



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2010**

**ECONOMICS  
MEMORANDUM**

**MARKS: 300**

**TIME: 3 hours**

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This memorandum consists of 20 pages.

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**SECTION A****QUESTION 1 (LO1 - LO4)**

1.1					
LO 1	1.1.1	A ✓✓	upswing		
	1.1.2	C ✓✓	increase		
	1.1.3	B ✓✓	medium-term expenditure framework		
LO 2	1.1.4	C ✓✓	Eskom		
	1.1.5	A ✓✓	market failure		
	1.1.6	B ✓✓	homogeneous		
LO 3	1.1.7	A ✓✓	deregulation		
	1.1.8	C ✓✓	economic indicator		
	1.1.9	C ✓✓	specific		
LO 4	1.1.10	A ✓✓	cost-push		
	1.1.11	B ✓✓	Preservation		
	1.1.12	B ✓✓	ecotourism	(12x2)	(24)
1.2	1.2.1	Export income ✓✓			
	1.2.2	Artificial monopoly ✓✓			
	1.2.3	GEAR ✓✓			
	1.2.4	Consumer Price Index ✓ ✓			
	1.2.5	Customs Union ✓✓		(5x2)	(10)
1.3	1.3.1	D ✓✓			
	1.3.2	G ✓✓			
	1.3.3	A ✓✓			
	1.3.4	H ✓✓			
	1.3.5	C ✓✓			
	1.3.6	B ✓✓			
	1.3.7	I ✓✓			
	1.3.8	E ✓✓		(8x2)	(16)

**TOTAL SECTION A: 50**

**SECTION B (Answer Any THREE questions from this section)****QUESTION 2 (LO1 AS1-AS4)**

- 2.1 2.1.1 real ✓✓  
 2.1.2 multiplier ✓✓  
 2.1.3 Kuznets ✓✓  
 2.1.4 money ✓✓ (4x2) (8)
- 2.2 **THREE** economic indicators used for forecasting.  
 ➤ Leading economic indicators ✓✓  
 ➤ Coincident economic indicators ✓✓  
 ➤ Lagging economic indicators ✓✓ (3x2) (6)  
 /14/
- 2.3 2.3.1 A statement of a country's trade and financial transactions with the rest of the world (imports and exports). ✓✓ (2)
- 2.3.2 R-44 373 ✓✓ (2)
- 2.3.3 **Merchandise exports**  
 Includes transactions in movable (visible and tangible) goods that change ownership between South African residents and non-residents. ✓✓✓
- Current transfers**  
 Transfers from residents of different countries without any quid pro quo like gifts in cash. ✓✓✓ (6)  
 /10/
- 2.4 2.4.1 State Owned Enterprise ✓✓✓ (3)
- 2.4.2 Restructuring refers to the process of changing non-profit enterprises to profit-seeking enterprises with limited liability. ✓✓✓ (3)
- 2.4.3 ➤ Sasol ✓✓  
 ➤ SABC ✓✓  
 ➤ South African Railways ✓✓  
 ➤ South African Airways ✓✓  
 ➤ Eskom ✓✓ (any other relevant example) any (2x2) (4)  
 /10/

**2.5 Briefly explain *accountability* as one of the problems of public sector provisioning.**

- Economic accountability refers to how effectively government formulates and implements policies and how efficiently it uses resources. ✓✓
- Financial accountability refers to the expenditure control and the internal and external audits of government expenditure. ✓✓
- Public accountability arises because the public requires assurances that they receive the desired quantities and quality of goods and services for which taxes are raised. ✓✓
- Also requires assurances that the public sector does not abuse the powers they have. ✓✓
- Responsibilities of the Ministers. ✓✓
- Ministers and Director Generals are accountable for the activities of the department. ✓✓
- Parliamentary questioning. ✓✓
- Members of the house can ask questions relating to a specific department. ✓✓
- Portfolio committees can make recommendations to parliament ✓✓
- SCOPA debates the findings of the AG and reports to parliament. ✓✓
- Treasury control ✓✓
- Public sector has to follow prescribed procedures to obtain authorization to spend money. ✓✓
- The treasury committee evaluates requests for additional funding. ✓✓
- The Auditor-General reports to the parliament on each government department. ✓✓

any (4x2) (8)

