



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P1

MAY/JUNE 2025

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 23 pages.

PRINCIPLES FOR MARKING ECONOMICS – SC/NSC MAY/JUNE 2025

The following marking principles have been developed to standardise marking in all provinces.

MARKING

- **ALL** questions and responses in candidates' scripts **MUST** be marked, irrespective of whether it is correct or incorrect.
- Where responses are in excess of what the instruction required, the following should apply
 - In section A, where candidates give **TWO** responses, the first response should be marked.
 - In section B, (2.1.1, 3.1.1 and 4.1.1) mark the first **TWO** responses and indicate **M 2** for responses that are in excess of what the question required.
 - In section B data response questions that require specific number of responses, (E.g. 2.2.1 and 2.2.2) mark the first response and indicate **M 1** for responses that are in excess.
 - In section B and C (choice questions), indicate **EXTRA** on questions in excess of the required number.
 - Where the maximum marks have been allocated for a particular question, mark all the responses up to the maximum marks for the question and indicate either **M 2 or M 8 or M 10 or M 26**. Thereafter, draw a line on the right-hand side of the responses that are in excess.
- A clear, neat tick must be used:
 - If **ONE** mark is allocated, **ONE** tick must be used: ✓
 - If **TWO** marks are allocated, **TWO** ticks must be used: ✓✓
 - The tick must be placed at the **FACT** that a mark is being allocated for.
 - Ticks must be kept **SMALL**, as various levels of moderation may take place.
- Incorrect answers must be marked with a clear, neat cross: ✕
 - Use one cross on every incorrect response in questions where candidates are required to give more than one response.
 - Try **NOT** to underline the candidates' responses
- For the following action words, **ONE-word** answers are acceptable: **list, name, state, identify**
- For the following action words, a **FULL** sentence must be written: **describe, explain, evaluate, analyse, suggest, differentiate, distinguish, define, discuss, why, how**
- The following action words need to be read within their context to determine whether a **ONE-word** answer or **FULL** sentence is required: **provide, what, tabulate, identify and give**
- Where candidates are required to draw a graph, mark the graph according to a marking grid provided in the official marking guideline.
- Where candidates are required to do calculations, the final answer would not necessarily be awarded full marks. **3 marks** are awarded for the **calculations** and **1 mark** for the **final answer**.

NOTE THE FOLLOWING

- If the numbering is incorrect or left out, as long as the sequence of answers to questions is followed candidates can be credited
- Where there are spelling errors, award the marks provided the meaning is correct.
- Pay attention to the sense of responses, which may be stated in a different way.
- In multiple-choice questions where a letter is the accepted response, but the learner writes the actual answer- award marks.
- There will be addendum to the marking guidelines for the marking of certain questions.

TOTALLING AND TRANSFERRING OF MARKS

- The sub-total for each sub-question must be recorded on the right-margin
 - Question 1 in Section A has **THREE** sub-sections and **THREE** sub-totals should be recorded on the right margin.
 - Questions in Section B have **FIVE** sub-sections and **FIVE** sub-totals should be recorded on the right margin.
 - Sub-totals must be written legibly and leave space for moderated marks on the right margin
- The total mark for each question should be recorded on the top left margin next to the question number and transfer to cover page of answer book

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

- 1.1.1 B - autonomous ✓✓
- 1.1.2 A - extrapolation ✓✓
- 1.1.3 D - community ✓✓
- 1.1.4 C - depreciation ✓✓
- 1.1.5 A - a trade protocol ✓✓
- 1.1.6 C - technology ✓✓
- 1.1.7 B - Industrial Policy Action Plan ✓✓
- 1.1.8 D - World Bank ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G - movement of goods, services and factors of production between economic participants ✓
- 1.2.2 I - illustrates the relationship between unemployment and inflation ✓
- 1.2.3 C - transfer of functions and ownership of entities from the private sector to the public sector ✓
- 1.2.4 H - when a country can produce a good or service cheaper than other countries while using the same resources ✓
- 1.2.5 E - countries share a single monetary system, one central bank and a unified fiscal system ✓
- 1.2.6 A - aims to eliminate poverty and reduce inequality by 2030 ✓
- 1.2.7 D - an incentive that aims to provide investment in the training of the South African labour force ✓
- 1.2.8 B - an excessive accumulation of body fat that has negative effects on health ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Marginal propensity to consume ✓
- 1.3.2 Coincident ✓
- 1.3.3 Direct investments ✓
- 1.3.4 Demand-side policy / Demand-side approach ✓
- 1.3.5 Public-private partnership / Private-public partnership ✓
- 1.3.6 Infant mortality rate ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS**40 MARKS – 30 MINUTES****2.1 SHORT QUESTIONS**

