



Province of the
EASTERN CAPE
EDUCATION

Iphondo leMpuma Kapa: Isebe leMfundo
Provinsie van die Oos Kaap: Departement van Onderwys
Porafensie Ya Kapa Botjahabela: Lefapha la Thuto

NATIONAL SENIOR CERTIFICATE

GRADE 12

SEPTEMBER 2024

ECONOMICS P1 MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 22 pages.

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

- 1.1.1 C – induced consumption ✓✓
- 1.1.2 A – actual business cycle ✓✓
- 1.1.3 D – local government ✓✓
- 1.1.4 D – trade balance ✓✓
- 1.1.5 B – physical control ✓✓
- 1.1.6 A – per capita income ✓✓
- 1.1.7 C – Joint Initiative on Priority Skills Acquisition ✓✓
- 1.1.8 B – Producer price index ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E ✓ – a set of international guidelines to provide information in economic analysis and formulation of macroeconomic policy
- 1.2.2 I ✓ – a supply-side policy to smooth over fluctuations in the economy
- 1.2.3 A ✓ – transfer of functions and ownership of private entities to the public sector
- 1.2.4 G ✓ – financing instruments distributed among member countries of the International Monetary Fund
- 1.2.5 H ✓ – the removal of laws, regulations and by-laws by the government
- 1.2.6 B ✓ – a nationwide government intervention to create employment using labour-intensive methods
- 1.2.7 D ✓ – track of land that forms a passageway developed as part of regional development
- 1.2.8 F ✓ – the number of years a person may live that is based on the statistical average (8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Gross National Product ✓

1.3.2 Length ✓

1.3.3 Laffer curve ✓

1.3.4 Export promotion ✓

1.3.5 North-South divide ✓

1.3.6 Spatial Development Initiatives ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

- 2.1 2.1.1 **Name any TWO examples of indirect tax.**
- Value-added tax (VAT) ✓
 - Excise duties/sin tax ✓
 - Custom duties/import duties/tariffs ✓
 - Fuel levy ✓
- (Accept any other correct relevant response.) (Any 2 x 1) (2)
- 2.1.2 **Why is it necessary to dampen an overheating economy (excessive growth)?**
- An overheated economy causes a shortage in the supply of goods and services and leads to inflation. ✓✓
 - The value of the rand may become too strong and lead to a decrease in exports. ✓✓
 - Resources may get depleted if firms try and increase production in response to demand. ✓✓
- (Accept any other correct relevant response.) (Any 1 x 2) (2)
- 2.2 **DATA RESPONSE**
- 2.2.1 **Identify a letter that represents money spent on capital goods from the graph above.**
- I ✓ (1 x 1) (1)
- 2.2.2 **Name the type of economy portrayed by the above diagram.**
- Open economy ✓
- (1 x 1) (1)
- 2.2.3 **Briefly describe the term *multiplier*.**
- An initial increase in spending (injection) produces a more than proportional increase in national income. ✓✓
- (Accept any other correct relevant response.) (1 x 2) (2)
- 2.2.4 **Explain the negative effect of an increase in import expenditure on the size of the multiplier.**
- An increase in spending on imports will reduce the size of the multiplier as more money flows out of the country (leakage), reducing domestic consumption (mpc). ✓✓
- (Accept any other correct relevant response.) (2)
- 2.2.5 **Use the formula $K = \Delta Y / \Delta J$ to calculate the value of the multiplier for the above scenario. Show ALL calculations.**
- $K = [200 - 100] \checkmark \div [80 - 40] \checkmark = 2,5 \checkmark \checkmark$
- (Maximum 1 mark for answer only.) (4)

2.3 DATA RESPONSE**2.3.1 Identify ONE parastatal from the extract above.**

- Eskom ✓
- Transnet ✓

(Any 1 x 1) (1)

2.3.2 Name a feature of public sector failure.

- Inefficiency ✓
- Ineffectiveness ✓

(Any 1 x 1) (1)

2.3.3 Briefly describe the term *public sector failure*.

Public sector failure occurs when the public sector does not succeed in managing the available resources effectively and optimally / Occurs when the government's intervention fails to meet the desired outcome, or even makes the existing economic situation worse. ✓✓

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

2.3.4 Explain the impact of corruption on full employment as a macroeconomic objective.

- Corruption reduces the effectiveness of public investments, leading to a decrease in job creation. ✓✓
- As companies experience losses due to corruption and fraud, some workers may be retrenched. ✓✓