**2.6 Briefly explain any TWO types of investments under 'Financial account' of the Balance of Payments.**

**Direct investments** ✓✓

- Includes investments in businesses to obtain meaningful control of a business. ✓✓
- Also includes investment in real estate. ✓✓

**Portfolio investments** ✓✓

- Purchase of ordinary shares or bonds that are not part of direct investments. ✓✓
- These are highly liquid and the flow can be reversed at any time. ✓✓
- It is also known as 'hot' money. ✓✓

**Other investments** ✓✓

- Transactions that cannot be classified as direct or portfolio investment (residual) ✓✓
- Comprised of trade credits, loans, currency and deposits. ✓✓

any 2x (2+2) (8)  
/16/

**QUESTION 3 (LO2 AS1-AS3)**

3.1	3.1.1	normal ✓✓		
	3.1.2	cartel ✓✓		
	3.1.3	Private ✓✓		
	3.1.4	MC ✓✓	(4x2)	(8)

**3.2 THREE features/characteristics of public goods.**

➤	Non-rivalry ✓✓		
➤	Non-excludability ✓✓		
➤	Social benefits outstrip private benefits ✓✓		
➤	Infinite consumption ✓✓		
➤	Non-rejectability ✓✓	any (3x2)	(6) /14/

3.3	3.3.1	(i) <b>GRAPH A</b> – Economic Profit ✓✓		(2)
		(ii) <b>GRAPH B</b> – Loss ✓✓		(2)

3.3.2	➤	The individual producer can sell any quantity at the market price. ✓✓		
	➤	If the business charges a higher price, buyers will buy from other producers. ✓✓		
	➤	He will not sell the product at a lower price because he can sell all his stock at the existing market price. ✓✓	any (1x2)	(2)

3.3.3	➤	Where total revenue is equal to total cost. ✓✓		
	➤	Total cost includes normal profit. ✓✓		
	➤	Normal profit is the amount the entrepreneur pays himself. ✓✓		
	➤	Normal profit is the minimum earnings required to prevent the entrepreneur from leaving. ✓✓	any (2x2)	(4) /10/

3.4	3.4.1	<b><u>Explicit cost</u></b> The actual expenditure of a business ✓ on the hire or purchase of the inputs ✓ necessary for production process. ✓		
		<b><u>Implicit cost</u></b> The value of inputs ✓ that are owned by the entrepreneur ✓ and is used in the production process. ✓		(6)

3.4.2	➤	electricity charges ✓✓		
	➤	water charges ✓✓		
	➤	labour charges ✓✓	any (2x2)	(4) /10/

### 3.5 Characteristics of an oligopoly.

**Products can be homogenous or differentiated.** ✓✓

- If products are homogenous, it is called pure oligopoly. ✓✓
- When products are differentiated, it is called differentiated oligopoly. ✓✓

**Entry is free but difficult.** ✓✓

- There are many factors that restrict the entry of new producers. ✓✓

**Control over price.** ✓✓

- Producers have considerable control over price. ✓✓

**Mutual dependence.** ✓✓

- Businesses are affected by the actions of others. ✓✓

**Non-price competition.** ✓✓

- Producers compete on the basis of product differentiation, after sales service and advertising. ✓✓

**Collusion.** ✓✓

- Producers collude with each other with regard to pricing. ✓✓ any 2x(2+2) (8)

### 3.6 Briefly explain the TWO kinds of inefficiencies that may occur as a result (effect) of market failures.

**Productive inefficiency** ✓✓

- Businesses does not produce goods at the lowest possible cost. ✓✓
- Businesses can produce goods at a lower cost without reducing quality or quantity. ✓✓