2.1.1 Name any TWO types of exchange rate systems.

- Free floating ✓
- Managed / Controlled floating ✓
- Fixed ✓

(2 x 1) (2)

2.1.2 Why is investment regarded as an injection in the circular flow model?

Investment results in money flowing from the banking system to businesses which increases the amount of money in circulation / Investments represent increase the capital stock and autonomous spending which lead to an overall rise in the flow of money in the economy ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify a contraction phase of business cycles from the cartoon above.

Recession ✓

(1)

2.2.2 Name any ONE monetary policy instrument that can be used to influence economic activity.

- Interest rate / repo rate ✓
- Open market transaction ✓
- Cash reserves requirements ✓
- Moral suasion ✓
- Exchange control ✓

(1)

2.2.3 Briefly describe the term *amplitude*.

Measures the vertical distance between a peak and trough in a business cycle. ✓✓

(Accept any other correct relevant response)

(2)

2.2.4 Why are leading indicators important to policy makers in the economy?

Give advance warning to policy makers of changes in aggregate economic activity which helps them to formulate suitable economic policies. ✓✓

(Accept any other correct relevant response)

(2)

2.2.5 How can an economic recovery benefit the South African economy?

- The government will collect more tax revenue as households and businesses receive more income and expenditure increases. ✓✓
- Dependence burden for the government may decrease as it will spend less on social grants. ✓✓
- Financial capacity of the government to develop infrastructure and other projects increases as it receives more income. ✓✓
- Economic recovery may assist the government to achieve its objectives such as poverty alleviation and reduction in unemployment ✓✓
- More factors of production will be employed as production of goods and services increase ✓✓
- Business confidence may increase which leads to more investments and expansion of the industrial base ✓✓

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

2.3 DATA RESPONSE**2.3.1 Identify the export price index for 2023, in the above graph.**

176,6 ✓ (1)

2.3.2 State the formula for calculating the terms of trade.

Terms of trade = $\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$ ✓ (1)

2.3.3 Briefly describe the term *globalisation*.

The worldwide interaction of countries or economies with trade as an important element. ✓✓

(Accept any other correct relevant response) (2)

2.3.4 Explain the effect of international trade on production of goods and services.

- Goods and services will be produced in large quantities (mass production) to cater for the world market. ✓✓
- The average cost of production decreases through economies of scale which improves efficiency. ✓✓
- International trade may promote innovation and production of new products ✓✓
- Specialisation may be promoted in countries that have comparative advantages in the production of specific products ✓✓
- Domestic production may decrease as local industries face unfair competition from foreign businesses ✓✓

(Accept any other correct relevant response) (2)

2.3.5 How will a decrease in the terms of trade influence the economy?

- A decrease in export price will generate less export income for the economy. ✓✓
- Economic welfare may decrease as more resources will be used to produce bigger volumes of exports to compensate the fall in export prices. ✓✓
- An increase in import prices will cause more outflow of revenue through higher import payments. ✓✓
- Higher cost of imports and lower export earnings may decrease the trade balance of the economy. ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.4 Discuss the financial market within the FOUR-SECTOR circular flow model.

- Financial markets facilitate the lending and borrowing of funds between economic participants who have surplus funds and those who need it. ✓✓
- The market is not directly involved in the production of goods and services, but serve as a link between households and businesses. ✓✓
- Banks, insurance companies and pension funds form part of the financial market. ✓✓
- The financial market is divided into the money market and the capital market. ✓✓
- The money market provides for short-term deposits, loans and investment. ✓✓
- Money market includes inter- bank lending for a period as short as overnight. ✓✓
- The South African Reserve Bank (SARB) administers the function of legislating and managing the money market. ✓✓
- Products traded in the money market include bank debentures and government bonds. ✓✓
- The capital market provides for long-term savings, loans and investments. ✓✓
- The Johannesburg Securities Exchange (JSE) is the key institution in this market. ✓✓
- Securities that are traded in the capital market are long-term deposits, mortgage bonds, shares etc. ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for mere listing of facts and examples)**(Allocate a maximum of 2 marks for examples only)**

(4 x 2)

(8)

2.5 How can supply-side measures be used to stimulate the level of economic activity in the smoothing of business cycles?