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

2.3.5 How can incompetence in state-owned enterprises affect service delivery?

- Incompetence by SOEs slows down service delivery and leads to irregular service delivery (SAA and ESKOM). ✓✓
- Funds allocated for service delivery are not spent wisely, due to a lack of capacity. ✓✓
- SOEs' employees may have insufficient training and experience which leads to wrong decisions and low productivity. ✓✓
- This can lead to less profits earned thus slowing down service delivery. ✓✓

(Accept any correct relevant response.) (Any 2 x 2) (4)

2.4 Briefly discuss the relationship between the financial sector and other participants in the circular-flow model.

- The financial sector provides borrowing and lending services to other participants in the circular flow model. ✓✓
- Commercial banks accept deposits of money from households as savings. ✓✓
- The financial sector lends money in the form of loans to producers that need to expand their operations. ✓✓
- Households may borrow money from financial institutions to purchase goods and services. ✓✓
- Government institutions such as state-owned businesses and local municipalities may save or invest their surplus funds with financial institutions. ✓✓
- Financial institutions such as commercial banks and insurance companies pay taxes to the government. ✓✓
- The government may borrow funds from different financial institutions. ✓✓

(Accept any other correct relevant response.)

(Any 4 x 2)

(8)

2.5 How can exogenous factors cause economic fluctuations (business cycles)?

- Expansionary policies such as reduction in taxation and interest rates stimulate aggregate demand which will increase the production of goods and services. ✓✓
- An increase in money supply and government expenditure may stimulate spending which will cause an expansion in economic activity ✓✓
- Structural changes such as an increase in the contribution of the secondary or tertiary sector to the GDP may change production patterns and expand the level of economic activity ✓✓
- Technological innovations lead to large investments in the production of new products causing an expansion in economic activity ✓✓
- Random shocks such as change in the ruling party or civil war may cause businesses and households to be pessimistic thereby reducing the level of activity ✓✓
- A drastic increase in international oil prices may increase the cost of production which will shrink the level of economic activity ✓✓
- Natural disasters such as droughts and floods may destroy infrastructure causing a contraction in economic activity ✓✓
- Climate change and global warming reduce primary sector production slowing down economic growth ✓✓ the economy which also facilitates the production of goods and services ✓✓

(Accept any other correct relevant response.)

NOTE: Allocate a maximum of 2 marks for a mere listing of facts.

(Any 4 x 2)

(8)

[40]

QUESTION 3: ECONOMIC PURSUITS**3.1 3.1.1 Name any TWO forms of economic integration.**

- Custom union ✓
- Common market ✓
- Economic union ✓
- Monetary union ✓
- Free trade area ✓

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

3.1.2 How can an economy increase its productivity?

- Improvements in labor quality including managerial efficiency through education and training can boost productivity. ✓✓
- Using better and improved technology that allows businesses to produce more with the same amount of labour and capital. ✓✓
- Improving the allocation of funding to research and development. ✓✓

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

3.2 DATA RESPONSE**3.2.1 Identify ONE new member country to BRICS.**

- Saudi Arabia ✓
- Egypt ✓
- The United Arab Emirates (UAE) ✓
- Iran ✓
- Ethiopia ✓

(Any 1 x 1) (1)

3.2.2 Name a trade agreement (protocol) between the United States and sub-Saharan African countries.

African Growth and Opportunity Act (AGOA) ✓ (1 x 1) (1)

3.2.3 Briefly describe the term *trade protocol*.

Trade protocol is the rule or guideline that applies to member countries. ✓✓

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

3.2.4 Explain a main objective of BRICS.

- To enhance economic cooperation and trade among the member countries ✓✓
- To promote sustainable development and inclusive growth ✓✓
- To facilitate political cooperation and mutual understanding among member countries ✓✓

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

3.2.5 How can free trade disadvantage economies?

- Competition with foreign exports may cause local unemployment and business failures. ✓✓
- Industries may relocate to areas with lenient regulations and legislation, causing environmental damage or abusive labour practices. ✓✓
- Countries may become reliant on global markets for key goods, leaving them at a strategic disadvantage in times of crisis. ✓✓
- Developed nations expect developing countries to remove their trade barriers, without them (developed nations) doing the same ✓✓
- Monopolies may be created which dictate prices and trade conditions ✓✓
- The reduction of tax revenue due to the removal of tariffs ✓✓
- Increased production levels lead to large-scale pollution ✓✓
- The developed countries implement strict sanitary and health standards for goods from developing countries ✓✓

