



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS
NOVEMBER 2009
MEMORANDUM**

MARKS: 300

This memorandum consists of 30 pages.

SECTION A (COMPULSORY)**QUESTION 1**

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A – C) next to the question number (1.1.1 – 1.1.12) in the ANSWER BOOK.

1.1.1 B (provide merit goods) ✓✓

1.1.2 A (rise) ✓✓

1.1.3 C (macroeconomic multiplier) ✓✓

1.1.4 B (JSE Securities Exchange) ✓✓

1.1.5 A (efficient resource allocation) ✓✓

1.1.6 C (monopolist) ✓✓

1.1.7 A (promotes economic growth) ✓✓

1.1.8 A (foreign unemployed people) / C (structurally unemployed people) ✓✓

1.1.9 B (more diversified) ✓✓

1.1.10 A (International tourism) / C (community tourism) ✓✓

1.1.11 A (fiscal policy) ✓✓

1.1.12 B (demand-pull inflation) ✓✓ (12 x 2) (24)

1.2 Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the correct word/term next to the question number (1.2.1 – 1.2.5) in the ANSWER BOOK.

1.2.1 Medium-Term Expenditure Framework ✓✓

1.2.2 Petrol ✓✓

1.2.3 Skills Support Programme ✓✓

1.2.4 Stats SA ✓✓

1.2.5 Global warming ✓✓ (5 x 2) (10)

1.3 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A – I) next to the question number (1.3.1 – 1.3.8) in the ANSWER BOOK.

- 1.3.1 E (Large public corporations run according to business principles) ✓✓
- 1.3.2 H (Purchasing of fixed property to create employment) ✓✓
- 1.3.3 A (Organisation of Petroleum Exporting Countries – OPEC) ✓✓
- 1.3.4 D (Optimal allocation of resources) ✓✓
- 1.3.5 G (A process where communities move from rural to urban areas) ✓✓
- 1.3.6 F (The main operational instrument used by the SARB) ✓✓
- 1.3.7 B (Protecting the earth's resources to support future generations) ✓✓
- 1.3.8 C (A tariff imposed on imported goods to control inflation) ✓✓
- (8 x 2) (16)
- TOTAL SECTION A: 50**

SECTION B

Answer any THREE questions from this section in the ANSWER BOOK.

QUESTION 2

2.1 Choose the correct word between brackets:

2.1.1 Increasing ✓✓

2.1.2 Devaluation ✓✓

2.1.3 Technology ✓✓

2.1.4 Factor ✓✓ (4 x 2) (8)

2.2 List any THREE factors influencing demand for foreign exchange.

- Importing goods / **purchasing of foreign goods** ✓✓
- Services from foreign countries to the country concerned e.g. shipping, insurance ✓✓
- Payment of interest and dividends on foreign capital ✓✓
- Transfer of capital to foreign countries ✓✓ / **Foreign investments / Placing a deposit with a foreign bank** ✓✓
- **Foreign currency speculations by local residents** ✓✓
- Tourists' / **officials** spending money in foreign countries ✓✓
- Payment of installments on repayments of overseas loans ✓✓
- **Primary income outflows** ✓✓
- **Purchase of ZAR by the SARB** ✓✓
- Other payments to foreign countries ✓✓ (Any 3 X 2) (6)

2.3 Study the table below on the calculation of GDP and answer the questions that follow.

2.3.1 **GDP** is **total value of final goods and services** ✓ produced **within the boundaries/borders** ✓ of a country for a specified period.
GNP is **total value of final goods and services** ✓ produced by the **permanent residents** ✓ of a country for a specific period. (4)

2.3.2 Gross Value Added ✓✓ (2)

2.3.3 A = factor cost ✓✓
C = taxes ✓✓ (4)

2.3.4 R1 742 bn ✓+ R35 bn ✓ – R6 bn ✓ = R1 771 bn ✓
OR
R1 771 bn ✓✓✓✓ / 1 771 ✓✓✓✓ (4)

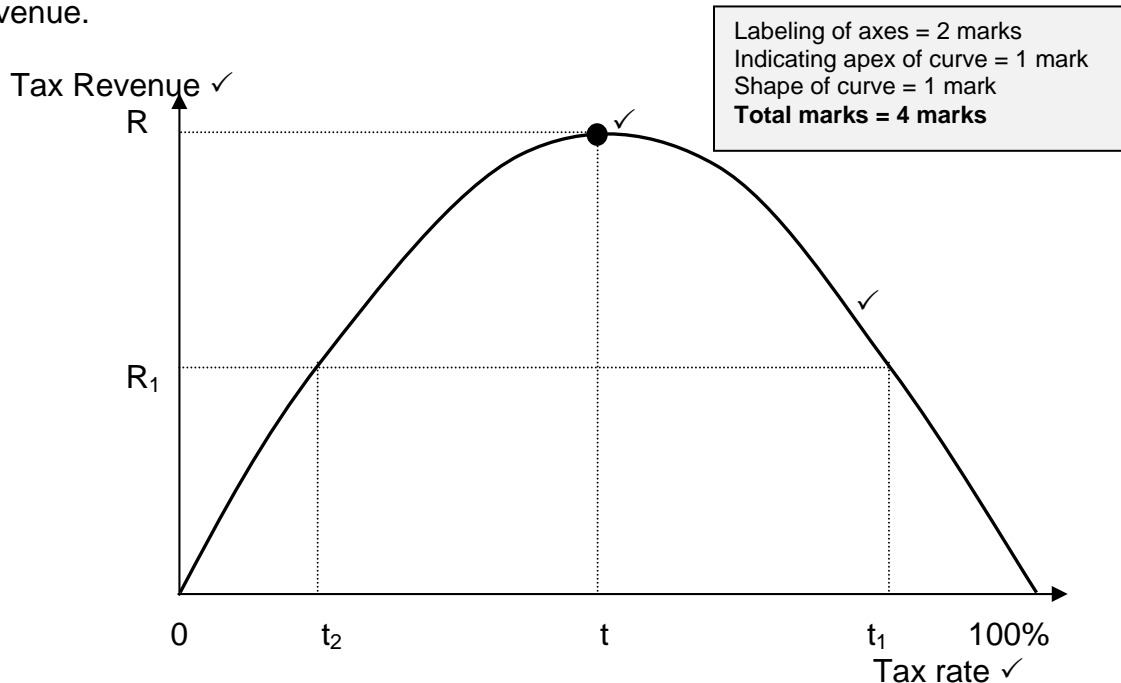
2.3.5 Compensation of employees ✓✓✓ (3)