**Allocative inefficiency** ✓✓

- The product mix does not reflect the taste and preference of the consumer. ✓✓
- The quantities preferred by the consumers are not available. ✓✓

any 2x (2+2) (8)

/16/

**QUESTION 4 (LO3 AS1-AS4)**

- 4.1 4.1.1 development ✓✓  
 4.1.2 subsidies ✓✓  
 4.1.3 IDZs ✓✓  
 4.1.4 export promotion ✓✓ (4x2) (8)
- 4.2 **THREE elements of BEE**  
 ➤ Equity of ownership ✓✓  
 ➤ Management and control ✓✓  
 ➤ Employment equity ✓✓  
 ➤ Preferential procurement ✓✓  
 ➤ Enterprise development ✓✓  
 ➤ Social responsibility ✓✓ any (3x2) (6)  
 /14/
- 4.3.1 Health awareness ✓✓ (2)
- 4.3.2 ➤ Nutrition ✓✓  
 ➤ Tuberculosis/TB ✓✓  
 ➤ Non-HIV/Aids health areas ✓✓ any (2x2) (4)
- 4.3.3 ➤ Creation of the awareness about a particular issue. ✓✓  
 ➤ Inform/ Educate people about an issue. ✓✓ (2x2) (4)  
 /10/
- 4.4 4.4.1 Life expectancy is the number of years a newborn infant would live. ✓✓ (2)
- 4.4.2 Western Cape ✓✓ (2)
- 4.4.3 Limpopo ✓✓ (2)
- 4.4.4 ➤ The natural growth of population in urban areas. ✓✓  
 ➤ Migration: rural areas to urban areas. ✓✓  
 ➤ The establishment of new towns. ✓✓  
 ➤ Better life expectancy. ✓✓  
 ➤ More jobs. ✓✓  
 ➤ Better education ✓✓ (Any other relevant fact) any (2x2) (4)  
 /10/

4.5 Briefly explain any '*capital*' and '*technology*' as factors that is necessary for economic growth to take place in an economy.

**Capital**

- Capital is necessary for the production of goods and services ✓✓
  - The more capital we have, the more goods and services can be produced ✓✓
  - For effective production to take place, we need both social and physical capital ✓✓
  - Increase in the production capacity will lead to economic growth ✓✓
- any (2x2) (4)

**Technology**

- Sustained economic growth requires technological progress and innovation ✓✓
  - Technological progress means new kinds of capital goods as well as new production process ✓✓
  - Technological progress can lead to economic growth ✓✓
- any (2x2) (4)

4.6 Briefly explain any TWO economic advantages of import substitution.

**Increased employment** ✓✓

- More local workers are employed to produce goods that substitute foreign goods. ✓✓
- Increased employment stimulates the economy and GDP increases. ✓✓

**More choice** ✓✓

- Because goods are no longer imported, the available foreign exchange can be used for other imports ✓✓
- This will increase the choices available to consumers. ✓✓

**Diversification** ✓✓

- Domestic economy becomes more diversified ✓✓
- The economy will be less vulnerable to foreign actions such as price increases or financial turbulence. ✓✓

