



Province of the
EASTERN CAPE
EDUCATION

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Provinsie van die Oos Kaap: Departement van Onderwys
Porafensie Ya Kapa Botjhabela: Lefapha la Thuto

NATIONAL SENIOR CERTIFICATE

GRADE 12

SEPTEMBER 2024

ECONOMICS P2 MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 19 pages.

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

- 1.1.1 B ✓✓ (ceteris paribus)
- 1.1.2 B ✓✓ (above the midpoint)
- 1.1.3 D ✓✓ (duopoly)
- 1.1.4 D ✓✓ (TR)
- 1.1.5 A ✓✓ (increasing productivity)
- 1.1.6 C ✓✓ (communication)
- 1.1.7 A ✓✓ (Basel Convention)
- 1.1.8 C ✓✓ (environmental sustainability)

(8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 F ✓ Products that are the same in style, design and quality
- 1.2.2 A ✓ Cannot be recovered should a firm decide to exit the market
- 1.2.3 H ✓ When $MC = MR$
- 1.2.4 E ✓ Goods that society feels are beneficial to consume but are undersupplied by the market
- 1.2.5 G ✓ Monetary policy approach used by the SARB to keep price changes within 3–6%
- 1.2.6 C ✓ Tourists come to visit museums and art galleries
- 1.2.7 D ✓ The government maintains the stock levels of environmental resources through the issuing of permits and quotas
- 1.2.8 B ✓ The variety of plant and animal life in a particular habitat

(8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Competition Appeal Court ✓

1.3.2 Branding ✓

1.3.3 Cost-Benefit analysis ✓

1.3.4 Stagflation ✓

1.3.5 World Heritage Site ✓

1.3.6 Command and control ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS**40 MARKS – 30 MINUTES**

2.1 2.1.1 **Name any TWO examples of monopolies in South Africa.**

- ESKOM ✓
- DENEL ✓
- The Post Office
- ACSA ✓
- TRANSNET ✓

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

2.1.2 **How are artificial monopolies protected from competition?**

- Artificial monopolies are protected through legislation, rules and regulations from competition. ✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **Identify the average revenue (AR) in the table above.**

- Price 10 ✓ (1)

2.2.2 **How is marginal revenue calculated?**

- $MR = \text{change in total revenue} \div \text{change in quantity}$ ✓
- $\Delta TR / \Delta Q$ ✓
- Marginal revenue curve ✓ \div marginal cost curve ✓ (1)

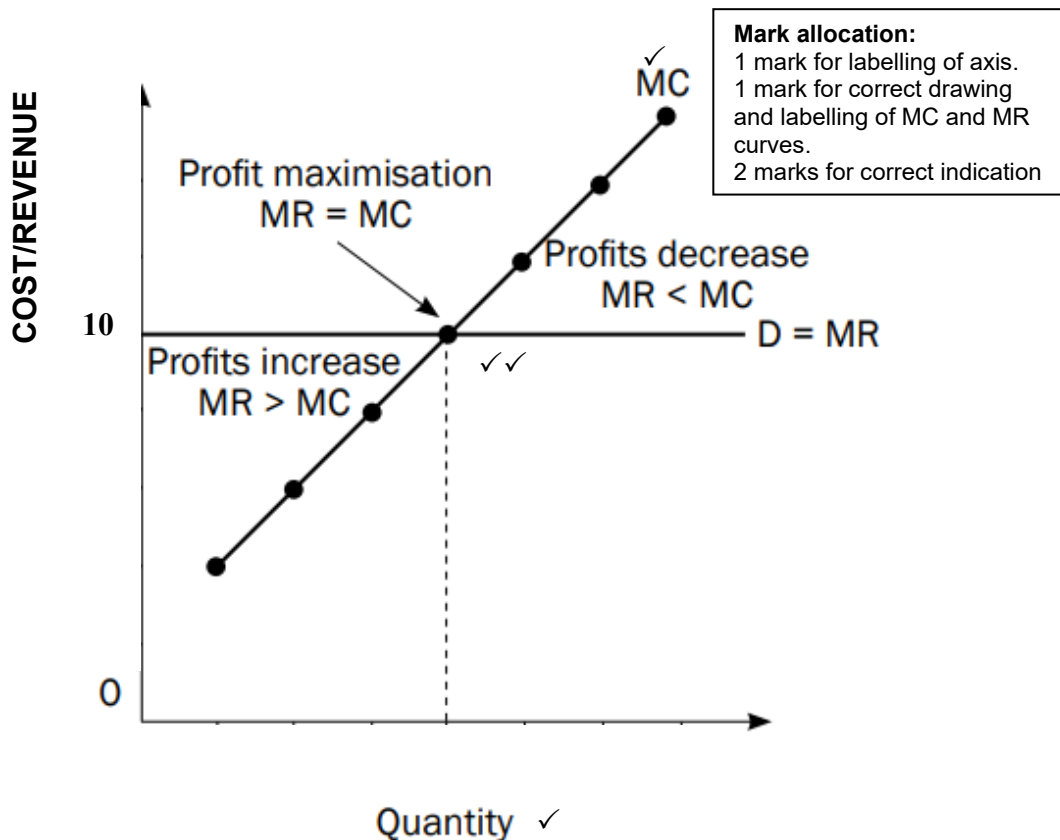
2.2.3 **Briefly describe the term average cost.**