2.3.6 **Foreigners contribute more to our economy than we do to their economy**, therefore a greater amount is subtracted from the GDP and less is added. ✓✓✓

Accept any other relevant explanation

(3)

2.4 With the aid of a Laffer curve, explain the relationship between tax and revenue.



- The Laffer curve shows the relationship between tax rates and tax revenue collected by the government ✓✓
- The curve shows that as tax increase government revenue increases up to a certain point (e.g. t_2) ✓✓
- If the tax rate rises beyond 't', (e.g. at t_1 there will be a decline in government revenue) ✓✓
- When the tax rate is high people are less likely to work hard ✓✓
- If tax is 100% then nobody will work because all income would go to the government ✓✓
- Too high tax rates may lead to tax evasion and avoidance ✓✓
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest ✓✓
- If tax rate is zero, no government revenue will be raised ✓✓
- Economists use this to justify a reduction in the level of income tax ✓✓
- The apex of the curve shows the tax rate where government revenue can be maximised ✓✓
- **This point can vary from country to country** – the Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate ✓✓
- Evidence suggests that tax rates in most countries are below t. ✓✓
- In South Africa individual and company income tax rates were reduced over the last decade ✓✓

(Max 6 x 2)

(16)
[50]

QUESTION 3

3.1 Choose the correct word between brackets:

3.1.1 Homogenous ✓✓

3.1.2 Internal ✓✓

3.1.3 Free riders / **parasites** ✓✓

3.1.4 Collective ✓✓

(4 x 2)

(8)

3.2 List any THREE examples of negative externalities, caused by industrial development.

- Air pollution ✓✓
- Water pollution ✓✓
- Noise pollution ✓✓
- Environmental / Land pollution / Light pollution ✓✓
- Global warming ✓✓
- Social illnesses ✓✓
- Traffic increases / **congestion** / Road damages ✓✓
- Habitats of plants and animals are destroyed / **environmental degradation** / **less land available for agriculture** ✓✓
- **Informal settlements / squatting / overpopulation** ✓✓
- **Housing resettlement** ✓✓
- **Blockages of routes** ✓✓
- **Accidents due to new traffic patterns** ✓✓

(3 x 2)

(6)

3.3 Study the graph below and answer the questions that follow.

3.3.1 A market is a **place or circumstance** ✓ where **buyers and sellers** interact ✓ **to determine the price and quantity.** ✓

(3)

3.3.2 Perfect Competition / **Perfect Market.** ✓✓

Where: P_1 / OP_1 (Market price) = $MC = MR = AR$ / **The demand curve is horizontal / parallel to the quantity axis** ✓✓✓

(5)

3.3.3 P_1 / OP_1 ✓✓

(2)

3.3.4 $E_3 / MC = MR$ / where MC intersects AVC at its minimum turning point ✓✓

(2)

3.3.5 Short-term equilibrium – The period is so short that it is **possible** to vary the quantity of at least one input. All other inputs are fixed / **Demand equals supply – economic profit/loss** ✓✓

Long-term equilibrium – There are no fixed inputs, all the inputs are variable. The period is long enough to vary all the inputs /

Firms can only make normal profit ✓✓

(2 X 2)

(4)

3.3.6 **Economic Loss / Loss** ✓✓✓✓

(4)

3.4 Explain public goods and imperfect competition as reasons for market failure.

PUBLIC GOODS:

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓
- They are not provided by the price mechanism because producers cannot withhold the goods from non-payment and there is often no way of measuring how much a person consumes. ✓✓
- There is no basis for establishing a market price. ✓✓
- Non-rivalry ✓✓ the consumption by one person does not reduce the consumption of another person ✓✓ e.g. a lighthouse ✓✓
- Non-excludability ✓✓ consumption cannot be confined to those who have paid, so there are free riders ✓✓ e.g. radio and TV in South Africa ✓✓
- Social benefits outstrip private benefits / Merit goods ✓✓ e.g. health care and education ✓✓
- Infinite consumption ✓✓ once provided, the marginal cost of supplying one more individual is zero ✓✓ e.g. traffic lights ✓✓
- Non-rejectability ✓✓ individuals may not be able to abstain from consuming them ✓✓ e.g. street lighting ✓✓
- State must finance provision of public goods by means of taxation ✓✓ (Accept any other relevant answer/fact).