(Any other relevant fact) any 2x (2+2) (8)  
/16/



**QUESTION 5 (LO4 AS1-AS3)**

- 5.1 5.1.1 CPIX ✓✓  
 5.1.2 hospitality ✓✓  
 5.1.3 ecotourism ✓✓  
 5.1.4 Kyoto Protocol ✓✓ (4x2) (8)
- 5.2 **THREE negative consequences of air pollution.**  
 ➤ Increasing ill health. ✓✓  
 ➤ Greenhouse gases ✓✓  
 ➤ Global warming. ✓✓  
 ➤ Ozone depletion ✓✓  
 ➤ Acid rain ✓✓ (Any other relevant fact) any (3x2) (6)  
 /14/
- 5.3 5.3.1 To show our national culture of service and hospitality. ✓✓ (2)  
 5.3.2 Tourist ✓✓ (2)  
 5.3.3 ➤ taxi drivers; ✓✓  
 ➤ hotel porters; ✓✓  
 ➤ waitresses; ✓✓  
 ➤ tour operators; ✓✓  
 ➤ stadium officials; ✓✓  
 ➤ fast food vendors; ✓✓ any (3x2) (6)  
 /10/
- 5.4 5.4.1 Stagflation / Hyperinflation ✓✓ (2)  
 5.4.2 ➤ domestic power ✓✓  
 ➤ electricity ✓✓  
 ➤ gas ✓✓  
 ➤ fuel ✓✓ any (2x2) (4)
- 5.4.3 **Core inflation**  
 excludes items from the CPI basket that have highly volatile prices  
 and items that are affected by government intervention and policy. ✓✓
- Headline inflation**  
 represents the cost of the 'shopping basket' of goods and services of  
 a typical South African household – unadjusted CPI inflation rate. ✓✓ (4)  
 /10/

### 5.5 Public sector intervention to achieve environmental sustainability.

#### **Granting of property rights. ✓✓**

- Granting of property rights will ensure that people care for things that belong to them. ✓✓
- The environment will be preserved at little costs to the tax payers. ✓✓

#### **Charging for the use of the environment ✓✓**

- Government levies a fee on consumers and producers for the waste they produce. ✓✓
- Developed countries levies emission charges on industries and vehicle owners. ✓✓

#### **Environmental taxes. ✓✓**

- A tax is imposed on the output of a good where external costs are generated. ✓✓
- These are known as green taxes. ✓✓
- The rate of tax is equal to the marginal external cost. ✓✓

#### **Environmental subsidies. ✓✓**

- Subsidies are provided to reduce environmental damage. ✓✓
- Subsidies are given for the development of new techniques to save energy or to reduce smoke pollution. ✓✓
- Subsidies for the production of environmental friendly substitutes. ✓✓
- Subsidies to encourage recycling of waste. ✓✓

#### **Marketable permits. ✓✓**

- Each business is given a license or permit that allows them to produce a certain quantity of pollutants. ✓✓
- If businesses can reduce pollution by half, they could sell some of their permits to other businesses. ✓✓

any 2x (2+2) (8)

### 5.6 TWO reasons why tourism is world's largest generator of jobs.

#### **Tourism is labour intensive ✓✓**

- Tourism creates more jobs with every unit of capital invested ✓✓
- Most of the tourism activities are within the reach of small entrepreneurs. ✓✓

#### **Tourism employs many skills ✓✓**

- There is job opportunities for almost any kind of skill in tourism industry ✓✓

#### **Tourism can provide immediate employment ✓✓**

- Tourism sector can create jobs within a short period of time ✓✓

#### **Tourism provides entrepreneurial opportunities ✓✓**

- Tourism industry accommodates informal sector activities ✓✓

any 2x (2+2) (8)

/16/

**QUESTION 6 (LO1 & LO2)**

- 6.1 6.1.1 Fiscal ✓✓  
 6.1.2 exporting ✓✓  
 6.1.3 takers ✓✓  
 6.1.4 Demerit ✓✓ (4x2) (8)

6.2 **THREE** methods that may be used to calculate GDP.