- Average cost is the cost per unit of product sold ✓ / is the price of a single unit of product. ✓ (2)

2.2.4 **Why is the marginal revenue the same as average revenue under perfect market conditions?**

- Marginal revenue is the same as the average revenue because a perfect competitor does not need to decrease the price to sell more. ✓✓
- Marginal revenue is the same as the average revenue because a perfect competitor is a price-taker and is faced with a horizontal demand curve. ✓✓ (2)

- 2.2.5 Draw a graph indicating profit maximisation using the marginal cost and marginal revenue curves under perfect market conditions.



(4)

2.3 DATA RESPONSE

- 2.3.1 Identify the market structure in the above graph.

- Oligopoly ✓

(1)

- 2.3.2 Name the upper segment (AB) in the graph.

- Relatively elastic ✓

(1)

- 2.3.3 Briefly describe the term *tacit collusion*.

- Tacit collusion refers to a situation where a dominant firm increases the price of a product and other firms will follow, this is also known as price leadership. ✓✓

(Accept any other correct relevant response.)

(2)

- 2.3.4 How does price fixing affect producers?

- Price fixing affect producers negatively because they will have to produce less units even if they are able to produce more. ✓✓
- Producers will lose revenue as they are producing less. ✓✓
- Producers may be required to lay off some of their employees because they have reduced their production. ✓✓

(2)

2.3.5 **Why is it advisable for oligopolists to sell at market price?**

- Oligopolists are advised to sell at market price because if they increase their prices they will be faced with a relatively elastic demand curve. ✓✓
- Above the market price the change in price will result in a greater change in quantity demanded and they will lose revenue. ✓✓
- If they decrease their prices they will be faced with a relatively inelastic demand curve. ✓✓
- Below the market price the change in price will result in a small change in quantity demanded and they will make less revenue. ✓✓

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

2.4 **Distinguish between an *individual business* and the *industry*.**

INDIVIDUAL BUSINESS	INDUSTRY
<ul style="list-style-type: none"> • This is a single firm that produces and sell a homogeneous product. ✓✓ • The individual firm is a price taker and sell at the market price determined in the industry. ✓✓ 	<ul style="list-style-type: none"> • This is a group of individual firms that sell identical products. ✓✓ • The industry sets the market price through the market forces of demand and supply. ✓✓

(Accept any other correct and relevant response.)

(Allocate a maximum of 4 marks for mere listing of facts.) (max. 8) (4 x 2) (8)

2.5 **Why do monopolistic competitors need to advertise their products?**

- Information under monopolistic competition is incomplete, advertisements are deliberate attempts to provide information to prospective buyers. ✓✓
- Monopolistic competitors' products are differentiated, it requires advertisements to increase the demand for their products. ✓✓
- They need to justify their prices of their differentiated products and make the competitive price less elastic. ✓✓
- Differences in products may be imaginary, monopolistic use different brand names or packaging to create differentiated products that contain exactly the same basic ingredient. ✓✓
- In many instances, monopolistic competitors compete in terms of non-price competition strategies, ✓✓ e.g., services, after sales services, etc.
- The aim of advertisement is to build up a loyal consumer group that will choose their brand over that of any other producer. ✓✓

(Accept any correct and relevant response.)

