schools in some areas. ✓
- (Accept any other relevant response.)

(Any 2 x 1) (2)

4.2 **DATA RESPONSE**

4.2.1 **What does the amplitude of a business cycle demonstrates?**

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

(Any 1 x 2) (2)

4.2.2 **Describe the term *length*.**

- It refers to the time the economy takes to move from one peak to another / or from one trough to another. ✓✓

(Any 1 x 2) (2)

4.2.3 **Identify a leading indicator from the above information.**

Jobs advertising space. ✓✓

(1 x 2) (2)

4.2.4 **Explain moving averages as a feature that underpins forecasting.**

- It is a method of repeatedly calculating a series of different average values along a time series to produce a smooth curve. ✓✓
- It evens out short-term fluctuations. ✓✓
- The trend line is a typical example of moving averages. ✓✓

(Any 2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Which supply curve indicates a decrease in the supply of dollars?**

S2S2 ✓

(1)

4.3.2 **What type of exchange rate system is currently used in South Africa?**

Free floating exchange rate system ✓

(1)

4.3.3 **Explain the term *exchange rate*.**

It is the price of one currency in terms of another. ✓✓

(2)

4.3.4 **State ONE factor that could have led to an increase in the supply of dollars.**

- Increase in the number of US tourists visiting South Africa. ✓✓
- Increase in imports from SA to the USA. ✓✓
- (Accept any other relevant answer.)

(Any 1 x 2) (2)

4.3.5 **Use the above graph to explain the effect of the increase in the supply of US dollars on the R/US\$ exchange rate.**

US\$ – Depreciates ✓

Reason: The supply of dollars increases SS to S1S1 and the equilibrium point move from E to E1. ✓✓

The price for dollars will be fixed at P1 which is lower. ✓✓

R – Appreciates ✓

Reason: The demand for rand increase from DD to D1D1 and the equilibrium point from E to E1. ✓✓

The price of rand will be fixed at P1 which is higher. ✓✓

(Any 2 x 2) (4)

4.4 **Differentiate between *exogenous* and *endogenous* explanations for a business cycle.**

Exogenous:

- Markets are inherently stable. ✓✓
- Also referred to as monetarists ✓✓
- External reasons for business cycle are:
 - Weather conditions ✓
 - Shocks ✓
 - Structural changes ✓
- If imbalances develop, the market forces of supply and demand will always bring back the market to equilibrium. ✓✓
- Most important causes of economic fluctuations are:
 - Inappropriate government policies ✓✓
 - Government should not interfere in the market ✓✓
- The thick trend line represents the normal progress of the growing economy. ✓✓
- The cyclical movements around the trend line are the actual route followed by the economy. ✓✓ (Any 2 x 2)

Endogenous

- The level of economic activity constantly and erratically overshoots and undershoots the economy's potential growth path. ✓✓
- Markets are inherently unstable. ✓✓
- This is often called the Keynesian view. ✓
- Price mechanism fails to coordinate supply and demand. ✓✓
- Governments should not interfere in the economic processes in order to smooth the business cycles. ✓✓
- The economy's potential growth path is indicated by the thin black line. ✓✓
- The bold cyclical movements around it are the actual route followed by the economy. ✓✓
- Most important causes of economic fluctuations are indirect links and mismatches. ✓✓ (Any 2 x 2) (Max. 8) (8)

- 4.5 **Evaluate the success of economic growth and price stability as part of the government's macroeconomic objectives.**

Economic growth

- Economic growth has been on a decreasing trend for the past five years. ✓✓
- The average growth rate has been lower than 5%. ✓✓
- This has been having a negative impact on the capacity of the economy to create employment. ✓✓ (Any 2 x 2)

Price stability

- Inflation has generally been within the range of 3% to 6%. ✓✓
 - However recently it has edged out of the range, ✓✓ due to high cost of production like wages and oil prices. ✓✓
(Any other relevant response.) (Any 2 x 2) (Max. 8) (8)
- [40]**

TOTAL SECTION B: 80

SECTION C

Answer ONE question from this section in the ANSWER BOOK.