- Production method ✓✓
  - Income method ✓✓
  - Expenditure method ✓✓ (3x2) (6)
- /14/

**6.3 DATA RESPONSE**

- 6.3.1 **A.** Total Revenue = R180 ✓✓  
**B.** Average Revenue = R80 ✓✓  
**C.** Marginal Revenue = R40 ✓✓ (3x2) (6)

6.3.2 Marginal revenue is the amount by which total revenue increases if it sells an additional unit. ✓✓ (2)

6.3.3  $MR = MC$  ✓✓ (2)

/10/

**6.4 DATA RESPONSE**

6.4.1 It means that by reducing the price, the monopolist can sell more and more units of the product./The monopolist can sell a larger quantity only at a lower price. ✓✓ (2)

- 6.4.2
- Faced with a demand curve. ✓✓
  - Decide on the production levels. ✓✓
  - Are exposed to market forces ✓✓
  - Face substitutes ✓✓
  - Enjoy favourable circumstances ✓✓
  - May exploit the consumers ✓✓
  - Protected by barriers of entry ✓✓
- any (2x2) (4)

- 6.4.3
- Demand for the product ✓✓
  - Cost of production ✓✓ (2x2) (4)
- /10/

### 6.5 How fiscal policies can be used to smooth out Business cycles when private sector demand is too low

Government has the following choices:

#### **Raising government spending with borrowed money** ✓✓

- Economy is stimulated by an increase in aggregate expenditure and demand - employment can increase ✓✓

#### **Decreasing taxes** ✓✓

- Economy is stimulated by consumers and producers having more income to spend - employment can increase ✓✓

#### **Raising government spending and decreasing taxes at the same time** ✓✓

- Government spending increase while consumers and producers spend more - employment can increase ✓✓ any 2x (2+2) (8)

### 6.6 Briefly explain any TWO advantages of privatisation.

#### **Provides the government with additional funds.** ✓✓

- These funds can be used to finance government expenditure, repay public debt or for infrastructural development. ✓✓
- It can also lead to lower taxation. ✓✓

#### **Broadens tax base** ✓✓

- It creates an additional source of tax revenue ✓✓
- Government can collect more revenue from these enterprises ✓✓

#### **Increases the efficiency of the economy** ✓✓

- Private enterprises are more efficient than public enterprises ✓✓
- Private enterprises are subjected to the discipline of the market ✓✓

#### **Attracts foreign investment** ✓✓

- Privatisation causes inflow of foreign investment, skills and technology ✓✓

#### **Reduces pressure on government's budget** ✓✓

- State owned enterprises' losses must be borne by the government ✓✓
- Privatisation will reduce the budget deficit ✓✓

#### **Promotes BEE** ✓✓✓

- It can be used as a means to make shares available to these groups ✓✓ any 2x (2+2) (8)  
/16/

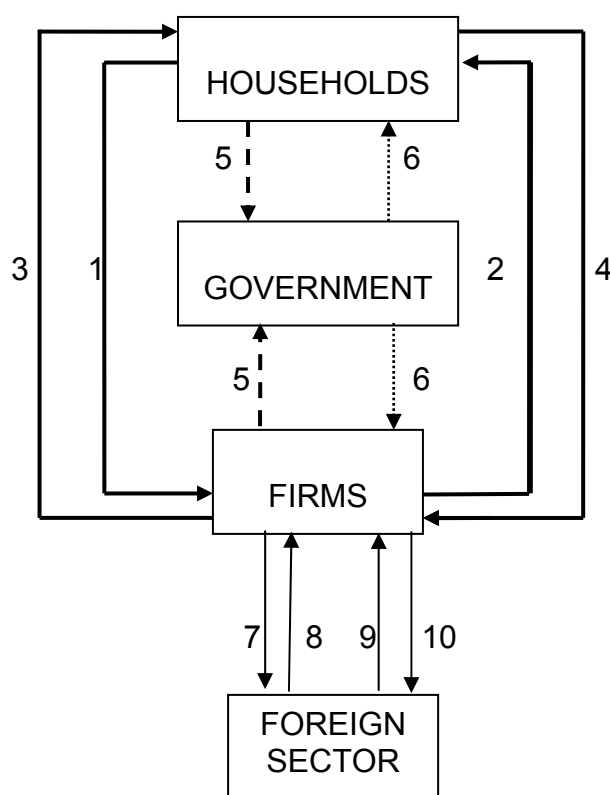
**SECTION C** (Answer any **TWO** questions from this section)**QUESTION 7** (LO1 AS1)

**Discuss the various participants' involvement in an open economy with the aid of an appropriately labelled diagram. Also refer to the flows in the circular flow model.**

**INTRODUCTION**

- In an open economy, there are four participants; they are the households, the firms, the government and the foreign sector. ✓✓✓

(3)

**BODY**

Accept any relevant form of circular flow.