(Allocate a maximum of 2 marks for mere listing of facts.) (4 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 3.1.1 Name any TWO examples of indirect taxes.**

- VAT ✓
- Excise duties/Sin taxes ✓
- Custom duties ✓

(2 x 1) (2)

3.1.2 Why is the conservation of non-renewable resources important?

- The conservation of natural resources is important to ensure that future generations are able to access these resources to produce and consume goods and services. ✓✓
- The production of goods and services will assist in job creation and alleviation of poverty. ✓✓
- This will also assist in sustainable development. ✓✓
(Accept any correct relevant response.)

(1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 Identify the World Heritage Site in the extract above.**

- Table Mountain ✓

(1)

3.2.2 Name any ONE environmental World Heritage Site.

- iSimangiliso Wetland Park (ecosystems) ✓
- Cape Fynbos Region ✓
- uKhahlamba Drakensberg Park ✓

(1)

3.2.3 Briefly describe the term *tourism*.

- Tourism refers to the activities of people travelling outside of their usual environment for leisure or business but for not more than a year without earning an income. ✓✓
(Accept any other correct relevant response.)

(2)

3.2.4 How can ecotourism benefit the environment?

- Tourism benefits the environment when South Africa uses tourism as a reason for environmental conservation, such as our national parks. ✓✓
- Our World Heritage Sites are international tourist attractions, and they have strict rules for preservation. ✓✓
- There will be better protection of rare plants and animals because of the interest that tourists have in them. ✓✓
- Tourism also provides educational opportunities to gain experience about protection of the environment. ✓✓
(Accept any other relevant correct response.)

(2 x 1) (2)

3.2.5 Evaluate how the South Africa's tourism profile is used to promote tourism activities in South Africa.

- New attractions have been developed especially in rural areas to attract tourists. ✓✓
- The South African government in partnership with SANRAL maintains and develops transport infrastructure especially in rural areas. ✓✓
- Communication infrastructure in the form of 5G is installed in townships through various service provider. ✓✓

(Accept any other correct relevant response.)

(2 x 2)

(4)

3.3 DATA RESPONSE

3.3.1 Identify any ONE major environmental problem from the extract.

- Climate change ✓
- Soil erosion

(Any 1 x 1)

(1)

3.3.2 Name an international measure used to address biodiversity loss.

- The Convention on International Trade in Endangered Species ✓/CITES ✓

(1)

3.3.3 Briefly describe the term *preservation*.

- Preservation refers to methods taken to ensure that certain non-renewable resources are not threatened with extinction. ✓✓

(Accept any other correct relevant description.)

(2)

3.3.4 How does self-interest cause markets to fail in sustaining the environment?

- Individuals often take care of what belongs to them and are careless when using the environment because it is a common resource and belongs to everyone that uses it. ✓✓

(Accept any other correct relevant response.)

(2)

3.3.5 How does soil erosion negatively impact on the South African economy?

- Soil erosion is the removal of topsoil due to natural forces such as rain and wind and this may cause infertility of the land. ✓✓
- Infertile land reduces the productivity and this will result in food insecurity and decreased standard of living. ✓✓
- The contribution of the primary sector to economic growth will decline because of decreased productivity of land. ✓✓
- Farmers will lose income and may retrench some workers. ✓✓
- The demand of goods and services will be negatively affected because of increased unemployment and decreased income. ✓✓

(Accept any other relevant correct answer.)

(2 x 2)

(4)

3.4 Briefly discuss the reasons for growth in the domestic tourism industry.

- Increased disposable income enable South Africans to afford travelling to local destinations. ✓✓
- Less working hours so more time to travel paired with the awareness of tourist attraction areas help to improve tourism activities both locally and abroad. ✓✓
- An awareness of leisure and recreation through increased advertising and promotion of tourist destinations has helped to improve domestic tourism. ✓✓
- Improved transport, communication and accommodation facilities. ✓✓
- Enjoying the benefits of holidays and travel. ✓✓

(Accept any other correct relevant response.)

