



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2017

**ECONOMICS P1
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 19 pages.

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

- 1.1.1 C leakages ✓✓
- 1.1.2 B reducing production costs ✓✓
- 1.1.3 A provide merit goods ✓✓
- 1.1.4 D an embargo ✓✓
- 1.1.5 A the prevention of dumping ✓✓
- 1.1.6 D wealth ✓✓
- 1.1.7 C repo rate ✓✓
- 1.1.8 B interdependent ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G Value of all final goods and services produced by the permanent residents of the country for a specific year ✓
- 1.2.2 A Financial grants to support the production of exports goods ✓
- 1.2.3 D Money received without any productive service rendered ✓
- 1.2.4 F Business owned by the state and run by public authorities ✓
- 1.2.5 H An inter-government organisation that aim to promote socio-economic cooperation and integration ✓
- 1.2.6 I The total amount of money in circulation in the economy ✓
- 1.2.7 B Focuses on improving the competitiveness of the manufacturing industries ✓
- 1.2.8 E Are used to analyse the changes in a series of data over a period of time ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

1.3.1 Consumption spending ✓

1.3.2 Exogenous / Monetarist ✓

1.3.3 Exchange rate ✓

1.3.4 Corridor ✓

1.3.5 Devaluation ✓

1.3.6 RDP ✓

(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 2.1.1 **Name the TWO periods in a business cycle.**

- Contraction/downswing ✓
 - Expansion/upswing ✓
- (Any 2 x 1) (2)

2.1.2 **What is the impact of the multiplier, if the equilibrium income increases by more than the increase in initial expenditure?**

The total income and expenditure increase the multiplier will also increase. ✓✓ (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Which source was used to compile the data in the above table?**

Quarterly bulletin, March 2017 ✓ (1)

2.2.2 **Which year is currently used as the base year by the Reserve Bank?**

2015 ✓ (1)

2.2.3 **Briefly explain the difference between *nominal GDP* and *real GDP*.**

Nominal GDP

- Referred to as GDP at current price. ✓✓
- Also known as market or money value. ✓✓
- Inflation has not yet been taken into account. ✓✓
- These prices do not reflect whether economic activity has increased. ✓✓

Real GDP

- Referred to GDP at constant prices. ✓✓
 - Real prices are adjusted for price changes. ✓✓
 - Real national product is the national product expressed in prices which applied in a certain base year. ✓✓
- (Accept any other correct relevant responses.) (Any 2 x 2) (4)

2.2.4 **Calculate the deflator for 2016. Show all your calculations.**

Deflator: $\text{Nominal GDP} \div \text{Real GDP} \times 100$

$$\begin{aligned} \text{Deflator for 2016} &= 4\,336\,988 \checkmark \div 3\,009\,860 \checkmark \times 100 \checkmark \\ &= 144 \checkmark \end{aligned}$$

(4)

2.3 **DATA RESPONSE**

2.3.1 **At which point will the government maximise revenue?** (1)

A ✓

2.3.2 **What curve is depicted above?**

Laffer ✓

(1)

2.3.3 **What effect will point C have on government revenue?**

Tax revenue will increase ✓✓

(2)

2.3.4 **What are the dangers of high personal income tax rates?**

- Tax avoidance ✓✓
- Tax evasion ✓✓
- People will be discouraged to work ✓✓ (Any 1 x 2) (2)

2.3.5 **How can the South African government avoid public – sector failure?**

- Improving the quality of management skills in the public sector ✓✓
 - Reducing corruption, including nepotism when hiring public sector employees ✓✓
 - Reducing bureaucracy by investing in modern systems such as a IT system ✓✓
 - Increasing accountability ✓✓
- (Accept any other correct relevant response.) (Any 2 x 2) (4)

2.4 **Briefly explain how a deficit on a balance of payment will automatically be corrected under a free floating exchange rate system.**

- There is an excess demand for foreign currency on the foreign exchange market. ✓✓
 - Exports will become cheaper and will increase. ✓✓
 - Imports will become more expensive and decrease. ✓✓
 - The deficit will decrease. ✓✓
- (Accept any other correct relevant response.) (Any 4 x 2) (8)

2.5 **How does the entry of domestic businesses into foreign markets benefit South Africa?**

South Africa will benefit from entering foreign markets by:

- Local businesses becoming more competitive. ✓✓
- Improving quality and decreasing prices. ✓✓
- Earning foreign exchange. ✓✓
- Enabling us to import products from other countries that we are not able to produce for ourselves. ✓✓

(Accept any other correct relevant response.)