Maximum 4 marks for listing of examples

(Max. 4 x 2)

(8)

IMPERFECT COMPETITION:

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows them to restrict output. ✓✓ e.g. monopoly, duopoly, oligopoly ✓✓
- Raise prices and produce where price exceeds marginal cost. ✓✓
- They can also prevent new businesses from entering the industry. ✓✓
- E.g. Businesses had technology to produce long-life light bulbs for some time before they went on the market ✓✓
- E.g. Technology that allows cars to be driven by fuels other than fossil fuels ✓✓
- E.g. Debatable whether a cure for common cold would find its way onto the market easily ✓✓
- Imperfect markets fail to achieve technical and allocative efficiency ✓✓
- The modern market does not always allow for price negotiation ✓✓
- Advertising is often employed to promote producer sovereignty ✓✓

Maximum 4 marks for listing of examples

(Max. 4 x 2)

(8)

[50]

QUESTION 4

4.1 Choose the correct word between brackets

4.1.1 Dualistic ✓✓

4.1.2 Food ✓✓

4.1.3 Quotas ✓✓

4.1.4 Real GDP ✓✓

(4 x 2) (8)

4.2 List any THREE uses of the per capita income figures.

- To indicate economic development ✓✓
- To indicate living standards / prosperity levels / poverty levels ✓✓
- To compare living standards ✓✓

Any other relevant fact in connection with living standards. (3 X 2) (6)

4.3 Study the extract below and answer the questions that follow.

4.3.1 SMME ✓✓
BEE ✓✓

(2 x 2) (4)

- 4.3.2
- Financial help (assistance) / loans or subsidies / R250 million venture capital fund ✓✓
 - More smaller investments ✓✓
 - Job creation ✓✓
 - Skills development ✓✓
 - Increase economic share ✓✓

(Any 2 x 2) (4)

4.3.3 Economic growth consists of **growth of real GDP** / implies an **increase in the capacity of the economy to produce** more goods and services ✓✓✓Economic development consists of **growth of per capita real GDP** / implies an **increase in the standard of living.** ✓✓✓

(Accept any other relevant definition.) (2 x 3) (6)

4.3.4 "... backing small businesses and creates sustainable jobs ..." /
"... tries to create jobs, helps to bring in BEE and develop skills ..." /
"... meet its self-imposed job creation and poverty alleviation ..." /
"... higher number of smaller investments ..." / " ... BEE companies account for more than 2/3 of (loan) approvals ..." ✓✓✓

(Any 1 x 3) (3)

4.3.5 DBSA ✓✓✓

(3)

4.4 Discuss GDP and employment as economic indicators.

GDP:

- GDP is total value of all final goods and services produced within the borders of a country in one year ✓✓
- Measures total production of an economy ✓✓
- Formula: $\frac{GDP_t - GDP_o}{GDP_o} \times 100$ ✓✓
- Increased GDP will cause economic growth ✓✓
- Gives an indication of:
 - economic growth ✓✓
 - relative importance of different sectors in economy ✓✓
 - South Africa's economic growth in relation to growth of other countries ✓✓
 - Real GDP measures growth performance of economy ✓✓ / GDP adjusted with price increases ✓✓
 - Real GDP used in forecasting ✓✓ real GDP used to describe business cycles ✓✓
 - Per capita real GDP used to indicate economic development, indicate living standards and compare living standards ✓✓ (Max. 4 x 2)

(8)

Employment:

- Full employment refers to aim of providing everyone who is willing to work at current wage rate with a job ✓✓
- Increase employment to decrease loss of production – produce more goods and services ✓✓
- Unemployment is calculated by expressing number of people who are willing and able to work, but do not have a job, as a percentage of the total number of people that are willing and able to work (EAP)
- Employment rate – calculated by expressing the number of employed people as a percentage of the EAP ✓✓ / labour force participation rate ✓✓
- Employment is important for the forecasting of trends – employment in the various sectors ✓✓
- As well as the calculations of productivity / unemployment / employment rate ✓✓
- To ascertain economic successes ✓✓

Max. (4 x 2)

(8)
[50]

QUESTION 5

5.1 Choose the correct word between brackets.

5.1.1 Inbound ✓✓

5.1.2 CPI ✓✓

5.1.3 Public ✓✓

5.1.4 Stagflation ✓✓ (4 x 2) (8)

5.2 List any THREE causes of demand-pull inflation.

- General public is not savings conscious. ✓✓
 - People spend more / **increased consumption** ✓✓
 - Not enough savings for essential capital investments ✓✓
 - The general public's spending becomes extravagant ✓✓
 - Increase in public sector spending, without a corresponding increase in productivity. ✓✓
 - An increase in the money supply without a corresponding increase in production / **too much money chasing too few goods** ✓✓
 - Easy availability of credit ✓✓
 - Higher exports, without no increase in domestic production ✓✓
 - **Higher disposable income due to reduction of tax, more employment** ✓✓
- (Any 3 X 2) (6)

5.3 Study the cartoon below and answer the questions that follow.

5.3.1 Monetary Policy ✓✓ (2)

5.3.2 Monetary Policy Committee ✓✓ (2)

5.3.3 Private consumption expenditure needs to decrease. ✓✓✓
The demand for goods and services (aggregate demand) should decrease. ✓✓✓
Restrict granting of credit – borrowing and loans. ✓✓✓
Accept any other relevant fact. (Any 1 x 3) (3)

5.3.4 3% – 6% ✓✓✓ (3)

5.3.5

- Economic agents reduce quantity of money that they demand and therefore the SARB reduces the supply of money. ✓✓
- Savings will increase. ✓✓
- Payments on mortgage bonds will increase. ✓✓
- Discourages the **borrowing** of money **from** banks / **credit becomes more expensive** ✓✓
- Private consumption expenditure will decrease. ✓✓
- **Job losses** ✓✓
- **Curb the rate of inflation** ✓✓
- **Increase in foreign and domestic investment** ✓✓ (Any 3 x 2) (6)

- 5.3.6
- **Unfavourable** exchange rates ✓✓
 - Inflation ✓✓
 - Increased consumer spending ✓✓
 - Changes in consumers' tastes and preferences ✓✓
 - **Excessive credit granted** ✓✓
 - Energy / **electricity price** hikes ✓✓
 - Oil-price increases e.g. petrol, diesel, paraffin ✓✓
 - Salary demands ✓✓
 - **Sustained deficit on the current account** ✓✓
- (Any other relevant facts) (Any 2 x 2) (4)