(A maximum of 4 marks will be given for mere listing.)

(4 x 2)

(8)

3.5 Why is granting of property rights effective in achieving environmental sustainability?

- The conservationist effect: people care for things that belong to them, to prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna. ✓✓
- Property rights can be expanded to common goods, e.g. clean air, those suffering from pollution can charge the polluters for their right to pollute. ✓✓
- The Kyoto Protocol is an international agreement whereby developed countries provide financial assistance to developing countries because they cause less pollution. ✓✓
- Property rights are high in importance because they ensure that resources are allocated efficiently in the economy and negative externalities that harm individuals and other businesses are limited. ✓✓
- The free market does not guarantee that the air we breathe is healthy or that the water we drink is not contaminated. ✓✓

(Accept any other relevant correct response.)

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

(4 x 2)

(8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

- 4.1 4.1.1 **Name any TWO conditions of a perfect market.**
- Many buyers and sellers ✓
 - Homogeneous product ✓
 - No restrictions to entry and exit ✓
 - Perfect information ✓
 - No control over the price/ price-takers ✓
 - Technical and allocative efficiency
 - Collusion is not possible ✓
- (Accept any other relevant correct response.) (2 x 1) (2)
- 4.1.2 **How does the appreciation of the rand affect inbound tourism?**
- The appreciation of the rand will have a decreasing effect on inbound tourism because foreign tourists will pay more for domestic prices. ✓✓
- (Accept any other correct relevant response.) (1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **Identify the shaded area in the graph above.**
- Economic loss ✓ (1)
- 4.2.2 **Which curve represents the average revenue curve?**
- Demand curve / D ✓ (1)
- 4.2.3 **Briefly describe the term *natural monopoly*.**
- Natural monopoly refers to monopoly that exists due to barriers that are economic in nature such as high developmental costs. ✓✓ (2)
- 4.2.4 **Why is the graph above typical of a short-run equilibrium position?**
- Because monopolists make economic loss in the short run. ✓✓
- (Accept any other correct relevant response.) (2)
- 4.2.5 **Use the information in the above graph to calculate the total cost. Show ALL calculations.**
- Total cost = average cost x quantity ✓
 - R10 ✓ x 100 ✓
 - R1 000 ✓ (4)

4.3 DATA RESPONSE

- 4.3.1 **Identify ONE cause of climate change in the extract above.**
• Greenhouse gasses ✓ (1)
- 4.3.2 **Name an international agreement used to limit the production of gasses that cause climate change.**
• Kyoto Protocol ✓ (1)
- 4.3.3 **Briefly describe the term *pollution*.**
• Pollution refers to the introduction of waste into the environment. ✓✓
(Accept any other correct relevant response.) (2)
- 4.3.4 **Explain how global warming can result in climate change.**
• Global warming influences the world's weather patterns which include extreme temperatures and a change in rainfall patterns. ✓✓
(Accept any other correct relevant response.) (2)
- 4.3.5 **How can saving energy positively impact the South African economy?**
• Energy conservation will reduce the necessary volume of imported primary energy sources, crude oil in particular and this will have a positive impact on the balance of payments. ✓✓
• This will enhance the robustness of South Africa's energy security and will increase the country's resilience against external energy supply disruptions and price fluctuations. ✓✓
• Saving energy will assist in job creation and improvement in the standard of living. ✓✓
• As efficiency increases, the cost of production generally decreases and with low production costs, the cost of goods and services for consumers can also decrease. ✓✓
(Accept any other correct relevant response.) (2 x 2) (4)

4.4 Briefly describe the goals of the South African competition policy.

- Prevent the abuse of economic power forming of monopolies. ✓✓
- Regulate the growth of market power by means of takeovers and mergers ✓✓
- Prevent restrictive practices, especially by oligopolists such as the fixing of selling prices, collusion, and price discrimination ✓✓
- Improve the efficiency in the market through legislation ✓✓
- Promote healthy competition between businesses ✓✓
- Protect the consumer against unfair prices and inferior products for example through the Competition Act ✓✓
- Contribute to South Africa's development objectives to ensure that all South African have equal opportunities to participate fairly in economic activities. ✓✓
- They also improve equity in the market for example through the Employment Equity Act / enable SMME's ✓✓

(Accept any other correct relevant response.)