Max. 8 (8)
[40]

QUESTION 3: ECONOMIC PURSUITS

3.1 3.1.1 **Name TWO instruments that the SARB can use to influence the economy.**

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

(Any 2 x 1) (2)

3.1.2 **What effects will a huge increase in electricity costs have on smaller businesses in South Africa?**

Businesses will run at a loss / closing down / more will be forced into bankruptcy. ✓✓

(Accept any other correct relevant response.)

(Any 1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **What does the abbreviation IPAP stand for?**

Industrial Policy Action Plan ✓

(1)

3.2.2 **Name ONE focus area of this policy for 2017/2018.**

- Education and skills ✓
- Infrastructure ✓ and regulatory environment ✓
- The labour relations environment ✓
- Inclusive growth ✓

(Any 1 x 1) (1)

3.2.3 **Explain ONE reason for industrial development**

- Job creation ✓✓
- Maintain macroeconomic stability. ✓✓
- Develop and maintain appropriate incentives to attract investors. ✓✓
- Diversification of the economy ✓✓
- Contribute to the industrial development of the African continent. ✓✓

(Accept any other correct relevant response)

(Any 1 x 2) (2)

3.2.4 **How successful is the industrial development policies in South Africa?**

- Promotes incentives for investors to establish industries. ✓✓
 - Promote industrialisation by manufacturing developments policies which offer incentives ✓✓ such as loans, export promotion, subsidies and establishment allowances.
 - Promote globalisation by having a liberal policy towards foreign investment. ✓✓
 - Improve infrastructure of transport, power and modern communication including access to the internet. ✓✓
 - Innovation and technology. ✓✓
- (Accept any other correct relevant response.) (Any 1 x 2) (2)

3.2.5 **What impact might IPAP have on industrial development in the private sector of South Africa?**

- Rapid increase in the price of electricity and petrol which increase business costs. ✓✓
 - Labour unrest which has led to reduced productivity ✓✓
 - Structural unemployment as new skills are needed and others become outdated. ✓✓
 - The global financial crisis and the continuing instability resulting in low foreign demand for South African exports. ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **Name the method used to measure economic development of a country.**

Human development Index (HDI) ✓ (1)

3.3.2 **Which country has the highest HDI in the table above?**

Norway ✓ (0,955) (1)

3.3.3 **Explain the term *human development*.**

Is the improvement of the opportunities facing a country's people so that they can lead long, full educated and healthy lives, accessing resources and participating in their communities. ✓✓

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

3.3.4 Why is South Africa’s economic development underperforming?

- Decline in life expectancy due to HIV and Aids epidemic ✓✓
 - Underperforming education system ✓✓
 - Decline in employment rate ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

3.3.5 How can the South African government help to improve economic development?

- Government plan to maintain economic development include:
- Job creation ✓✓
 - Subsidies to no-fee schools ✓✓
 - Access to basic services such as a provision of solar water geysers ✓✓
 - Upgrading of informal settlements and water structures ✓✓
 - Spending on health and social assistance ✓✓
- (Accept any other correct relevant response.) (Any 2 x 2) (4)

3.4 Compare the *standard of living* between the North-South countries.

| | North | South |
|-----------------------|---|--|
| Real GDP per capita : | Produces 78% of world income – have much higher per capita income. ✓✓ | Produces 22% of world income – the per capita is much lower. ✓✓ |
| Life expectancy : | Is over 75 years and over 80 in some countries. ✓✓ | Is about 50 years, and 40 years in some African countries. ✓✓ |
| Education: | Literacy levels are about 95%. ✓✓ | Literacy levels are as low as 50% in some developing countries in Africa. ✓✓ |
| | Max. 4 | Max. 4 |

(8)

3.5 How successful is *Black Economic Empowerment* in the South African economy?

- Number of black people who own, manage and control businesses in the country increases significantly. ✓✓
- Income and inequalities decreases substantially. ✓✓
- Businesses spend money on projects that empower workers and other member of disadvantaged communities. ✓✓
- It brings about transformation of the ownership, management and employment equity aspect of businesses in S.A. ✓✓
- 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 correct relevant response.)