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

3.3 DATA RESPONSE

3.3.1 Identify an economic indicator that relates to foreign trade from the table above.

Exchange rate ✓ (1 x 1) (1)

3.3.2 Name ONE money supply indicator.

- M1 ✓
 - M2 ✓
 - M3 ✓
- (Any 1 x 1) (1)

3.3.3 Briefly describe the term *unemployment rate*.

The unemployment rate is defined as the percentage of unemployed workers in the total labour force. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

3.3.4 Explain the importance of measuring the performance of the economy.

- To check how the economy is doing from time to time ✓✓
 - To make informed decisions and determine future economic policies ✓✓
 - To show whether targets have been met ✓✓
 - To compare conditions between areas and different periods ✓✓
 - To compare similar figures to those of other countries and tell us the relative performance. ✓✓
 - To assist the business community to understand the use of CPI to base their increases on prices. ✓✓
- (Accept any other correct relevant response.) (Any 1 x 2) (2)

3.3.5 Examine the role of international institutions in the standardisation of a country's indicators.

- The international institutions involved in standardisation are the International Monetary Fund, the World Bank and the United Nations ✓✓
- Bridging finance for balance of payments deficits is paid by the IMF, if the balance of payments is compiled according to their requirements ✓✓
- The IMF manually focuses on government finance statistics on public finance accounting, basing their predictions only on transactions that have indeed taken place and those expected to happen ✓✓
- The World Bank is responsible for development aid and is the world's largest source of financial assistance ✓✓
- The United Nations is responsible for child aid through UNICEF ✓✓
- The United Nations prescribes the use of the System of National Accounts when compiling the production, income and expenditure accounts ✓✓
- Economic and social indicators are important so that international aid and funding organisations have specifications on how to compile them ✓✓
- Benefits may not be given to countries if their indicators are not available, not in line with the institutions' requirements or do not show performances that qualify a member for aid or funding ✓✓

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

3.4 Briefly discuss the benefits of import substitution.

- Increased employment ✓ – local workers, rather than foreign workers are employed to produce the goods and services that substitute foreign goods. ✓✓
- More choice ✓ – because goods are no longer imported but locally produced, the foreign exchange that becomes available can be used for other imports, thereby increasing the choices made available to consumers. ✓✓
- Diversification ✓ – by producing more goods locally, the range of available goods increases. ✓✓
- The country is less vulnerable to foreign actions and conditions. ✓✓
- Encourages industrial growth and development. ✓✓
- Fewer imports have a positive effect on the balance of payments. ✓✓
(Accept any other correct relevant response.)

NOTE: Allocate a maximum of 4 marks for a mere listing of facts. (8)

3.5 How could special economic zones (SEZs) contribute towards expanding the South African economy?

SEZs contribute towards expanding the South African economy by:

- Attracting new businesses/investment. ✓✓
- Assisting businesses that establish new product lines and expand their operations. ✓✓
- Creating more employment for the people in their neighbourhoods. ✓✓
- Increasing productivity and economic growth. ✓✓
- Promoting more effective use of resources. ✓✓
- Focusing on both domestic production and exports. ✓✓
(Accept any other correct relevant response.)

NOTE: Allocate a maximum of 4 marks for a mere listing of facts. (8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 4.1.1 Name any TWO examples of IDZs in South Africa.**

- Coega IDZ ✓
- East London IDZ ✓
- Gauteng IDZ ✓
- Mafikeng IDZ ✓
- Richards Bay IDZ ✓
- Saldanha IDZ ✓

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

4.1.2 How do price changes impact monetary flows in the circular flow?

- A decrease in the prices of goods and services will lead to an increase in demand, which increases money flowing in the circular flow as payment for goods and services and expenditure between the participants. ✓✓
- An increase in the prices of goods and services will reduce the money flowing between the participants (payment for goods and services), as demand for goods and services decreases ✓✓
- If the price of labour (wages) increases, this will increase the flow of money in the circular flow as demand increases due to increased income ✓✓

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

4.2 DATA RESPONSE**4.2.1 Identify an example of leading indicators from the information above.**

Average hours worked ✓ (1 x 1) (1)