- Participants: (Households ✓, Government ✓, Firms ✓, Foreign Sector ✓)
- Provision of factors of production to the firms (1) ✓
- Payment of remuneration to the households (2) ✓
- Goods and services to the households (3) ✓
- Expenditure of income on goods and services (4) ✓
- Tax paid by households and firms (5) ✓
- Public services from government to households and firms (6) ✓
- Exports (7) + Receipts for exports (8) ✓
- Imports (9) + Payments for imports (10) ✓

(12)

**1. HOUSEHOLDS/CONSUMERS**

- Are the consumers of economic goods and services. ✓✓
- They are the primary participants because they own factors of production. ✓✓
- Sell factors of production to the firms in the factor market and receive remuneration. ✓✓
- Use the income they receive to buy goods and services on the goods market from business sector. ✓✓ (max 4)

**2. FIRMS/PRODUCERS**

- Buys the factors of production from the households in the factor market. ✓✓
- Use the factors of production to produce goods and services. ✓✓
- Sells the goods and services to the households in the product market. ✓✓ (max 4)

**3. GOVERNMENT**

- Refers to local, regional, provincial and national authorities. ✓✓
- Buys factors of production from the households in the factors market and goods and services from the firms in the product market. ✓✓
- Provide public services to both the households and the firms for which they receive taxes. ✓✓ (max 4)

**4. FOREIGN SECTOR**

- Represented by all other countries of the world. ✓✓
- Trade takes place in the form of imports and exports. ✓✓
- Revenue received from exports will be used for imports. ✓✓ (max 4)

**FLOWS in the circular flow.**

- There are TWO flows in the circular flow, the real flow and the money flow ✓✓
- The real flow consists of the flow of factors of production from the households and the flow of goods and services from the firms to the households. ✓✓
- The money flow shows the flow of money from the firms to the households in the form of remuneration and from the households to the firms in the form of expenditure. ✓✓ (max 4)

**Injections**

- Injection represents the addition of money into the circular flow. ✓✓
- It can be in the form of government spending ✓✓, revenue from exports ✓✓ or investments. ✓✓ (max 6)

**Leakages**

- A leakage is a withdrawal of money from the circular flow. ✓✓
- It can be in the form of taxes ✓✓, expenditure on imports ✓✓ or savings. ✓✓ (max 6)

**CONCLUSION**

- The circular flow model represents the workings of an economy. It shows the relationship between the different participants of the economy. ✓✓ (2)

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

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

(5)  
**50**

**QUESTION 8 (LO2 AS2)**

**Explain fully the consequences of market failures.**

**INTRODUCTION**

Market failure occurs when resources are allocated incorrectly or inefficiently. ✓✓✓

Market failure leads to waste and loss of value in the economy. ✓✓✓ (max 3) (3)

**BODY****1. Inefficiencies ✓✓**

- **Productive inefficiency** ✓✓
- Businesses do not produce goods and services at the lowest cost. ✓✓
- Businesses can produce goods at a reduced cost without reducing quality or quantity. ✓✓
- **Allocative inefficiency** ✓✓
- The available goods and services do not reflect the tastes of the consumers. ✓✓
- Resources are not allocated in the right proportions. ✓✓
- **Imperfect competition.** ✓✓
- Occurs in different forms, such as monopolies, oligopolies and monopolistic competition. ✓✓
- It happens when superior firms outperform inefficient competitors. ✓✓
- Government can make use of competition policies to regulate this. ✓✓