Max. 8 (8)
[40]

QUESTION 44.1 4.1.1 **List TWO problems of public sector provisioning.**

- Accountability ✓
 - Efficiency ✓
 - Assessing needs ✓
 - Parastatals ✓
 - Pricing policy ✓
 - Privatisation/ Nationalisation ✓
- (Any 2 x 1) (2)

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

Economic growth is concerned with goods and services ✓ and economic development is concerned with people and human development. ✓

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

4.2 **DATA RESPONSE**4.2.1 **What international trade policy is reflected in the graph above?**

Free trade ✓ (1)

4.2.2 **What happens to the supply when the country engages in free trade?**

Increases ✓ (1)

4.2.3 **Describe the term *free trade*.**

Is when producers and consumers are free to buy goods and services from anywhere in the world, without the interference of government. ✓✓

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

4.2.4 **Explain why trade protocols are necessary for the economy.**

- They have a combined effect of increasing the amount of trade between countries. ✓✓
- They restrict trade by laying down rules for the way in which it occurs. ✓✓

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

4.2.5 **How does the society experience an increase in welfare through free trade?**

- Need to examine the costs of trade barriers. ✓✓
- Tariffs and quotas reduce the quantity and variety of goods available to consumers. ✓✓
- The foreign which are imported are more expensive due the excise taxes and customs duties. ✓✓
- Free trade increases the range of choice that is available to consumers and reduces the general price level. ✓✓

(Any 2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **What economic problem is illustrated in the picture above?**

Inflation ✓ (1)

4.3.2 **How might inflation affect the consumers buying power?**

Decreasing/decline ✓ (1)

4.3.3 **Briefly describe the term *inflation*.**

Inflation can be described as an increase in the general level of prices in an economy, that is sustained over a period of time. ✓✓ (2)

4.3.4 **How would an investor be influenced by inflation?**

- Profits / return on investment might decline. ✓✓
 - Assets with a fixed nominal value have a fixed return and ✓✓
 - Lower purchasing power as prices increases ✓✓
- (Accept any other correct relevant response.) (Any 1 x 2) (2)

4.3.5 **Why is important for the South African government to monitor the performance of the economy?**

- Is to make decisions and form policies ✓✓
 - Show whether targets have been met ✓✓
 - Compare conditions between areas and in different periods. ✓✓
- (Accept any other correct relevant response.) (Any 2 x 2) (4)

4.4 Briefly explain the *critical infrastructure and skill support programme* as the incentives used by the South African government to improve industrial development.

Critical infrastructure Programme

- Is a cost-sharing grant for projects designed to improve critical infrastructure in South Africa. ✓✓
- Covers a qualifying development cost between 10% and 30% towards the total development costs. ✓✓
- Becomes available on completion of the project. ✓✓
- It extends to both the public sector and private sector ✓✓
- The programme deems infrastructure to be critical if investment had not taken place or would not work optimally without the infrastructure. ✓✓
- Government supplies financial incentives to large enterprises requiring critical infrastructure. ✓✓ such as roads, electricity and water purification. ✓✓ (Any 2 x 2)

Skill support programme

- Is a cash incentive scheme to encourage greater investment in skills training in general. ✓✓
- To introduce new, advance skills to the immediate benefit of the South African labour force. ✓✓
- A maximum of 50% of a company's trading costs are covered. ✓✓ (Any 2 x 2) (8)

4.5 How can climate changes influence international trade?

A change in climatic conditions might influence international trade by:

- Leading to different products being produced and exported to other countries than before. ✓✓
- Leading to imports of different products produced locally and exported before. ✓✓
- Causing other types of industries to arise due a change in production pattern and types of products delivered. ✓✓
- Causing a serious need for research in unknown fields of production to ensure international trade. ✓✓

(Accept any other correct relevant response.)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE question from this section in the ANSWER BOOK.

| STRUCTURE OF ESSAY: | MARK ALLOCATION: |
|--|-------------------------|
| Introduction The introduction is a lower order response: <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid saying in the introduction that you are going to discuss in the body. | 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 NUMBER OF MARKS | 40 |

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

The business cycle plays a key role in enabling economists to make educated guesses about the future growth of the economy.