4.2.2 Name the type of business cycle that lasts 15–20 years.

Kuznets ✓ (1 x 1) (1)

4.2.3 Briefly describe the term *composite indicator*.

A composite indicator is formed when individual indicators are compiled into a single index. ✓✓

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

4.2.4 Explain coincident indicators as a feature in business cycle forecasting.

- Coincident indicators provide information about the current situation of the economy. ✓✓
- They change at the same time as the economy. ✓✓
- They reach a peak at the same time as the business cycle and reach a trough at the same time as the business cycle. ✓✓
- Examples of coincident indicators are the real GDP and registered unemployment. ✓✓

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

4.2.5 Why do economists use moving averages in their analysis of economic trends?

Economists use moving averages:

- As a tool to analyse changes that occur in a series of data over a period of time. ✓✓
- As a calculation to iron out small fluctuations and reveal trends in the business cycles. ✓✓
- To get a clearer picture of the general trends in the business cycle with calculations determined from data ✓✓
- As an appropriate method when previous data is not available, and when long-term forecasting is done. ✓✓

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

4.3 DATA RESPONSE

4.3.1 Identify an industrial development policy from the information above.

- IPAP ✓
- NIPF ✓

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

4.3.2 Name ONE incentive used by the South African government to promote industrial development.

- Small Businesses Support Program ✓
- SEDA Technology Program (STP) ✓
- Skills Support Program (SSP) ✓
- Critical Infrastructure Facilities ✓
- Custom-free incentives ✓
- Foreign investment incentives ✓
- Strategic Investment Program ✓
- Services to Business Processes ✓

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

4.3.3 Briefly describe the term *industrial development*.

Refers to policies that are aimed at the encouragement of industrial investment and greater industrial efficiency / Government laws or regulations aimed at developing measures to enhance industrial operations or encourage investment in industry. ✓✓

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

4.3.4 Explain competitiveness as one of the general benchmark criteria for regional development.

Competitiveness requires that industries and businesses established as a result of regional policies should not need ongoing financial aid from the government. ✓✓

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

4.3.5 How can the Integrated Manufacturing Strategy (IMS) promote industrialisation in South Africa?

- The IMS focuses on improving the competitiveness of manufacturing businesses by improving infrastructure such as energy, communication, and transport ✓✓
- The strategy aims to improve cross-cutting issues by examining a range of factors such as technology, innovation, and human resources ✓✓
- Access to finance is improved through the provision of funding for the development of industries ✓✓
- IMS involves the up-skilling of human resources through skills development programmes, to improve labour productivity and the quality of goods and services ✓✓

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

4.4 Differentiate between the *Medium-Term Expenditure Framework (MTEF)* and the *Medium-Term Budget Policy Statement (MTBPS)*.

MTEF

- A plan of estimated revenue and expenditure which covers a period of three years ✓✓
- It serves to increase the level of transparency on matters of the government's budget ✓✓
- It facilitates long-term planning so that departments can be certain of policy and funding issues every three years ✓✓ (Max. 4)

MTBPS

- The statement that is presented in October of each year to give a picture of the following year's annual budget in February ✓✓
- It provides the government's assessment of the state of the economy, the budget priorities, and the division of revenue ✓✓
- It is based on the Medium Term Expenditure Framework ✓✓

(Accept any other correct relevant responses.)

(Accept a maximum of 4 marks for mere listing of facts.) (Max. 4)
(4 + 4) (8)

4.5 Analyse health as a social indicator.

- Infant mortality ✓
 - The number of children who die before the age of 1 is a way to measure the health of the population. ✓✓
 - Child mortality is significantly higher in poor households. ✓✓
- Under-five mortality ✓
 - The number of children that will die before the age of 5 years ✓✓
 - The number of children who die under the age of five is still very high, due to factors such as negligence, lack of facilities and staff ✓✓
- Health expenditure ✓
 - This is measured in terms of the amount of public and private expenditure on healthcare as a percentage of GDP (healthcare receives the second largest budget allocation for its services). ✓✓
 - Healthcare has extremely positive externalities as a larger section of the population now has access to basic healthcare. ✓✓
 - The health expenditure allocation is not sufficient in all provinces, and an extreme shortage of equipment and staff is experienced in various hospitals ✓✓
- Access to safe drinking water ✓
 - This is measured in terms of the percentage of the population that has reasonable access to safe drinking water (treated or uncontaminated). ✓✓
 - Some areas of the country experience severe droughts, and a shortage of clean water in schools and hospitals ✓✓
 - The Department of Water Affairs constructed many water relief schemes, especially for schools and rural communities. ✓✓
- Access to sanitation facilities ✓
 - This is measured in terms of the percentage of a population with at least adequate sanitation facilities that can effectively prevent human/animal/insect contact. ✓✓
 - A healthy population saves on medical and other costs, produces income, and contributes to a stronger economy. ✓✓
 - The rural communities (schools) are still experiencing a lack of sanitation facilities, (such as using old pit-toilet systems, etc.). ✓✓
(Max. 2 marks for mere listing and examples.)
(Accept any other correct relevant response.)