## 2. Externalities ✓✓

- It is also known as spill-over effects. ✓✓

### Negative externality. ✓✓

- **Tax the polluter** – will increase the cost of production. ✓✓
- Higher cost will increase the price and reduce the demand. ✓✓
- In the case of demerit goods government can impose additional taxes to discourage consumption. ✓✓
- **Use regulations and legislations.** ✓✓
- It will force producers to reduce negative externalities. ✓✓
- **Control pollution by granting permits.** ✓✓
- By granting permits government can determine acceptable levels of pollution. ✓✓

### Positive externality. ✓✓

- **Subsidies.** ✓✓
- Instances where positive externalities can be created, subsidies are given – education. (Merit goods) ✓✓
- Freely operating markets are failing because they produce less than needed. ✓✓
- **Public goods.** ✓✓
- Government can produce public goods and services. ✓✓

## 3. Government intervention. ✓✓

- Can prevent misallocation of resources. ✓✓
- Can use persuasion, price mechanism or direct controls to influence positive and negative externalities. ✓✓
- Use competition from abroad, competition promotion, control bodies etc. to regulate the markets. ✓✓
- **Distribution of income and wealth.** ✓✓
- Traditional methods – provisions of free services and cash benefits to the poor. ✓✓
- Redress methods – affirmative action, empowerment, land distribution and restitution, property subsidies etc. ✓✓
- Minimum wages – to people who are not able to negotiate their conditions of employment. ✓✓
- Maximum prices – for goods and services used by poor people. ✓✓
- Minimum prices – to encourage the production and sufficient supply of food. ✓✓
- **Improve macro-economic stability.** ✓✓

any (20x2) /40/

## CONCLUSION

Market failure is a reality in all economies. ✓✓

Government tries to reduce market failures through their involvement. ✓✓ (2)



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

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<b>5</b>	Candidate has interpreted topic correctly and has linked facts to topic. (30 – 45 marks)

(5)  
50

**QUESTION 9 (LO3 AS3)**

G.A. Peter  
PO Box 100  
Port Elizabeth ✓  
6000

16 November 2010 ✓

The Minister  
Department of Trade & Industry  
Private Bag 1  
Pretoria ✓  
0001

(3)

Sir

**Re: Arguments in favour of protection** ✓✓

(2)

**1. Industrial development/infant industry argument/protecting the whole industrial base.** ✓✓

- Some developing countries are able to establish certain industries. ✓✓
- But if there is free trade, these industries will not be able to compete with well established industries. ✓✓
- Protectionism prevents competition from established industries. ✓✓

**2. To maintain stable wage levels and a high standard of living/to protect workers.** ✓✓

- High standard of living will be undermined if cheaper goods are imported.
- If an industry can no longer compete, the easier way is to reduce wages and salaries. ✓✓
- Protectionism can prevent local wages from falling. ✓✓

3. **To reduce unemployment and to create more employment/to maintain domestic employment.** ✓✓
  - Unfair foreign competition can lead to more unemployment. ✓✓
  - Protection of local industries can prevent this increase in unemployment. ✓✓
4. **Economic self-sufficiency/economic independence/economic stability** ✓✓
  - It is important for a country to be self-sufficient. ✓✓
  - Economic independence is necessary especially when there is friction between countries. ✓✓
  - It is important for a country to be able to supply its entire economic, military and strategic needs itself. ✓✓
5. **To prevent dumping.** ✓✓
  - A country may sell goods to a foreign country at a lower price than cost of production. ✓✓
  - Protectionism prevents foreign industries from dumping their products at a lower price which is harmful to local industries. ✓✓
6. **To prevent citizens from spending money overseas.** ✓✓
  - Protection stimulates the establishment of new industries and the expansion of existing industries. ✓✓
  - In a protected economy, the money remains in the country benefiting the economy. ✓✓
7. **Conservation of natural resources.** ✓✓
  - Free trade leads to the over exploitation of natural resources. ✓✓
  - Protectionism leads to proper planning, conservation and utilization of natural resources. ✓✓
8. **Stabilising exchange rates and correcting balance of payments.** ✓✓
  - Over dependence on imports can lead to balance of payment problems. ✓✓
  - The only method of correcting this is import control. ✓✓
  - The decrease in imports will improve balance of payments and exchange rates. ✓✓
9. **Raising revenue for the government** ✓✓
  - The imposition of tariffs produces revenue for the government ✓✓
  - In developing countries where tax base is limited, customs duties are an important source of revenue to the government. ✓✓
10. **Diversifying industrial base** ✓✓
  - Countries need to develop diversified industries to prevent over specialization ✓✓
  - Countries depending on the export of one or two products are vulnerable ✓✓