- **Discuss indicators as features underpinning forecasting business cycles. (26 marks)**
- **Why is it important that the Reserve Bank maintains price stability in the South African economy? (10 marks)**

INTRODUCTION

Economic indicators are statistics used to measure some aspect of the economy. ✓✓

(Accept any other correct relevant introduction.)

Max. 2

BODY: MAIN PART**Economic indicators:**➤ **Leading economic indicators** ✓

- Changes before the economy changes. ✓✓
- They peak before the peak in aggregate economic activity is reached and they reach a trough before aggregate economic activity reaches a trough. ✓✓
- They give advance warning of changes in aggregate economic activity. ✓✓
- They give consumers, business leaders and policy makers a glimpse into where the economy might be headed. ✓✓
- If leading indicators rise today, then the rest of the economy is likely to rise in the coming year. ✓✓
- Examples of leading economic indicators: Job advertising space, average manufacturing hours worked, building plans approval. ✓ (Max. 8)

➤ **Lagging economic indicators** ✓

- Do not change direction until after the business cycle has changed its direction. ✓✓
- They reach a peak/trough months after the business cycle has reached a peak/trough. ✓✓
- Follow coincident indicators after a further time elapse ✓✓
- They therefore may serve to confirm the behaviour of the coincident indicators. ✓✓
- If they do not confirm an upswing or a downswing, this signals that the upswing or downswing is weak and will mostly end at an early stage. ✓✓
- Economists use them to estimate whether individual indicators gave false signals. ✓✓
- Examples of lagging economic indicators: Unemployment rate, Number of commercial vehicles sold, Real machinery and equipment sold, Number of hours worked in construction. ✓ (Max. 8)

➤ **Coincident economic indicator** ✓

- Move together with the aggregate economic activity. ✓✓
- They indicate actual state of the economy ✓✓
- Coincidence indicator change at the same time as the economy. ✓✓
- They reach a peak / trough at the same time as the business cycle. ✓✓
- Economists use them to compile the business cycle. ✓✓
- They follow leading indicator after some time has elapsed but they tend to confirm the turning points of the leading indicator. ✓✓
- Examples of coincident indicator: Industrial production index, Volume of imports, Value of wholesale, retail and new vehicle sales ✓ (Max. 8)

➤ **Composite economic indicator ✓**

- A summary of various indicators of the same type into a single value. ✓✓
- The three composite indicators are often used to calculate a single composite indicator, ✓✓ that is single number to benchmark a country's economic performance. ✓✓ (Max. 4)

(Accept any other correct relevant response.)

(A maximum of 8 marks may be allocated for mere listing of facts/examples) (Max. 26)

ADDITIONAL PART

It is important that the Reserve Bank maintains price stability in the South African economy by:

- Ensuring that markets can function optimally and the government can promote economic growth and development more effectively. ✓✓
- Avoiding frequent fluctuations in the level of consumer and producer goods ✓✓
- Making it easy for consumers and producers to plan and budget ✓✓ so that consumers might be aware of costs of goods and services. ✓✓
- Boosting investors' confidence and foreign investors who would be likely to invest in local businesses if they were sure what production costs. ✓✓ / revenue was going to be from one month to the next. ✓✓

(Accept any other correct relevant response.) (Max. 10)

Conclusion

It is difficult to do accurate economic forecasting because there are many factors that influence the dynamics of the economy. ✓✓

(Accept any other correct relevant conclusion.) (Max. 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

Many people are interested in the performance of an economy, such as ordinary citizens, businesses, investors and the government.