(A maximum of 4 marks must be allocated for mere listing of facts.) (max. 4)

(4 x 2) (8)

4.5 Explain the positive impact of the use of environmental taxes on environmental sustainability.

- Environmental taxes have many important advantages, such as environmental effectiveness, economic efficiency, the ability to raise public revenue, and transparency. ✓✓
- Environmental taxes have been successfully used to address a wide range of issues including waste disposal, water pollution and air emissions. ✓✓
- They internalise the negative externalities and promote energy saving and the use of renewable sources. ✓✓
- They discourage anti-ecological behaviour. They motivate companies to innovate in sustainability. ✓✓
- Environmental taxes/Green taxes are intended to incentivise individuals, businesses, and industries to adopt more sustainable practices, reduce pollution, and conserve natural resources. ✓✓
- By taxing environmentally harmful activities or products, governments aim to make them less economically attractive while encouraging alternatives that have a lower environmental impact. ✓✓

(Accept any other correct relevant response.)

(A maximum of 2 marks may be allocated for mere listing of facts.) (4 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C**QUESTION 5: MICROECONOMICS**

- Discuss in detail the factors that lead to the misallocation of resources in the market. (26 marks)
- Evaluate the impact of CBA on the South African economy. (10 marks)

INTRODUCTION

Market failure is when the forces of demand and supply fail to allocate resources efficiently. ✓✓

(Accept any other correct relevant introduction.)

(2)

BODY: MAIN PART**Missing markets ✓**

- Markets are incomplete because they cannot meet the demand for certain goods. ✓✓
- Public goods (community and collective goods) are in high demand but are not supplied by the market because of the low profit gained from them and the cost of capital needed to supply. ✓✓
- Since private producers cannot withhold these goods for non-payment, they are reluctant to provide these goods. ✓✓
- The government thus provides these goods and services. ✓✓

Public goods

- This includes community and collective goods and has two features:
- Non-rivalry: Consumption by one person does not reduce consumption by another individual ✓✓ e.g. a lighthouse. ✓
- Non-excludability: Consumption cannot be confined to those who pay for it (free riders can use them) ✓✓ e.g. radio and television. ✓
- Social benefits outstrip private benefits, for example health care and education. ✓✓
- Non-reject ability: Individuals are not able to abstain from consumption, for example streetlighting. ✓
- Continuous consumption, for example traffic lights. ✓

Community goods

- These are goods such as defence, police services, prison services, street lighting, flood control, storm water drainage and lighthouses. ✓✓

Collective goods

- These are goods such as parks, beach facilities and streets. ✓✓
- Markets are incomplete and cannot meet the demand for all goods. ✓✓
- Government provides public goods which consist of lighthouses, parks, roads, bridges etc. ✓✓

Merit goods

- These are highly desirable for general welfare, but not highly rated by the market. e.g. health care, education and safety. ✓✓
- If people had to pay the market price for them, very little would be consumed. ✓✓
- The market will fail because the market produces less than the desired quantity. ✓✓

Demerit goods

- These are over-consumed goods, for example cigarettes and alcohol thus more goods are produced than is socially desirable. ✓✓
- The government bans or reduces consumption of these products through taxation and provides information to the population on their harmful effects. ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not have necessary information to make rational decisions. ✓✓
- This results in resources not being allocated efficiently. ✓✓
- Consumers to maximise their benefits, consumers need detailed information about goods and services. ✓✓
- Although technology offers this to the consumer, they obviously do have perfect information. ✓✓
- Workers are often unaware of job opportunities. ✓✓
- Entrepreneurs lack information on costs, availability and productivity of factors of production, which impacts their effectiveness. ✓✓

Immobility of factors of production ✓

- Labour takes time to move from one area to another and it takes time to change as the training of labour is costly. ✓✓
- The supply skilled labour cannot be increased because of the time it takes to be trained or educate. ✓✓
- Physical capital such as factory buildings or infrastructure such as telephone lines cannot be reallocated easily. ✓✓
- Structural changes such as a change from producing plastic packets to paper packets or shifting from labour-intensive production to computer-based production requires a change in labourers' skills, employment and work patterns. ✓✓