- Reduction in the cost of doing business may directly improve the profitability of businesses which will encourage them to produce more output. ✓✓
- Improving infrastructural services such as, public roads, traffic lights and airports within an economy will result in producers supplying more goods and services to consumers. ✓✓
- Reducing administrative costs may encourage potential businesses to be established and existing businesses will not feel overburdened by administrative costs. ✓✓
- Providing cash incentives to businesses to establish themselves in areas where unemployment and poverty are high. ✓✓
- Simplifying rules and reducing unnecessary regulations allows businesses to operate more freely and efficiently hence companies can produce goods faster and cheaper. ✓✓
- Supporting research and development (R&D) helps businesses create new products and improve on existing ones since innovation leads to better and more efficient ways of producing goods, which boosts the economy. ✓✓
- Offering subsidies to export orientated manufacturing businesses reduces the costs that they incur when entering foreign markets ✓✓
- Reducing taxes paid by businesses encourages them to invest in better equipment, hire more workers, and expand their operations which leads to more production and lower prices for consumers ✓✓
- Improving education and job training allows the workforce to become more skilled which means workers can do their jobs better and more efficiently, leading to higher productivity and economic growth. ✓✓
- Promoting competition by encouraging entrepreneurship and removing barriers to entry in markets which stimulates production of goods and services. ✓✓

(Accept any other correct relevant response)

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

(4 x 2)

**(8)
[40]**

QUESTION 3: ECONOMIC PURSUITS**40 MARKS – 30 MINUTES****3.1 SHORT QUESTIONS**

3.1.1 Name any TWO cash benefits provided by the government to households.

- Child support grant ✓
- Foster care grant / Foster child grant ✓
- Care dependency grant ✓
- Old age grant / Old age pension ✓
- Disability grant ✓
- Social relief of distress grant / SRD grant ✓
- Grant-in aid ✓
- War veterans grant ✓

(Accept any other correct relevant response)

(2 x 1) (2)

3.1.2 Why is high rural-urban migration a problem to local governments?

- Local governments may fail to meet high demand for municipal services resulting in poor services delivery ✓✓
- High population in urban areas may increase pressure on infrastructural facilities and cause socio-economic problems. ✓✓
- Local governments may fail to provide employment opportunities, such as EPWPs, due to high demand for jobs. ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

3.2 DATA RESPONSE

3.2.1 Identify the employment rate for the second quarter of 2024 in the table above.

66.5% ✓

(1)

3.2.2 Give ONE reason for high unemployment rate in South Africa.

- Low economic growth / low production ✓
- Lack of investment ✓
- Lack of skills / Irrelevant skills ✓
- Capital-intensive production methods ✓

(Accept any other correct relevant response)

(1)

3.2.3 Briefly describe the term *economically active population (EAP)*.

The total number of people between the ages of 15 to 64 who are willing and able to work. ✓✓

(Accept any other correct relevant response)

(2)

3.2.4 Explain the importance of compiling the consumer price index (CPI) figures.

- To measure the cost of living for the households / To negotiate for wage increases ✓✓
 - To measure consumer inflation in the economy ✓✓
 - To determine repo rate/interest rate adjustments ✓✓
- (Accept any other correct relevant response)

(2)

3.2.5 How can the South African economy benefit from an increase in employment?

- The level of households' income will increase which stimulates demand for goods and services. ✓✓
 - Increased consumer spending will encourage businesses to produce more output thereby stimulating economic growth. ✓✓
 - Increase in aggregate demand may attract more investments which expands the industrial base of the economy. ✓✓
 - The government may collect more tax revenue as more households receive income from their employment. ✓✓
 - Higher tax revenue collected by the government may be used to implement infrastructure development projects ✓✓
- (Accept any other correct relevant response)

(2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Identify any ONE challenge faced by South Africa in implementing special economic zones (SEZ), from the extract above.

- Unplanned projects ✓

(1)

3.3.2 Name the purpose- built industrial estate that is physically enclosed and linked to an international airport or sea port.