11. **Developing strategic industries ✓✓**

- Countries need to develop strategic industries such as basic food stuffs, energy etc. to become self sufficient ✓✓

12. **Declining industries**

- These are industries that are hit by demand and supply problems ✓✓
- If these industries go out of business quickly, it will create large scale unemployment ✓✓
- Protection will allow these industries to decline gradually, so that labour can move to other industries ✓✓

any (19x2) (38)

Yours faithfully ✓

G.A. Peter ✓/Signature

(2)  
/45/

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 10 (LO4 AS1)****Consequences of inflation.****INTRODUCTION**

The consequences of inflation on the economy of a country are not often experienced directly. ✓✓✓.

The higher the inflation rate, the more serious the consequences will be. ✓✓✓ (max 3)

(3)

**BODY****Consequences****Effect on the purchasing power of money. ✓✓**

- When price increases the purchasing power of money decreases. ✓✓
- Money cannot be used as reliable measure of value. ✓✓
- Loss of confidence and stability in the monetary system. ✓✓
- A gradual price increase benefits the entrepreneurs. ✓✓

**Effect on the income and wealth of the people. ✓✓**

- Inflation affects negatively on the distribution of income and wealth. ✓✓
- People depending on fixed income like pensioners and salary earners are affected negatively. ✓✓
- Inflation benefits debtors at the expense of the creditors. ✓✓
- Shareholders will be better off because the value of shares will increase proportionally with inflation. ✓✓
- Salary increases will move people to higher tax brackets, but the after-tax income will be less than before the inflation. ✓✓
- Inflation reduces the real value of existing savings. ✓✓

**Effect on balance of payments. ✓✓**

- As a result of higher inflation rate, a country will lose its international competitiveness. ✓✓
- Export earnings decline as domestically produced goods become more expensive in foreign markets. ✓✓
- Imports tend to increase because foreign goods are relatively cheaper in the local market. ✓✓
- Increasing imports and decreasing exports will lead to a depreciation of the currency. ✓✓
- These effects can lead to problems in the balance of payments. ✓✓

**Effect on the government. ✓✓**

- Rising prices and a high inflation rate will benefit the receiver of revenue. ✓✓
- Individuals will have to pay higher taxes because of salary increases. ✓✓
- Continuous increase in prices can make people unhappy and can bring about social and political unrest. ✓✓
- Inflation discourages savings and investment and impacts negatively on economic growth. ✓✓
- High rate of inflation is harmful to the economy, because it undermines the confidence and creates an unfavourable economic climate for economic activities. ✓✓

Max  
/40/

**CONCLUSION**

- High rate of inflation is harmful to the workings of a free enterprise system. ✓✓
- Prices will not represent the scarcity value of goods and services. ✓✓  
(max 2)

(2)

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

MARKS	INTERPRETATION OF TOPIC
<b>0</b>	Candidate has shown no understanding of the topic.
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50  
**TOTAL FOR SECTION C: 100**  
**GRAND TOTAL: 300**