Externalities ✓

- An externality occurs when some of the costs and benefits of a decision or action are borne or enjoyed by second or third parties who were not part of or directly involved in the decision making. ✓✓

Private cost

- Internal costs are known as private costs and these are the usual costs that consumers incur when they buy goods, for example the price they pay for a product. ✓✓
- The private costs of the business are their fixed and variable costs – their day-to-day expenses. ✓✓

Private benefits (internal benefits)

- These are the benefits gained by those who buy the goods and those who produce the goods. ✓✓
- For the consumer it includes the convenience of enjoying the product, and for the producer it includes the revenue and profit it receives from selling the product. ✓✓

Social costs ✓

- These are the cost of goods or services to those who create them and to society in general. ✓✓
- It includes the production cost, but also the additional cost of pollution and the waste products (external costs – negative externalities). ✓✓
- No values are given to these extra (external) costs because no market exists to price them. ✓✓
- Private costs plus external costs are equal to social costs. ✓✓

Social benefits ✓

- Consumers pay for private benefits however, society in general benefits from less diseases, a healthier workforce can work more productively and is absent from work less (external benefits – positive externalities). ✓✓
- When municipalities provide clean water to households, households pay only for the private benefit. ✓✓
- Private benefit plus external benefits is equal to social benefits. ✓✓
- Because externalities in production and consumption often exist and output is usually based on private cost and benefits, this is a cause of market failures. ✓✓

Imperfect competition ✓

- Under certain conditions, a perfectly competitive market will reach a point of allocative efficiency. ✓✓
- Firms produce the right product at the right price and the right quantity and do it efficiently since only efficient firms will survive. ✓✓
- In market economies, competition is impaired by power. Power lies with producers more than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition – this allows them to restrict output, raise prices and produce at levels where price exceeds marginal cost. ✓✓
- The result is an inadequate allocation of resources, as only those that can afford to pay gain access to certain goods and services. ✓✓
- Under imperfect competition, market failure occurs because imperfect markets fail to achieve technical and allocative efficiency. ✓✓
- The following factors cause imperfect competition: Modern markets do not cater for price negotiations; consumers have to pay the prices that producers ask. ✓✓
- Advertising promotes the superiority of certain producers. Barriers prevent new businesses from entering into markets – full adjustments to changes in demand are prevented. ✓✓
- The introduction of new, improved products is delayed, for example the technology to produce cars not powered by fossil fuels is already available. But the oil-producers and lack of capital delay the process. ✓✓

Imperfect distribution of income and wealth ✓

- The market system tends to distribute income and wealth unevenly. ✓✓
- Since the market is interested only in producing goods for those who can afford it, the unequal distribution of income leads to the fact that few people have too many goods and many have too few goods. ✓✓
- Due to a lack of skills, education and imperfect information, certain individuals are unable to earn incomes that are necessary to achieve a decent living standard. ✓✓
- Low incomes lead to an inability to accumulate wealth. ✓✓
- If the initial distribution is unequal, the final distribution will be unequal too. ✓✓
- The market fails to ensure that everyone in society gets equal access to the output of the economy. ✓✓
- Too many resources are used to produce output for the rich members of society, and too few for those that are poor. ✓✓

(Accept any other correct and relevant response.)

(Allocate a maximum of 8 marks for mere listing of facts/examples.)

ADDITIONAL PART**Evaluate the importance of CBA on the South African economy.**

- Market fails because of inappropriate allocation of resources and CBA seeks to correct project appraisal to avoid market failure. ✓✓
- A need for cost-benefit analysis arises in cases of market failure where government seeks to provide services needed. ✓✓
- Ensuring that costs and benefits are taken into account before the government embarks on a big project, ✓✓ for example roads, bridges, etc. ✓
- Assessing whether the new project will be feasible, considering that social benefits are more than social costs. ✓✓
- Making objective decisions as it removes subjectivity in decision-making because all decisions are based on practical facts. ✓✓
- Ensuring economic efficiency in resource allocation and eliminating fruitless expenditure. ✓✓

(Accept any other correct relevant high-order response.)