(8)
[40]

SECTION C**QUESTION 5: MACROECONOMICS**

- **Discuss in detail the reasons for international trade.** (26 marks)
- **How can changes in terms of trade influence the South African economy?** (10 marks)

INTRODUCTION

International trade gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically ✓✓ / International trade is described as the exchange of goods or services across international borders. ✓✓
(Accept any correct relevant introduction.) (2)

MAIN PART**Demand reasons** ✓

Total demand for goods and services is influenced by:

The size of the population ✓

- If the population growth increases, it causes an increase in demand as more needs must be satisfied. ✓✓
- If the country does not have sufficient goods and services, they must be imported from other countries, as local suppliers may not be able to satisfy this demand. ✓✓

Income levels ✓

- Change in income causes a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people in a country leads to greater disposable income that can be spent on goods and services, of which some has to be imported. ✓✓
- This increased demand must be satisfied and if there are not enough goods and services in the country, goods and services must be imported. ✓✓

Change in the wealth of the population ✓

- An increase in wealth leads to increased demand for goods ✓✓
- People have more access to loans and can buy bigger and more luxuries, of which a lot has to be produced in other countries. ✓✓
- If the country itself cannot provide these luxury and highly technological products, such goods must be imported. ✓✓
- These factors are favourable for developed countries, but not for developing countries. ✓✓
- Developed countries benefit more from international trade than developing countries. ✓✓

Preferences and tastes ✓

- Preferences and tastes can play a role in determining prices, for example if customers in Australia prefer a particular product that they do not produce, and have to import, and it will have a higher value than in other countries. ✓✓

The difference in consumer patterns ✓

- The level of economic development in a country determines consumer Patterns. ✓✓
- The consumption patterns of developed countries will differ from those of developing countries. ✓✓
- For example, a poorly developed country will have a high demand for basic goods and services, but a lower demand for luxury goods. ✓✓
- The need for basic necessities, such as food in developing countries may result in more needed goods being imported. ✓✓

Supply reasons ✓**Natural resources ✓**

- Natural resources are not evenly distributed between all countries of the world. ✓✓
- They vary from country to country, and can only be exploited in places where such resources are found. ✓✓
- Each country has its own unique mix of natural resources that enable it to produce certain goods and services more effectively and at a relatively lower price. ✓✓
- For example, South Africa's gold and diamond resources have given us an advantage in the production of gold and diamonds. ✓✓
- South Africa is well-equipped with different natural resources, but less resourced with skilled labour and capital. ✓✓
- Japan and Ireland have an abundance of skilled labour, but they lack natural resources. ✓✓

Climatic conditions ✓

- Differences in climatic conditions between countries make it possible for certain countries to produce certain goods at a lower price than other countries. ✓✓
- Many crops can only be grown in certain climatic conditions in certain areas and certain types of soil. ✓✓
- Countries with favourable climate conditions make it possible for others to produce certain goods at a lower price. ✓✓
- An example is Brazil, which is the largest producer of coffee in the world. ✓

Labour resources ✓

- Labour differs between different countries in terms of skills, knowledge, training, quality, quantity and also cost. ✓✓
- Some countries have highly skilled, well-paid workers, and high productivity levels, such as Switzerland (watch manufacturing). ✓✓
- This enables them to produce goods and services at lower prices than they could be produced by other countries. ✓✓

Technological resources ✓

- The developmental levels and innovation processes of countries will always differ and as a result, other countries may have them in abundance, while others may not. ✓✓
- Countries such as Germany and the USA can use capital which embodies high levels of technology, while other countries do not have access to the latest technology, such as basic internet services and healthcare. ✓✓
- Those countries that have high technological labour forces can produce certain goods and services at a low unit cost, such as the developed countries. ✓✓