Industrial Development Zone/IDZ ✓

(Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *regional development*.

Implementation of policies that are aimed at increasing the economic livelihood of specific areas or regions in a country. ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 Explain the importance of positive investor confidence to the economy.

- More businesses will be established which will expand the industrial base of the economy. ✓✓
- Foreign direct investments (FDIs) may be attracted to the economy which increases capital inflow and stabilise the value of local currency. ✓✓
- Increase in economic activity due to a positive investor sentiment may create new job opportunities and increase tax revenue for the government. ✓✓

(Accept any other correct relevant response)

(2)

3.3.5 How can businesses benefit from operating in special economic zones (SEZs)?

- Businesses that operate in special economic zones (SEZs) have access to world class infrastructure, such as ICT, which allow them to operate efficiently. ✓✓
- Companies located in SEZs may benefit from tax reliefs and support systems provided by the government to promote industrial development. ✓✓
- Businesses in SEZs may receive financial incentives, such as the skill support programme and duty-free incentive, which reduce their cost of doing business and improve their competitiveness. ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.4 **Briefly discuss the *Expanded Public Works Programme (EPWP)* and the *Broad-Based Black Economic Empowerment Programme (BBBEE)* as South Africa's growth and development policies**

Expanded Public Works Programme (EPWP)

- EPWP is a nation-wide government intervention to create employment using labour-intensive methods. ✓✓
- Provide unskilled labourers with the skills that they can use for future employment. ✓✓
- EPWP aims to create job opportunities for the poor and the vulnerable. ✓✓
- Employment provided is temporary or of an ongoing basis in nature. ✓✓

Broad-Based Black Economic Empowerment (BBBEE)

- BBBEE was launched to address previous inequalities and provide a legal basis for the transformation of the South African economy. ✓✓
- Aims to increase black South Africans' participation in the economy at the ownership level. ✓✓
- A range of measures are implemented to ensure redress and affirmative action in the workplace and business environment. ✓✓
- Government creates conditions to encourage more businesses, both private and public that are owned and managed by black entrepreneurs and managers. ✓✓
- Communities and workers should be included as shareholders and owners. ✓✓
- The redress requires that the number of those controlling the businesses can increase significantly and income inequalities can be reduced significantly. ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for mere listing of facts and examples)

(Allocate a maximum of 2 marks for examples only)

(2 x 4)

(8)

3.5 How can the South African government ensure the success of regional development policies?

- Minimise government intervention in the market so that the forces of demand and supply as well as the profit motive can ensure the effective allocation of resources through market orientation. ✓✓
- Manage regional development policies more effectively to ensure that they are free of corruption and red tape. ✓✓
- Promoting transparency by encouraging free and open engagement to gain a sense of ownership for regional development policies. ✓✓
- Promoting effective financial management to ensure that resources are not wasted and are properly accounted for. ✓✓
- Provide poorly resourced areas with sufficient resources, such as human and financial resources, to ensure proper implementation of policies. ✓✓
- Ensuring a holistic development by providing social resources such as education and health to underdeveloped regions of the country. ✓✓
- Promote integration by ensuring that the benefits of one region spills-over to other areas and no region develops at the cost of another region's potential. ✓✓
- Promote partnership in regional development by building a relationship between central government, local authorities, civil society, private sector, special interest groups and international partners ✓✓
- Increase the competitiveness of businesses through innovation to improve the overall quality of the manufactured products. ✓✓
- Promote the use of efficient production techniques which will lead to superior manufactured goods and expand to international markets. ✓✓
- Investing more money in infrastructure such as transport and energy to improve the economic livelihood of underdeveloped areas ✓✓
- Encourage local governments to pursue their own economic potential so that the entire country can benefit. ✓✓
- Promote decentralisation of economic hubs to ensure more equal representation of all regions. ✓✓

(Accept any other correct relevant response)**(Allocate a maximum of 2 marks for mere listing of facts)****(4 x 2)****(8)****[40]**

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS
40 MARKS – 30 MINUTES**4.1 SHORT QUESTIONS**

4.1.1 Give any TWO examples of exogenous causes of business cycles.

- Structural changes ✓
- Natural disasters / Climate change / Weather conditions ✓
- Social and economic shocks (sudden increase in fuel prices or wars) ✓
- Technological advances ✓
- Inappropriate government policies ✓