5.4 Discuss any TWO recent international agreements on environmental sustainability.

INTERNATIONAL AGREEMENTS

- **1992: UNCED** ✓✓
- **1992: Montreal Protocol on Substances that Deplete the Ozone Layer** ✓✓
- **1992: Convention on Biological Diversity** ✓✓
- **1992: Framework Convention on Climate Change** ✓✓
- **1992: Convention to Combat Desertification** ✓✓
- **1996: Habitat II Conference in Istanbul** ✓✓
- **1997: Kyoto Protocol on Climate Change in Bonn in Germany** ✓✓

- **Earth Summit / Rio de Janeiro** ✓✓
 - Also called the UNCED (United Nations Conference on Environment and Development), held in June 1992. ✓✓
 - Purpose of the Earth Summit was to set a series of objectives and establish and sign a number of conventions and treaties to address the deterioration of the global environment. ✓✓
 - **Agenda 21** as action plan originated from the Earth Summit ✓✓
 - **Agenda 21 outlined detail key issues to ensure sustainable development – including issues like resource management, population growth, health and poverty** ✓✓
 - Aimed at the sustainable development and the protection of the environment. ✓✓
 - Main value of the summit is that it made countries across the globe aware of the dangers unsustainable development pose to individual countries and the whole world. ✓✓
 - The threat of environmental problems was widely acknowledged and this led to the reduction of global warming. ✓✓

(Max. Any 4 x 2)
- **Johannesburg World Summit on Sustainable Development** ✓✓
 - Largest conference in the country since Rio de Janeiro – 10 years previously. ✓✓
 - Focused on WEHAB – water, electricity, health, agriculture and biodiversity. ✓✓
 - African environmental issues were also highlighted, namely to improve access to clean water and to help fight the HIV/Aids pandemic. ✓✓

NSC – Memorandum

- The Summit was very successful with countries committing themselves to a range of actions, namely improving water and sanitation and addressing the causes of ill health. ✓✓
- Poverty eradication ✓✓
- Changing unsustainable patterns of consumption ✓✓
- Globalization ✓✓
- Health ✓✓
- The environment ✓✓

(Max. Any 4 x 2)

- **Kyoto Protocol** ✓✓

- Agreement to deal with the problem of global warming. ✓✓
- It is a guide or action plan that sets targets for developed countries to reduce greenhouse gas emissions by 7% before 2010. ✓✓
- Signed by 141 nations, including all European and other developed countries USA and Australia ✓✓
- To achieve this, countries put controls on the emissions of greenhouse gases by their largest polluters, which are large companies. ✓✓

(Maks enige 4 X 2)

(Accept current/latest agreements)

(16)
[50]

QUESTION 6

6.1 Choose the correct word between brackets.

6.1.1 Inverse ✓✓

6.1.2 Recycling ✓✓

6.1.3 Indigenous ✓✓

6.1.4 Constant ✓✓

(4 x 2)

(8)

6.2 List any THREE reasons why the countries in the Northern Hemisphere are more developed than those in the Southern Hemisphere.

- Per capita Income is higher ✓✓
- Life expectancy is higher ✓✓
- Education (literacy) is higher ✓✓
- Poverty is lower ✓✓
- Economic growth is higher ✓✓
- Higher level of productivity ✓✓
- Trade is controlled by the Northern Hemisphere (80%) ✓✓
- High technical skills ✓✓
- Better technology ✓✓
- Exploit other countries through Colonialism ✓✓
- Political stability ✓✓
- Better infrastructure ✓✓
- Industrialisation / structural differences like large scale industries ✓✓
- Socio-economic levels differ ✓✓
- Geographical differences ✓✓
- Easy access to capital ✓✓

Also accept if candidate argued from a South/North perspective

(3 x 2)

(6)

6.3 Study the extract below and answer the questions that follow.

6.3.1 Sustainability – relating to the environment, means keeping the environment in tact for future generations/long-term existence/or any relevant answer ✓✓

(2)

- 6.3.2
- Buying from illegal sources ✓✓
 - Products not traceable to source ✓✓
 - Pirate fishing ✓✓
 - Mismanagement ✓✓
 - Over-exploitation ✓✓
 - Unregulated and unrecorded fishing ✓✓

(Any 2 x 2)

(4)

- 6.3.3
- Biological pollution ✓ animal or plant species can change or suffer from ill health, due to sewage in rivers / sea. ✓✓
 - Chemical pollution ✓ the effects from oil leakages on beaches or waste from a factory. ✓✓
 - Land pollution ✓ includes visible waste and litter as well as pollution of the soil itself. ✓✓
 - Water pollution ✓ any relevant answer relating to sea and fresh water pollution. ✓✓ (Any 2 x 3) (6)
- 6.3.4
- Sustainable fishing practices ✓✓
 - Responsible aquaculture development ✓✓
 - Education ✓✓
 - More investment in environmental sustainability ✓✓
 - National awareness programme ✓✓
 - Accept any other relevant opinion (Any 2 X 2) (4)
- 6.3.5
- Illegal fishing fines ✓✓
 - Issuing of permits ✓✓
 - Issuing of quotas ✓✓
 - **Stricter law enforcement** ✓✓
 - Accept any relevant fact (Any 2 x 2) (4)