Specialisation ✓

- Some countries specialise in the production of certain goods and services. ✓✓
- By specialising in the production of a certain good or service, it enables a country to take advantage of economies of scale and can therefore produce the good at a comparative unit cost advantage. ✓✓
- For example, Japan specialises in the production of certain electronic goods and sells them at a much lower price than they can be produced in other countries. ✓✓
- This often leads to mass production, due to a division of labour, automation, and mechanisation. ✓✓
- Cost differences occur because goods and services can be produced at lower costs in one country than another country, due to the theory of comparative advantage. ✓✓
- Most of these surplus productions get exported to other countries and the revenue earned from these exports can be used to finance their imports. ✓✓

Capital ✓

- Capital cannot be obtained as easily in certain countries as in others. ✓✓
- Developed countries enjoy an advantage over developing countries. ✓✓
- Due to a lack of capital, certain countries cannot produce all the goods they need, or they do not enjoy the favourable conditions as in other countries ✓✓
- In some countries they need to modernise their industries and economies with advanced machinery, and equipment (plants), but cannot manufacture this equipment, because they lack the capital to do so. ✓✓
- This factor has therefore increased the need for international trade. ✓✓

Accept any other correct relevant answer.)

(Maximum of 8 marks for headings, listing of facts and examples.)

(Allocate a maximum of 13 marks for discussion of one main reason.)

(Max. 26 marks) (26)

ADDITIONAL PART**How can changes in terms of trade influence the South African economy?**

- An improvement in the terms of trade comes as a result of an increase in export prices or/and a decrease in import prices ✓✓
- An increase in export prices would increase economic welfare in the short term, as more revenue is earned with the same/less expenditure on imports ✓✓
- A decrease in import prices would result in less expenditure or less payments on imports in the short term ✓✓
- Higher export earnings and lower import payments may reduce the Balance of Payments deficit in the short-term ✓✓
- Less resources would be used to produce exports to pay for imports ✓✓
- Demand for South African exports may decrease in the long run due to higher prices ✓✓
- A decrease in the terms of trade comes as a result of a decrease in export prices or/and an increase in import prices ✓✓
- A decrease in export prices would decrease economic welfare in the short term, as less revenue is earned with the same/less expenditure on imports ✓✓
- An increase in import prices would result in more expenditure or more payments on imports in the short term ✓✓
- Lower export earnings and higher import payments may increase the Balance of Payments deficit in the short term ✓✓
- More resources would be used to produce exports to pay for imports ✓✓
- Demand for South African exports may increase in the long run due to lower prices ✓✓

(Accept any other correct relevant response.)

(Allocate a maximum of 2 marks for a mere listing of facts/examples.)

(Max. 10) (10)

CONCLUSION

International trade is crucial for our modern commercial world and producers in different countries want to benefit from a larger market, instead of being limited to selling only within their borders. ✓✓

(Accept any other correct relevant higher-order conclusion.)

(Max. 2) (2)

[40]

QUESTION 6: ECONOMIC PURSUITS

- Discuss in detail the demand-side approach to promoting growth and development in South Africa. (26 marks)
- Evaluate the successes of the National Development Plan (NDP) in promoting growth and development. (10 marks)

INTRODUCTION

The demand-side approach involves discretionary changes in monetary and fiscal policies to change the levels of aggregate demand and supply. ✓✓

(Accept any correct relevant introduction.)

(Max.) (2)

MAIN PART

International best practices argues that developing economies should run their economies in a way that creates economic growth. ✓✓

This would help social transformation, human capital formation, and the redistribution of income. ✓✓

Monetary policy approach ✓

- Monetary policy is driven by the South African Reserve Bank (SARB), and is used to influence interest rates and the supply of money in the economy to stabilise prices by implementing inflation targets ✓✓
- The central bank manages the availability of money by means of open market transactions and cash requirements ✓✓
- Manage the cost of money using interest rates ✓✓
- Variations in the levels of interest rates, increase or decrease the cost of credit and determine the quantity of money through the workings of the money multiplier ✓✓
- Variations of exchange rates for the changing terms of trade are used as an auxiliary method to bring about the changes in the stock of money ✓✓

The South African monetary policy implements the demand-side approach by:

Controlling the repo rate ✓

To affect the interest rates that commercial banks can offer for two purposes:

- Influence credit creation by making credit more expensive or cheaper ✓✓
- Stabilise the exchange rates by encouraging capital inflows and outflows to take care of a deficit or a surplus on the current account of the balance of payments ✓✓

Conducting open market transactions ✓

- To restrict bank credit, the SARB sells securities and when the banks buy these securities, money flows from the banks to SARB ✓✓
- The banks then have less money to lend and cannot extend as much credit as before ✓✓
- To encourage credit creation, the SARB buys securities in the open market. Money then flows into the banking system ✓✓

Moral suasion ✓

- The SARB consults with banks and persuades them to act in a manner that is desirable in terms of the economic conditions that prevail at the time ✓✓
- The persuasion is often linked to the transactions by SARB in the money market, ✓✓ e.g. the buying and selling of bills and bonds ✓
- If the banks are generous in extending credit, the SARB can call on them to be less lenient. ✓✓ However, simultaneously it can sell paper in the market, and drain excess liquidity so that banks have less money to lend. ✓✓

Fiscal policy approach ✓

- Fiscal policy is driven by the Department of Finance and aims to facilitate government political and economic objectives, ✓✓ by changing taxes and government expenditure which can stimulate or inhibit economic growth and development.

Progressive personal income taxes ✓

- The higher-income earners are taxed at higher rates than lower-income earners. ✓✓
- These taxes are used to finance social development / the poor benefit more than those with higher incomes. ✓✓

Wealth taxes ✓

- Properties such as houses, offices, and factories in the urban areas are taxed annually ✓✓
- Transfer duties are paid when properties are bought or sold ✓✓
- Capital gains tax is levied on gains earned on the sale of capital goods such as property and shares ✓

Cash benefits ✓

- Old-age pensions, disability grants, child support grants, and unemployment insurance are important cash grants ✓✓
- These are also known as social security payments ✓✓

Benefits in kind ✓

- These include the provision of healthcare, education and social meals, protection, municipal services, and infrastructure ✓✓
- Where user fees are charged, poor people and low-income earners benefit more than others because they pay nothing or less than higher-income earners ✓✓
- Limited quantities of free electricity and water are provided ✓✓

Other redistributions ✓

- Some microeconomic policies have an advantage that favours poor and low-income earners, ✓✓ e.g. EPWP, SIP and SMMEs ✓

Land redistribution and restitution ✓

- The purpose of land restitution is to return land or pay cash to those who lost their land because of discriminatory laws and practices after June 1913, while land redistribution focuses on land for residential purposes and productive use ✓✓
- The aim is to redistribute agricultural land to previously disadvantaged persons ✓✓

Property subsidies ✓

- Subsidies help beneficiaries to acquire ownership of fixed residential property ✓✓
- The government's housing subsidy schemes provide funding options to all eligible persons earning less than R3 500 per month / the money for this scheme comes from the main budget ✓✓

(Accept any other correct relevant response.)

(Max. 26)

NOTE: Allocate a maximum of 8 marks for mere listing of facts/examples. (26)**ADDITIONAL PART****The National Development Plan has been successful because:****The National Development Plan has been successful because:**

- it managed to reduce job inequality through its policies such as BBBEE, employment equity, etc. ✓✓
- the NDP has improved public transport, raised rural incomes, and broadened access to employment ✓✓
- the NDP has been successful in professionalising the public service in terms of improved accountability, efficient coordination, and eradicating corruption at all levels of society ✓✓
- the NDP has been successful in promoting private investment in labour-intensive areas, competitiveness, and increasing exports ✓✓
- the NDP, in collaboration with the education department, has improved the quality of education, especially in terms of early childhood development. (ECD) ✓✓
- the NDP is in the process of phasing in the National Health Insurance (NHI), upgrading public health facilities, and reducing the costs of private health care in the country ✓✓

The NDP has not been successful, because:

- The country has not been able to obtain foreign direct investments. (FDI's) ✓✓
- The national unemployment rate is still extremely high, due to a very low economic growth rate. ✓✓
- The national public health system is not functional/effective in all parts of the country. ✓✓
- The levels of crime/violence/corruption are out of control in large parts of the country. ✓✓

(Accept any other relevant correct response.)

(Max. 10) (10)

CONCLUSION

- South Africa's growth and development policies are designed to fulfill many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living. ✓✓
(Accept any other correct relevant higher-order conclusion.) (Max. 2) (2)
[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150