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

4.1.2 Why is it important for the government to promote a more efficient transport infrastructure in the economy?

- To minimise logistic constraints by ensuring reliable transportation of production inputs and finished goods between the regions of a country. ✓✓
- To minimise disruption of production of goods and services which helps to attract more direct investments. ✓✓
- To reduce the cost of doing business since transport is a key input to production ✓✓
- To enable households and workers to travel more conveniently and at lower cost to participate in economic activity. ✓✓

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

4.2 DATA RESPONSE

4.2.1 Identify the item that refers to the prices paid by consumers for goods and services.

Gross Domestic Product (GDP) at market prices ✓ (1)

4.2.2 Name any ONE example of taxes on products.

- Value Added Tax (VAT) ✓
 - Excise duties (Sin tax, Sugar tax) ✓
 - General fuel levy ✓
 - Carbon tax on motor vehicle emissions ✓
 - Import duty / Customs duty / Import tariffs ✓
- (Accept any other correct relevant response) (1)

4.2.3 Briefly describe the term *factor cost*.

The cost of factors of production used in the production process during a particular period of time. ✓✓
(Accept any other correct relevant response) (2)

4.2.4 **Explain the impact of subsidies on production to producers of goods and services.**

- Producers will benefit from lower cost of production ✓✓
- Producers may be encouraged to increase production output ✓✓
- Producers may be encouraged to sell their products at lower prices. ✓✓

(Accept any other correct relevant response)

(2)

4.2.5 **Use the information in the above table to calculate the value of the Gross Value Added at basic prices (A). Show ALL calculations.**

$$\begin{aligned} \text{Gross Value Added at basic prices (A)} &= 6\,175\,572 \checkmark \\ &+ 148\,361 \checkmark \\ &- 13\,104 \checkmark \\ &= \underline{6\,310\,829} \checkmark \end{aligned}$$

OR

$$\begin{aligned} \text{Gross Value Added at basic prices (A)} &= 7\,023\,994 \checkmark \\ &+ 17\,341 \checkmark \\ &- 730\,506 \checkmark \\ &= \underline{6\,310\,829} \checkmark \end{aligned}$$

(4)

4.3 **DATA RESPONSE**

4.3.1 **Identify a human development index indicator that relates to education, from the above dialogue.**

Literacy/Skills ✓

(1)

4.3.2 **Name the growth and development strategy that aims to address the challenge of skills shortage in South Africa.**

National Skills Development Strategy/NSDS ✓

(Accept any other correct relevant response)

(1)

4.3.3 **Briefly describe the term *economic development*.**

The process whereby the standard of living for the people in a particular country improves over a period of time. ✓✓

(Accept any other correct relevant response)

(2)

4.3.4 **Explain the importance of healthcare to human development.**

- Access to quality healthcare ensures that people enjoy longer life expectancy by preventing and treating illnesses and diseases amongst the population. ✓✓
- Good health reduces absenteeism at work and increases productivity leading to higher income levels and improved standard of living. ✓✓

(Accept any other correct relevant response)

(2)

4.3.5 How can the government promote skills development in South Africa?

- Improve the quality of education and training by investing in schools and vocational training institutions, such as updating the curricula to meet the current job market needs. ✓✓
- Work together with businesses to develop apprenticeships and internships that provide practical experience to students and job seekers. ✓✓
- Offer incentives and subsidies, such as the skills support program, to businesses that invest in employee training and skills development programs. ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

4.4 Briefly discuss natural resources and climate condition as supply reasons for international trade.**Natural resources**

- Natural resources are unevenly distributed across countries of the world. ✓✓
- They vary from country to country and can only be exploited in places where the resources exist. ✓✓
- Some countries have a variety of natural resources at their disposal that can be exploited while others have a limited variety. ✓✓
- South Africa has large deposits of gold while Nigeria has crude oil ✓✓
- The availability of natural resources creates a platform for specialisation and an opportunity to earn valuable export revenue

Climatic conditions

- Every country has a unique climate which allows it to grow specific crops ✓✓
- Promotes specialisation of production and empowers countries to produce at lower cost per unit ✓✓
- Climatic conditions make it possible for some countries to produce certain goods at a lower price than other countries, e.g. Brazil is the largest producer of coffee. ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for mere listing of facts and examples)**(Allocate a maximum of 2 marks for examples only)**