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: <ul style="list-style-type: none"> • Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate • Additional part: Give own opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/How? / Suggest 	Max. 26 Max. 10
Conclusion Any relevant higher order conclusion that should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed / analysed without repeating facts already mentioned in the body • An opinion or valued judgment on the facts discussed • Additional support information to strengthen the discussion / analysis • A contradictory viewpoint with motivation, if so required • Recommendations 	Max. 2
TOTAL	40

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

The private sector is not always perfect in the allocation of resources and problems can occur when the public sector intervenes to provide certain goods and services.

- Discuss the problems of public sector provisioning. (26 marks)
- How can the South African government improve the efficiency in service delivery? (10 marks)

Introduction

The government responds to market failures by establishing and maintaining state-owned enterprises to provide public goods and services. ✓✓
(Any other relevant definition.)

(Max. 2)**Body****➤ Accountability ✓**

- It is required to give an explanation of one's decisions, actions and expenditures over a period of time. ✓✓
- There are mechanisms for evaluating government's economic and financial performance. ✓✓
- That the desired quantities and quality of goods and services for which taxes are raised are delivered. ✓✓
- That monopolies, corruption, nepotism and incompetence and apathy does not occur. ✓✓
- Two important elements of accountability are participation and transparency. ✓✓
- Ministerial responsibilities i.e. the ministers of government departments are responsible for decisions and actions and expenditures. ✓✓
- Parliamentary questioning arises and members of the government departments have to respond. ✓✓
- The National Treasury is responsible for treasury control. ✓✓
- The auditor-general reports annually in writing on each government departments. ✓✓

➤ Efficiency ✓

- Public goods are efficiently provided if Pareto efficiency is achieved. ✓✓
- If resources are allocated in such a way that no one can be made better off without making someone else worse off. ✓✓
- Bureaucracy, the official rules and procedures / insensitivity to the needs of their clients. ✓✓
- Incompetence – the lack of skill or ability to do a task successfully. ✓✓
- May have improper qualifications / or an attitude of apathy. ✓✓
- Corruption – the exploitation of a person's position for private gain / taking bribes, committing fraud, nepotism. ✓✓

(Max. 1 mark for examples)**➤ The problem of assessing needs ✓**

- State owned enterprises do not operate according to the forces of supply and demand. ✓✓
- It becomes thus very difficult for state owned enterprises to assess the needs and thus prone to under or over-supplying public goods and services. ✓✓
- The census and other household surveys as well as local government structures provide this type of information. ✓✓
- Since resources are scarce, government must then decide which needs and whose needs are to be satisfied. ✓✓

- In the private sector houses are built according to the price that people are able and willing to pay. ✓✓
- In the public sector housing is regarded as a social responsibility and authorities supply them according to the needs of the people. ✓✓

➤ **Pricing policy** ✓

- In a market economy prices are determined by supply and demand. ✓✓
- The objectives of firms are to maximise their profits and they usually set prices to achieve this objective. ✓✓
- Government does not pursue the profit maximisation objective. ✓✓
- Government takes into account certain social, ✓ economic, political and environmental conditions as well as public opinion. ✓✓
- Free of charge services is met from taxes ✓✓ and applies to most community goods and collective goods ✓✓ e.g. defence, police whereby charges and toll fees are levied. ✓
- User-charges ✓ option to charge depends on technical reasons ✓ e.g. cost of providing a double lane road could be recovered by toll charges.
- Economic reasons ✓ such as services like water and electricity ✓ that have a zero price.
- Political reasons ✓ where income distribution is significantly unequal, administrative rationing according to need takes place ✓✓ e.g. public health and education. ✓
- Direct and indirect subsidies ✓ direct subsidy ✓ are used to cover part of the costs ✓✓ and an indirect subsidy is used to write off accumulated losses or deficits. ✓✓
- Standing charges called availability charges. ✓✓
- Price discrimination ✓ different users have different elasticities of demand for a good ✓✓ (e.g. commercial and manufacturing businesses pay higher rates than households and they pay on a sliding scale). ✓✓

➤ **Parastatals** ✓

- State owned enterprises ✓ that either render a service or when an existing enterprise is nationalised. ✓✓
- They focus on making a profit and maximising cost at the expense of the needs of some groups ✓✓ e.g. Iscor, SABC, SAA, Spoornet