(A maximum of 4 marks will be allocated for mere listing/facts.)

(Max.10)

(10)

CONCLUSION

The government should intervene to help these markets function better and promote a more equitable distribution of wealth and income to improve the standard of living in the country. ✓✓

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

(Max. 2)

(2)

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES**40 MARKS – 40 MINUTES**

- **Discuss in detail the measures to combat demand-pull and cost-push inflation. (26 marks)**
- **Analyse the impact of foreign direct investment on price stability. (10 marks)**

INTRODUCTION

Inflation refers to the general increases in prices over a period of time. ✓✓

(Accept any other correct relevant introduction.)

(2)

BODY: MAIN PART**DEMAND-PULL INFLATION****Fiscal policy ✓**

- These are steps taken by the Minister of Finance to curb inflation through policies for taxation and expenditure. ✓✓
- Increasing direct taxation to reduce disposable income and reduce excessive demand of goods and services, ✓✓ e.g. PAYE ✓
- Increasing indirect taxation such as VAT and excise duties can be increased to increase prices of specific products in order to dampen the demand of goods and services. ✓✓
- A loan levy can be introduced or increased and this will discourage credit and result in reduced quantity of money in circulation. ✓✓
- Government spending can be reduced by postponing some of the government projects, ✓✓ e.g. building of RDP houses, schools and irrigation of dams. ✓✓
- Financing of the budget deficit on a non-inflationary basis ✓✓ e.g. loans from the non-banking sector. ✓✓
- Imposing a surcharge on imported goods which will increase the prices of imported goods (especially luxury items) so that people buy fewer goods. ✓✓
- Implementing measures to improve productivity such as tax rebate to businesses. ✓✓

Monetary policy ✓

- Increasing the repo rate to reduce the availability of credit. Banks will in turn increase interest rates thereby, making it more expensive to borrow money. ✓✓
- Increased interest rates can also encourage saving, thus reducing demand of goods and services and reducing the amount of money in circulation. ✓✓
- Decrease in money supply by means of open market transactions through selling government bonds. ✓✓
- Increasing bank cash reserve requirement to reduce the money available for lending to their customers. ✓✓

COST-PUSH INFLATION**Productivity ✓**

- Increasing productivity through better education and training/skills development and the support of technological developments ✓✓
- Wage increases need to be accompanied by productivity increases. ✓✓
- Protecting competition (through the Competition Commission). ✓✓
- Encouraging personal savings which could enable investments, increase the supply side of the economy. ✓✓

Other measures to consider

- Price control can be used by fixing the price of certain essential goods, the government assures they remain affordable. ✓✓
- Stricter conditions for consumer credit; the government makes it harder for consumers to get credit in order to restrict their spending. ✓✓
- Import controls can be relaxed to allow the outflow of money from the economy which will reduce the amount of money in circulation. ✓✓
- Floating exchange rate prices are automatically adjusted to international conditions. ✓✓
- Indexation a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples.)

(Accept any other correct relevant response.)

(Max. 26) (26)

ADDITIONAL PART**Analyse the impact of foreign direct investment on price stability.**

- Increasing the production of goods and services which will increase aggregate supply thus stabilising prices. ✓✓
- Bringing more efficient production techniques that will reduce production costs, slowing down cost-push inflation. ✓✓
- Increasing competition in local markets which will keep local prices low strengthening the rand through higher export volumes which helps to reduce the cost of importing production inputs such as crude oil. ✓✓
- Improving technology in production which increases productivity thereby reducing cost-push inflation. ✓✓
- Creating more employment opportunities thereby stimulating consumer spending which contributes to demand-pull inflation. ✓✓
- Increasing expenditure on capital goods such as machinery and equipment resulting in increased aggregate demand. ✓✓
- Increasing real wages more than domestic investment, leading to cost-push Inflation. ✓✓

(Accept any other correct relevant high order response.)

(A maximum of 4 marks will be allocated for mere listing/facts.)

(Max. 10) (10)

CONCLUSION

High inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures to control it have to be put in place. ✓✓

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

(Max. 2)

(2)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150