(2 x 4)

(8)

4.5 **Analyse the importance of demographic indicators to the South African government.**

- The government uses the demographic indicators to plan for the future and achieve certain outcomes, e.g. healthcare for the aged. ✓✓
- Demographics related to the number of children in different age groups help governments to plan educational infrastructure, such as the number of schools, classrooms, and teachers required. ✓✓
- Understanding the working-age population helps the government to create jobs and plan for economic growth. ✓✓
- Demographic trends allow government to make informed decisions that address the needs of the population, promote social equity, and ensure sustainable development. ✓✓
- The government can distribute resources such as housing more effectively based on where people live and their specific needs. ✓✓
- Demographic indicators help to identify the size of the tax base by estimating the total number of people that will be paying taxes. ✓✓
- The information can be used to plan for infrastructure development, such as the provision of electricity, water and sanitation. ✓✓
- Demographic indicators can be used to provide social services that address poverty, child welfare, and support for vulnerable populations. ✓✓
- Information on migration and urbanisation help government to plan for the development of housing, water supply, and sanitation. ✓✓

(Accept any other correct relevant response)

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

(4 x 2)

(8)

[40]

TOTAL SECTION B:

80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

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

- Discuss in detail the reasons for public sector failure. (26)
- How can fiscal policy be used to positively influence the economy? (10)

INTRODUCTION

- Public sector is part of the economy that includes all entities that are owned and controlled by the government and are responsible for the provision of public goods at a lower cost or free-of-charge. ✓✓
- Public sector failure is when the government fails to manage the economy and the resources under its control. ✓✓
(Accept any other relevant introduction) (Max 2)

BODY: MAIN PART**Reasons or causes of public sector failure****(a) Management failure ✓**

- Sometimes government departments and state-owned enterprises are poorly managed due to application of conflicting policies, lack of leadership, inadequate skills and insufficient experience. ✓✓
- Government departments are not expected to maximise profit, unlike the private sector. ✓✓
- Management failure can result in budget allocations that are based on estimated cost and needs not being catered for. ✓✓

(b) Apathy ✓

- Public sector failure can result from apathy and indifference on the part of public officials, civil servants and individuals employed in government departments and state-owned enterprises. ✓✓
- Successful public provisioning relies on long-term accountability. ✓✓
- Accountability has the potential to diagnose inefficiency, corruption and poor services and the determinants of these symptoms such as lack of resources, low motivation, poor training and lack of competency. ✓✓

(c) Lack of motivation ✓

- Frontline workers rarely receive incentives for successful service delivery which leads to low level of productivity. ✓✓
- There is little stipulation for service quality and quantity, no measurement of effectiveness or productivity and few rewards and penalties. ✓✓
- Poor monitoring of performance could lead to government employees having no pressure to perform, which leads to limited services that are of poor quality. ✓✓

(d) Politicians ✓

- The aim of politicians is to be re-elected and pursue vote-maximising strategies to secure or retain their political offices. ✓✓
- Politicians have a short-term horizon which is limited to the date of the next election. ✓✓
- Politicians sometimes promote policies and continue to spend money on projects that involve inefficient allocation of resources to get votes in return. ✓✓
- Politicians can also serve their own interests through corruption, personal and hidden agendas. ✓✓

(e) Special interest groups ✓

- Rent-seeking or special interest groups can influence the government to act to their advantage, such as providing them with profitable contracts and favourable regulations. ✓✓
- Trade unions can influence the government to pass certain laws to favour their members. ✓✓

(f) Bureaucracy ✓

- Excessive bureaucracy tends to cause more problems than good, such as delays in the provision of public goods and services. ✓✓
- Bureaucrats try to maximise their income, status, and power by manipulating the supply of public goods to their own advantage. ✓✓
- Dealing with bureaucracy is difficult because the public sector is not subjected to the principle of profit and loss. ✓✓

(g) Lack of accountability ✓

- Lack of accountability in the public sector leads to inefficiency, corruption and poor service delivery. ✓✓
- Holding the public sector accountable is not always easy because of the huge workforce in various government departments. ✓✓

(h) Structural weaknesses ✓

- Duplication of roles and tasks leads to the wastage of resources and failure to provide other services. ✓✓
- Complex and poorly designed organisational structures in public institutions may slow down processes and service delivery. ✓✓
- Unclear laws and policies may create opportunities for corruption and make it difficult to hold individuals accountable. ✓✓
- Overpopulation may lead to excess demand for employment, housing and feeding programmes, which makes it impossible to provide due to limited resources. ✓✓