6.4 Discuss the **suitability** of South Africa's national industrial development policy.

- Promoting investment in physical and human capital ✓✓ – human capital and sound skills base crucial for attracting global business to SA and ensure long-term economic growth ✓✓ creates strong base for productivity sensitivity because skilled workers are more productive ✓✓
- Encouraging Research and Development (R & D) and promoting innovation ✓✓ protected intellectual property ensures more effective use of patents and copyright ✓✓ encourages businesses to develop new products and commit themselves to intensive and focused research ✓✓
- Supporting technology ✓✓ encourages enterprises to apply scientific and technical knowledge to improve products and production processes ✓✓ government has established technology incubators – these products and production processes give enterprises a comparative advantage and open up export opportunities ✓✓
- **Enforcing competitiveness** ✓✓ enhances market efficiencies and ensures that businesses are lean and mean ✓✓
- **Investing in physical infrastructure** ✓✓ includes maintenance, improvement and expansion of infrastructure ✓✓
- **It is clear that countries that industrialized the most rapidly, have implemented large-scale, robust and conditional industrial policies which were closely integrated with related policies** ✓✓

The successes South Africa experienced were:

- **Market access for SA producers was secured through re-entry into the WTO and 2 major trade agreements with EU and the SADP** ✓✓
- **SA has a vibrant automotive industry due to the motor industry Development Programme with substantial multiplier effects on associated sectors** ✓✓

- Black economic empowerment has become a fundamental reality of doing business in South Africa ✓✓
- The country's technology have enjoyed substantial success, such as the Support Programme for Industrial Innovation and the Technology and Human Resources for Industry Programme ✓✓
- Development financing by the Industrial Development Corporation has played an invaluable role, with the most job-creating projects ✓✓

The industrial policy needs to be strengthened in the following areas:

- Industrial financing is required to meet SA's investment and industrialization challenges ✓✓
- Sectors: identify opportunities and challenges faced by sectors outline how the sector strategies address the challenges and maximize the opportunities to take development forward ✓✓
- Trade policy needs to be more closely informed by industrial policy considerations ✓✓
- Pricing and competition policy needs to be strengthened in order to deal better with the challenges posed by high levels of industry concentration and anti-competitive behaviour ✓✓
- Promotion of SDIs does not yet appear to bring about dramatic economic transformation in their areas ✓✓
- Establishment of IDZs has been slow ✓✓
- As far as industrial development is concerned the focus has shifted to SMMEs which are often more suited for local conditions ✓✓

(Enige 8 x 2)

(16)
[50]

TOTAL SECTION B:

150

SECTION C

Answer any TWO questions from this section in the ANSWER BOOK.

I. Essay responses:

- Should include an introduction, body and conclusion.
- For the introduction and conclusion 5 marks will be allocated.
- In addition, 5 marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

II. Non-essay responses:

- Can include: Formal letters, minutes, reports or memoranda.
- In addition, 5 marks will be allocated for the interpretation of the topic.
- In addition, 5 marks will be allocated for the format.
- A maximum of 40 marks will be allocated for the content.

QUESTION 7**ESSAY RESPONSE**

Explain how the various business cycle indicators can be used in forecasting, with the aid of an appropriately labelled diagram.

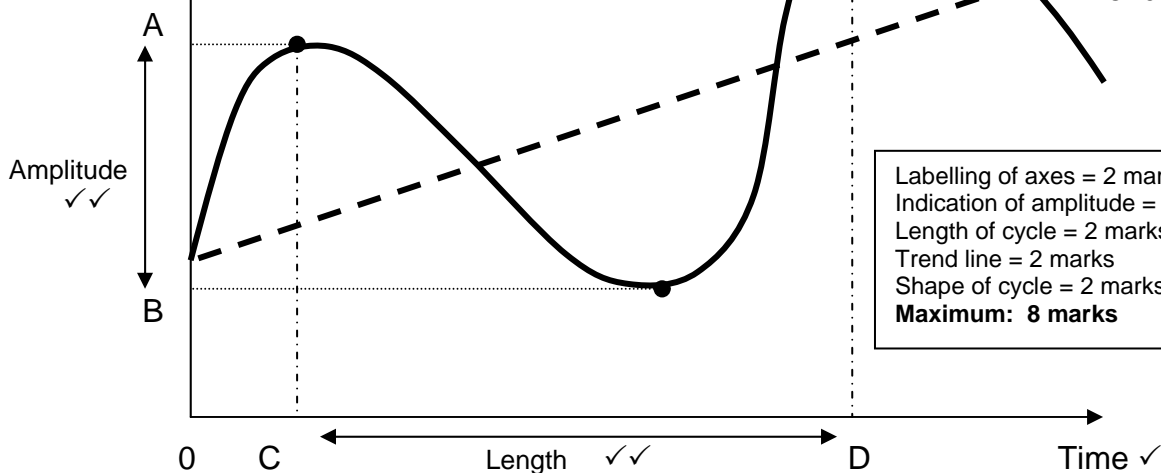
INTRODUCTION

Accurate prediction is not possible in Economics. The best the economists can do is to try and forecast what might happen. There are a number of techniques that are available to help economists to forecast business cycles e.g. economic indicators, trend line, etc. ✓✓✓ (Max 3)

(Accept any other relevant introduction).

BODY

Level of economic activity ✓



Labelling of axes = 2 marks
Indication of amplitude = 2 marks
Length of cycle = 2 marks
Trend line = 2 marks
Shape of cycle = 2 marks
Maximum: 8 marks

BUSINESS CYCLE INDICATORS:**1. LEADING ECONOMIC INDICATORS ✓✓**

- These are indicators that change before the economy changes ✓✓
- They give consumers, business leaders and policy makers a glimpse of where the economy might be heading ✓✓
- When these indicators rise, the level of economic activities will also rise in a few month's time. ✓✓
- E.g. job advertising space/inventory/sales ratio ✓✓
- **Graph on leading indicators** ✓✓ **Max 6**

2. LAGGING ECONOMIC INDICATORS ✓✓

- They do not change direction until after the business cycle has changed its direction. ✓✓
- They serve to confirm the behaviour of co-incident indicators. ✓✓
- E.g. the value of wholesalers' sales of machinery ✓✓ if the business cycle reaches a peak and begins to decline then we are able to predict the value of new machinery sold ✓✓
- **Graph on lagging indicators** ✓✓ **Max 6**