(1 mark for an example)

➤ **Privatisation** ✓

- Refers to the process whereby state owned enterprises and state owned assets are handed over or sold to private individuals. ✓✓
- Cost of maintaining and managing state owned enterprises are high which can lead to higher taxes and larger public debt. ✓✓
- Nationalisation is the process whereby the state takes control and ownership of privately owned assets and private enterprises. ✓✓
- It concludes contracting of services, public-private partnerships, and increasing competitiveness. ✓✓

(If only listed Max. 6 marks)

(Max. 26)

Additional part**➤ How can the South African government improve the efficiency in service delivery?**

- Goods and services should be provided in the desired quantity and quality. ✓✓
- Public goods can be efficiently provided if Pareto efficiency is achieved. ✓✓
- Minimising red tape / avoid bureaucracy rules and procedures should be streamlined to minimise the negative impact on the delivery of services. ✓✓
- Increase training, effective training must be provided for government officials' e.g. in-service training, reskilling. ✓✓
- Improve motivation by providing awards to productive workers, financially or payment in kind.
- Eliminate corruption and put effective monitoring measures in place. ✓✓
(Any relevant information.)

(Max.10)**Conclusion**

If the above problems are not dealt with timorously by government, government will continue to fail its people in terms of service delivery. ✓✓
(Any other relevant conclusion accepted.)

(Max. 2)**[40]**

QUESTION 6: MACROECONOMICS**40 MARKS–40 MINUTES**

International trade is the backbone of our modern commercial world as producers in various nations try to profit from an expanded market, rather than be limited to selling within their own borders.

- Discuss export promotion as part of South Africa's international trade policy. (26 marks)
- Why are South African consumers encouraged to buy locally produced goods instead of imported goods? (10 marks)

Introduction

Incentives or mechanisms to encourage domestic manufacturers to increase the exports of goods and services to foreign countries. ✓✓
(Any relevant information.) **(Max. 2)**

Body**MAIN PART****➤ Reasons for export promotion.**

- The country achieves significant export-led economic growth. ✓✓
- Export promotion enlarges the production capacity of the country. ✓✓
- Export markets are much bigger than local markets. ✓✓
- More workers will be employed. ✓✓
- Prices will be reduced. ✓✓

➤ Methods of export promotion ✓

- Incentives: the government supplies information on export markets, research on new markets, concessions on transport charges, export credit etc., in order to stimulate exports. ✓✓
- Subsidies: These include direct and indirect subsidies. ✓✓
 - Direct subsidies: Cash refunds to exporters
 - Indirect subsidies: Refunds on import tariffs and general tax rebates.
- Trade neutrality: Subsidies equal in size to import duties are paid. ✓✓
- Neutrality can be achieved through trade liberalisation.

➤ **Advantages of export promotion** ✓

- There are no limitations to size of scale since the market is very large. ✓✓
- There is increased domestic production. ✓✓
- Exchange rates would be realistic. ✓✓
- Production is based on cost and efficiency. ✓✓

➤ **Disadvantages of export promotion** ✓

- The real cost of production is reduced by subsidies and incentives. ✓✓
- The lack of competition because of incentives and subsidies forces competitors out of the market. ✓✓
- Export promotion results in increased tariffs and quotas by powerful overseas competitors.
- Export promotion results in the protection of labour-intensive industries by developed countries.

(Max. 26)

➤ **Additional part**

- Promote purchases of South African produced products. ✓✓
- Reinforce and diversification of a country's industrial base. ✓✓
- Increase competitive value added exports the rest of the continent ✓✓
- Buy local products and promote national pride ✓✓
- A growing economy ✓✓
- Creating jobs ✓✓
- Support and stimulate local production ✓✓
- Increase a country's income / earnings ✓✓
- Increase a country's GDP. ✓✓
- Stimulate SA companies and their products and services ✓✓
- To stimulate entrepreneurship and small, medium and micro enterprises. ✓✓

(Max. 10)

Conclusion

A successful export promotion strategy can contribute to industrial development that will increase employment.

(Accept any other relevant conclusion.)

(Max. 2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150