(i) Problems of assessing needs ✓

- The government does not have sufficient information to make objective decisions due to lack of mechanisms that accurately assess the needs of people. ✓✓
- The problem of assessing needs leads to undersupply or oversupply of public goods and services. ✓✓

(Accept any other correct relevant response)**(Max 26)****(Allocate a maximum of 8 marks for mere listing of facts and examples)**

ADDITIONAL PART

South Africa's fiscal policy has the following positive effects on the economy:

- Progressive income tax system makes income more evenly distributed because higher income earners pay higher tax rates while lower income earners pay lower tax rates. ✓✓
- Decrease in direct taxes, such as PAYE, increases consumers' disposable income which will stimulate consumption expenditure. ✓✓
- Reduction in indirect tax such as VAT will increase consumption as the prices of all products that are VAT linked will decrease. ✓✓
- Increase direct taxes such as personal income tax can reduce inflationary pressures by lowering aggregate demand. ✓✓
- Social grants paid by the government to households may increase consumer spending and stimulate aggregate demand in the economy. ✓✓
- Production subsidies paid by the government to some producers reduce their cost of production which encourages them to produce more output. ✓✓
- Funds allocated from the national budget to provide free services help to improve the lives of many poor people. ✓✓
- Subsidies on products stimulate consumer spending as more households afford to pay lower prices. ✓✓
- Government expenditure on infrastructure development promotes efficient operation of businesses and attract more investments in the economy. ✓✓
- Funds allocated to redress the imbalances of the past through different programmes may help to improve the standard of living for the previously disadvantaged groups. ✓✓

(Accept any other correct higher order, relevant response)

(Max 10)

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

CONCLUSION

The government should implement suitable measures to ensure that government departments, state-owned enterprises and other state entities deliver quality services to the citizens. ✓✓

(Accept any other correct higher order, relevant conclusion)

(Max 2)

[40]

QUESTION 6: ECONOMIC PURSUITS**40 MARKS – 40 MINUTES**

- **Discuss in detail the arguments in favour of protectionism.** (26 marks)
- **Why is it important for South Africa to increase its export capacity?** (10 marks)

INTRODUCTION

Protectionism is a trade policy whereby the state discourages the importing and exporting of certain goods and services. / It is an economic policy that restricts trade between countries to protect domestic industries from unfair foreign competition. ✓✓
(Accept any other correct relevant introduction) (Max 2)

BODY: MAIN PART**Arguments in favour of protectionism****(a) Industrial development ✓**

- Countries need to develop diversified industries to prevent over-specialisation. ✓✓
- A country relying too heavily on the export of one or a few products is very vulnerable. ✓✓ for example, Botswana relies almost entirely on the export of diamonds. ✓
- Import restrictions may be imposed on a range of products in order to ensure that a number of domestic industries develop. ✓✓
- The imposition of tariffs produces revenues for governments to promote industrial development. ✓✓
- In developing countries, the tax base is often limited because of low incomes of individuals and businesses. ✓✓
- Low incomes in developing countries do not provide much tax revenue and therefore, customs duties on imports are an additional source of revenue. ✓✓

(b) Infant industries ✓

- Newly established industries find it difficult to survive because of high average costs of production which are higher than those of well-established foreign competitors. ✓✓
- Infant industries need protection in their early years for them to be able to grow and take advantage of economies of scale, lower their average costs and become competitive. ✓✓
- When industries are well established and competitive, the protection should be removed. ✓✓
- In some circumstances declining industries or sunset industries should be permitted to go out of business gradually. ✓✓
- Protection may enable an industry to decline gradually, thereby allowing time for resources (including labour) to move to other industries. ✓✓

(c) Stable wage levels and higher standards of living ✓

- A country with high wages has a view that the standard of living will be undermined if cheaper goods are imported from countries with low wages. ✓✓
- Imports from countries with relatively low wages represent unfair competition and may threaten the standard of living of highly paid workers in local industries. ✓✓
- Local industries would be unable to compete because of their higher wages that push up the prices of local goods. ✓✓
- Protection is necessary to prevent local wage levels from falling or even to prevent local businesses from closing down due to becoming unprofitable. ✓✓
- Competition from low-wage countries may reflect the fact that those countries have a comparative advantage in low-skilled labour-intensive industries. ✓✓