3. CO-INCIDENTAL ECONOMIC INDICATORS ✓✓

- They simply move at the same time as the economy moves ✓✓
- It indicates the actual state of the economy. ✓✓
- E.g. value of retail sales. If the business cycle reaches a peak and then begins to decline, then the value of retail sales will reach a peak and then begin to decline at same time ✓✓ **Max 6**

Leading indicators	Co-incident indicators	Lagging indicators
<ul style="list-style-type: none"> • Nett new companies registered • Number of new vehicles sold • Nett gold and other foreign reserves • Number of residential building plans passed • Share prices • Real export of goods (gold excluded) • Gross operating surplus as % of GDP • Labour productivity in manufacturing • Job advertisements in Sunday Times • Commodity prices in US \$ for a basket of SA export commodities • Opinion survey of the average hours work per factory worker in the manufacturing sector • Opinion survey on stocks in relation to demand: manufacturing and trade • Opinion of business confidence of manufacturing, construction and trade • Opinion survey of volume of orders in manufacturing 	<ul style="list-style-type: none"> • Registered unemployed. • Physical volume of manufacturing production. • Real retail sales • Real merchandise imports. • Utilization of capacity in manufacturing • Gross value added at constant prices excluding agriculture, forestry and fishing • Industrial production index • Value of wholesale, retail and new vehicle sales at constant prices • Total formal non-agricultural employment 	<ul style="list-style-type: none"> • Employment in non-agricultural sectors. • Hours worked in construction • Cement sales in tons • Number of commercial vehicles sold • Real investment in machinery and equipment • Unit labour cost in manufacturing • Wholesale sales of metals, machinery and equipment • Prime overdraft rate of banks • Value of non-residential buildings completed at constant price

4. LENGTH ✓✓

- Is the time it takes for business cycle to move through one complete cycle (measured from peak to peak) ✓✓
- E.g. Useful to know the length because the length tends to remain relatively constant over time ✓✓
- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy ✓✓
- **Longer cycles show strength** ✓✓
- **Cycles can overshoot** ✓✓

Max 6

5. AMPLITUDE ✓✓

- It is the difference between the total output between a peak and a trough ✓✓ / **Measures the distance of the oscillation of a variable from the trend line** ✓✓
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles ✓✓
- The larger the amplitude the more extreme the changes are that may occur. ✓✓

(5)
[50]

E.g. During the upswing inflation may increase from 5% to 10%. (100% increase) ✓✓

Max 6

6. TREND ✓✓

- A trend is the movement in a general direction of the economy ✓✓
- It usually has a positive slope because production capacity of the economy increases over time. ✓✓
- E.g. The diagram above illustrates an economy which is growing – thus an upward trend ✓✓
- Trends are useful because they indicate the general direction in which the economy is moving – indicate the rate of increase or decrease in level of output ✓✓

Max 6

7. EXTRAPOLATION ✓✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓
- E.g. if it becomes clear that the business cycle has passed through a trough and has entered into a boom phase, forecasters might predict that the economy will grow in the months that follow ✓✓
- It's also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓

Max 6

8. MOVING AVERAGE ✓✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time ✓✓
- E.g. the moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- They are calculated to iron out small fluctuations and reveal long-term trends in the business cycle ✓✓

Max 6

Body max: 40

CONCLUSION

Business cycles will continue to have an effect on the economic well-being of South Africa in future. Although we may understand the causes of business cycles and how the economy may respond to certain policies, accurate prediction of business cycles is beyond us. ✓✓ (Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

QUESTION 8**ESSAY RESPONSE**

Examine the monopoly as a market structure and briefly compare it to the perfect market.

INTRODUCTION

The major organisational features of a market, (e.g. number of sellers/buyers the degree of product differentiation/the availability of information) are called the structure of the market. ✓✓✓

OR

Is a market structure in which there is only ONE seller of a good or service that has no close substitutes, entry into that market is completely blocked. ✓✓✓ (Max 3)

BODY**MONOPOLY AS MARKET STRUCTURE****Number of firms ✓✓**

- Whereas a perfectly competitive industry consists of a large number of small firms, the monopoly consists out of one single firm. ✓✓
- The monopoly is also the industry. ✓✓
- Example: Eskom ✓✓ or De Beers – diamond-selling ✓✓
(Accept any other relevant example) ✓✓
- *In the perfect market there is a large number of firms* ✓✓

Nature of product ✓✓

- The product is unique with no close substitute. ✓✓
- Example: Diamonds are unique. ✓✓
- *In the perfect market products sold are homogeneous.* ✓✓

Market entry ✓✓

- Refers to how easy or difficult it is for businesses to enter or to leave the market ✓✓
- Is entirely/completely blocked. ✓✓
- A number of barriers to entry that may give rise to monopoly can be:
 - Economies of scale ✓✓
 - Limited size of the market ✓✓
 - Exclusive ownership of raw materials ✓✓
 - Patents ✓✓
 - Licensing ✓✓
 - Sole rights ✓✓
 - Import restrictions ✓✓
- *In the perfect market, there is complete freedom of entry and exit* ✓✓

Market Information ✓✓

- This refers to market participant's information on market conditions. ✓✓
- All information on market conditions should be available to both buyers and sellers. ✓✓
- This means that there are no uncertainties. ✓✓
- This assumption also applies in the case of the monopoly. ✓✓
- *In the perfect market both sellers and buyers have full knowledge of all prevailing market conditions* ✓✓