- **Discuss the following social indicators:**
 - Nutrition and health (16 marks)
 - Demographics (10 marks) (26 marks)
- **How can the economic development be improved through the use of these social indicators? (10 marks)**

INTRODUCTION

Social indicators are statistics that show the level and progress of human development in a country. ✓✓

(Accept any other correct relevant introduction.)

Max. 2

BODY: MAIN PART**➤ Nutrition and health**

- The health of a population and of the labour force of a country is very important for the economic growth and development. ✓✓
- Healthy citizens are more productive, earn more, consume more and work longer. ✓✓

Infant mortality rate. ✓

- It measures the number of infants who died before reaching one year of age per thousand live births in a given year. ✓✓
- The infant mortality rate in South Africa is still high compared to other countries. ✓✓
- Infant mortality is often connected to a low birth weight, which can be caused by pregnant mother's malnutrition, stress or by her smoking, alcohol or drug abuse. ✓✓

➤ Under five mortality ✓

- Is often connected to malnutrition, diarrhoea, measles, malaria and respiratory infections. ✓✓
- The under-five mortality rate is normally given as the number of deaths per 1 000 live births. ✓✓
- The number of children that will die before the age of five years. ✓✓

➤ Access to health service ✓

- South Africa compares well in terms of indicators measuring access to primary health services ✓✓ and
- The amount of health expenditure as a percentage of GDP. ✓✓

- **Access to clean drinking water** ✓
 - Means that people have safe drinking water out of taps in their houses. ✓✓
 - The percentage of a population that has a reasonable access to safe drinking water ✓✓

- **Access to sanitation facilities** ✓
 - Means that people have access to toilets or improved sanitation facilities that keep them away from other humans, animals and insects. ✓✓
 - The percentage of a population with at least adequate sanitation facilities ✓✓

- **Nutrition**
 - Is a process of a person's body getting the food necessary for health and growth. ✓✓

- **Child malnutrition** ✓
 - Malnutrition is expressed in two ways: weight of age and height of that age. ✓✓
 - A person's body weight is compared to an ideal for a person of that age, sex and height. ✓✓
 - Physical signs also need to be taken into account as people of normal weight, or people who are overweight, can still be suffering from deficiencies in particular nutrients. ✓✓

- **Overweight children** ✓
 - There is an association between obesity of children and other diseases. ✓✓
 - A person is considered obese if his / her BMI is more than 30 kg. ✓✓
(Max. 16)

- **Demographics**
 - Is the study of population relating to elements such as its total size, population changes over time, age and gender distribution and geographical distribution. ✓✓

- **The population growth** ✓
 - South Africa has a relatively high population growth compared with that of developed countries. ✓✓
 - The population growth rate is an important indicator to the government in terms of the number of social services that are needed. ✓✓

➤ **Life expectancy ✓**

- Expresses the number of years a newborn infant may live ✓✓ if the prevailing patterns of mortality remained the same throughout his or her life. ✓✓
- Mortality rates in South African have been affected by the prevalence of HIV, which has been increasing significantly. ✓✓
- It is important for government to know what the average life expectancy is, ✓✓ because working humans require a range of social services. ✓✓
- Assurance companies in particular are interested in life expectancy. ✓✓ (Max. 10)

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of facts/examples) (Max. 26)

ADDITIONAL PART

Economic development can be improved by:

- Spending more on the improvement of the quality of life of the general population and reduce social tension. ✓✓
- Investing more in the future quality labour force for the progression of the economy. ✓✓
- Improving health and educational facilities. ✓✓
- Focusing on the areas that needs development in communities and spend on them. ✓✓
- Improving social cohesion and interdependence. ✓✓
- Assisting the government to look into other areas of need through the budget. ✓✓

(Accept any other correct relevant response.) (Max. 10)

CONCLUSION

Social indicators are directing government expenditure on issues that will guarantee social development and a quality lifestyle. ✓✓

(Accept any other correct, relevant conclusion) (Max. 2)

[40]

| | |
|-------------------------|------------|
| TOTAL SECTION C: | 40 |
| GRAND TOTAL | 150 |