(d) Increased employment ✓

- Countries with high levels of unemployment are continuously pressured to stimulate employment creation. ✓✓
- Countries with high unemployment often tend to resort to protectionist policies in order to stimulate industrialisation. ✓✓
- Imposing import restrictions would mean that citizens will purchase more domestic products and thereby raise domestic employment. ✓✓
- Concentration on domestic employment creation, at the expense of other countries, led to such measures being referred to as “beggar-thy-neighbour” policies. ✓✓
- Countries making use of protectionist policies should keep in mind that imposing import restrictions is likely to provoke retaliation. ✓✓

(e) Self-sufficiency and strategic industries ✓

- In times of conflict, cut-offs or frictions between countries may occur. ✓✓
- Protection should be granted, especially to key industries to ensure the availability of these key products. ✓✓
- Some industries, such as iron and steel, agriculture (basic foodstuffs, such as maize), chemicals (fertilisers), energy (fuels) and electronics (communication), are often regarded as strategic industries. ✓✓
- Developing countries may feel that they need to protect and develop strategic industries in order to become self-sufficient. ✓✓

(f) Prevention of dumping ✓

- Dumping is selling goods in a foreign market at prices that are below the cost of production in the country of origin. ✓✓
- Foreign enterprises may engage in dumping because government subsidies permit them to sell at very low prices or because they are seeking to raise profits through price discrimination. ✓✓
- The reason for exporting products at a low price may also be to dispose of accumulated stocks of the good. ✓✓
- Consumers in the importing country will therefore benefit from lower prices. ✓✓

- The long-term objective of exporting countries may be to drive out domestic producers and gain a strong market position.
- Consumers are likely to lose out as a result of the reduction in choice and the higher prices that the exporters will be able to charge. ✓✓
- Domestic production will decrease as some of the local manufacturers may be competed out of the market by cheap foreign products. ✓✓
- Tax revenue for the government will decrease as workers lose jobs and businesses reduce production. ✓✓

(g) **Stable exchange rates and balance of payments** ✓

- The primary reason for protectionism is that an unstable currency tends to cause underdevelopment, limiting a country's imports and exports. ✓✓
- Protecting the balance of payments and improving the terms of trade are sometimes used as arguments to justify protectionist policies. ✓✓
- Protectionism helps to reduce imports thereby increasing the trade balance and helps the local currency (rand) to appreciate. ✓✓

(h) **Protection of natural resources** ✓

- International trade and globalization stimulate awareness of the unique features of natural resources. ✓✓
- Governments can use trade restrictions and domestic measures to strengthen property rights or reduce the exploitation of natural resources. ✓✓
- Governments could make producers and consumers take account of the social costs of their activities by levying excise duties such as carbon tax. ✓✓

Accept any other correct relevant response)

(Allocate a max of 8 marks for headings/subheadings and examples) (Max 26)

ADDITIONAL PART

It is important for South Africa to increase its export capacity because: -

- Export-led economic growth may lead to economic development in the country. ✓✓
- Income generated in the form of foreign currency can be used to pay for imported production inputs such oil and machinery. ✓✓
- The trade balance may increase which will reduce balance of payments (BOP) problems. ✓✓
- Demand for local goods and services may increase through export markets that are much bigger than local markets. ✓✓
- Local businesses will be encouraged to produce goods in large quantities which leads to a decrease in the cost production. ✓✓
- Prices of local goods and services will decrease as they are produced in large quantities. ✓✓
- The global competitiveness of local businesses will increase through economies of scale and innovation. ✓✓
- More job opportunities will be created for local households as new businesses will be established to produce exports. ✓✓
- Financial assistance will be provided to producers to upgrade their technology and improve productivity. ✓✓
- The industrial base of the economy will diversify and expand through the establishment of new industries that produce exports. ✓✓

(Accept any other correct relevant response)

(Max. 10)

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

CONCLUSION

The government should choose a desirable mix of protectionist and free trade policies that will suit the prevailing conditions in the economy. ✓✓

(Accept any other relevant higher order conclusion)

(Max. 2)

[40]

TOTAL SECTION C:

40

GRAND TOTAL:

150