Control over price ✓✓

- A perfectly competitive business has no control over the price of its product and is therefore a price-taker. ✓✓
- In the case of a monopoly there are considerable price control, but limited by market demand and the goal of profit maximisation. ✓✓
- *In the perfect market no individual buyer or seller is able to influence the market price* ✓✓

Demand curve for the firm's product ✓✓

- It equals the market demand curve ✓✓
- Downward-sloping from left to right ✓✓
- *In the perfect market, the market demand curve slopes downwards from left to right, but the individual business cannot influence the market price and its demand curve is the actual market price taken – horizontal to the quantity axis* ✓✓

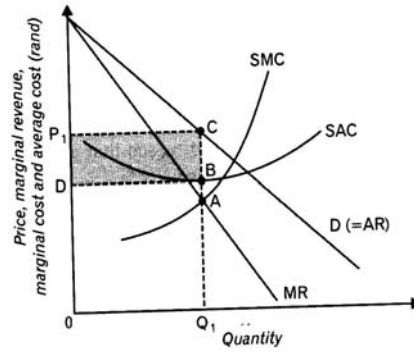
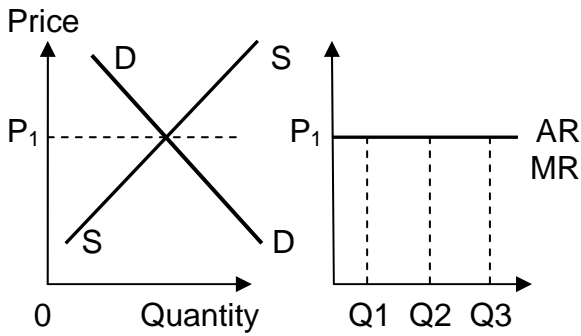
Long-run economic profit ✓✓

- Can be positive ✓✓
- Because new entries are blocked and short-run economic profit therefore cannot be reduced by new competing firms entering the industry ✓✓
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains intact ✓✓
- *In the perfect market economic profit does not exist on the long run* ✓✓

For a discussion only

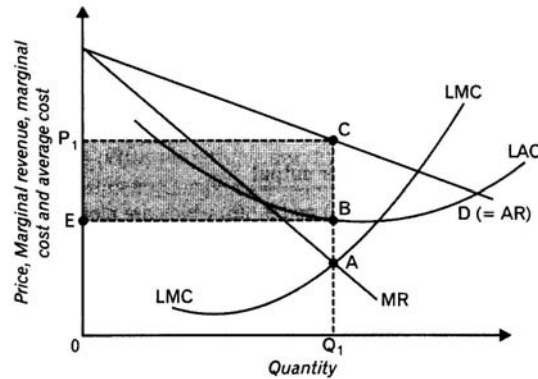
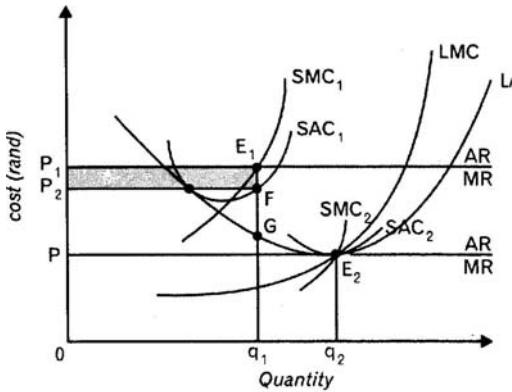
}	Any 5 x 6 (30) – discussion on monopoly
	Any 5 x 2 (10) – for comparison to perfect market

A maximum of 12 marks can be allocated for graphs – 28 marks for discussion



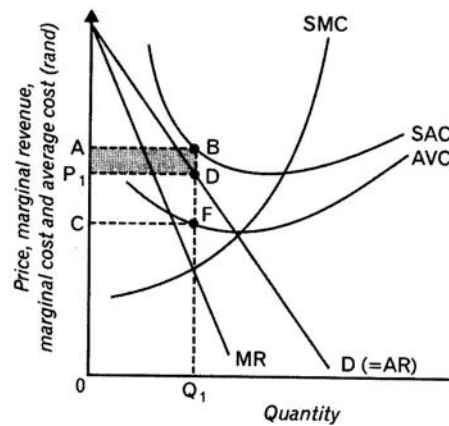
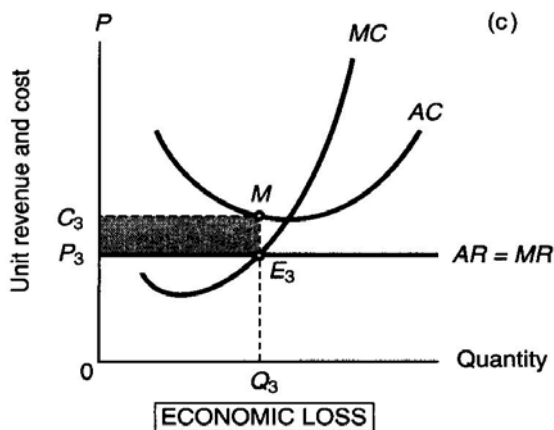
Above graphs may be used in discussing and comparing:

- ♥ Number of firms
- ♥ Control over price
- ♥ Demand curve for firm's product



Above graphs may be used in discussing and comparing:

- ♥ Economic profit over the long term



Above graphs may be used in discussing and comparing:

- ♥ Economic loss

CONCLUSION

From the above it is clear that healthy competition contributes to a well-functioning market structure. ✓✓ (Max 2)
(Accept any other relevant conclusion.)

Use the following assessment grid in conjunction with the above to assess the discussion:

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(5)
[50]

QUESTION 9**ESSAY RESPONSE**

Discuss export promotion as part of the South African international trade policies, briefly highlighting the effectiveness of the methods through which exports are promoted.

INTRODUCTION

Export promotion is when governments pay incentives to encourage production of goods and services that can be exported ✓✓✓ (Max 3)

BODY**REASONS**

- Achieve significant export-led economic growth ✓✓
- Export enlarges production capacity of country because more and larger manufacturing industries are established ✓✓
- The first step to export-led economic growth is to implement policies that encourage the establishment of industries to produce goods and services for export markets ✓✓

METHODS

Exports are promoted through:

- Incentives ✓✓ export incentives include information on export markets, research with regard to new markets, concessions on transport charges, export credit and export credit guarantees and publicity commending successful exporters ✓✓ this will encourage manufacturers to export an increased volume of their production ✓✓
 - Direct Subsidies ✓✓ Include cash payments to exporters, refunds on import tariffs, employment subsidies, and competitiveness of exporting company ✓✓ Aims: reduce cost of production ✓✓ increase competitiveness of exporting company ✓✓ explore and establish overseas markets ✓✓ affected government expenditure ✓✓
 - Indirect subsidies ✓✓ influence government income ✓✓ e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes ✓✓ allows companies not to pay certain taxes to lower their prices and enables them to compete in international markets ✓✓
 - Challenge for governments to design incentives and subsidies in such a way that prices of export goods can't be viewed as dumping prices ✓✓
- 1) Trade neutrality ✓✓ can be achieved if incentives in favour of export production are introduced up to point that neutralises the impact of protectionist measures in place ✓✓ e.g. subsidies equal to magnitude of import duties can be paid ✓✓
 - 2) Export processing zones (EPZs) ✓✓ is free-trade enclave within a protected area – is fenced and controlled industrial park that falls outside domestic

customs area, and usually located near harbour or airport ✓✓

Note: For the response with regard to the effectiveness of export promotion methods, a maximum of 5 marks can be allocated.

ADVANTAGES

- No limitations on size and scale ✓✓ since world market is very large ✓✓
- Cost and efficiency of production ✓✓ based on this and organised along lines of comparative advantage ✓✓
- Increased domestic production ✓✓ will expand exports to permit more imports and may result in backward linkage effects that stimulate domestic production in related industries ✓✓
- Exchange rates are realistic ✓✓ and there is no need for exchange control and quantitative restrictions ✓✓
- Value can be added to natural resources of the country ✓✓
- Creates employment opportunities ✓✓
- Increase in exports has positive effect on balance of payments ✓✓
- Increase in production leads to lower domestic prices, which benefit local consumers ✓✓

DISADVANTAGES

- Real cost of production ✓✓ subsidies and incentives reduce total cost of production which must be met from sales ✓✓ real cost is thus concealed by subsidies ✓✓ products cannot compete in open market ✓✓
- Lack of competition ✓✓ businesses charge prices that are so low that they force competitors out of the market ✓✓
- Increased tariffs and quotas / can be against spirit of provisions of WTO ✓✓ overseas competitors retaliate with tariffs and quotas ✓✓ goods are sold domestically below their real cost of production (export subsidies and dumping) ✓✓
- Protection of labour-intensive industries ✓✓ developed countries maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
- Withdrawal of incentives often leads to closure of effected companies ✓✓
- Incentives often lead to inefficiencies in the production process, since companies don't have to do their best to compete ✓✓

- Can be seen as dumping ✓✓

Max 40**CONCLUSION**

From the above discussion it is clear that protection still plays a significant role in the South African international trade policy. ✓✓

(Any other relevant conclusion must be accepted.)

(5)
[50]

Use the following assessment grid in conjunction with the above to assess the discussion:

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QUESTION 10**NON-ESSAY RESPONSE**

Write a business letter to the Minister of Tourism, discussing the benefits of tourism, and how South Africa will benefit from relevant tourism growth policies regarding taxation and infrastructure development.

Address the letter to:

**The Minister
Department of Tourism
PO Box 1001
PRETORIA
0001**

You are a BEE consultant, S Sithole. Use your own address as a business address.

Your own address ✓

Date ✓

The Minister
Department of Tourism
PO Box 1001
PRETORIA 0001 ✓

(Max 3)

Sir/Madam

REFERENCE: BENEFITS OF TOURISM AND GROWTH POLICIES ✓✓✓ /

1. Benefits of tourism

South Africa benefits directly from tourism because of the growth it causes in GDP, government, infrastructure development and exposure to foreigners. ✓✓✓ /

A major spin-off benefit is foreign exchange earnings. ✓✓✓

(Accept any reference or introduction for maximum 3 marks)

The following sectors benefit the most from tourism:

1.1 Households ✓✓

Benefit through three main impacts of prosperity:

- They receive income because of salaries and wages through employment ✓✓ and their own endeavours in the tourism industry.
- Most of the infrastructure that is created for tourists are also used by the local people ✓✓
- (E.g.) roads, hotels ✓✓
- Tourism requires a number of skills, which require education and training. ✓✓

1.2 Government ✓✓

- The main avenue for governments to benefit from tourism is through the levying of taxes. ✓✓
- These taxes have a dual purpose. ✓✓
- To recover external costs ✓✓ This cost is recovered from the tourist through adding the taxes to the supply price / normal expenditure taxes (e.g. VAT, excise duties, customs duties). ✓✓
- This amount serves to compensate the host community for providing the infrastructure, public amenities (showers, toilets) to the tourists. ✓✓
- To raise revenue. ✓✓ Tourists are seen as part of the overall tax base ✓✓
- (E.g.) through airport departures, air ticket taxes and taxes on hotel rooms ✓✓

1.3 Businesses ✓✓

- Economic and basic services infrastructure is usually provided by the public sector. ✓✓
- A superstructure consists of businesses that provide accommodation, transport, and retailing and recreation services. ✓✓
- Tourism also stimulates certain socio-economic objectives such as entrepreneurship development, Black Economic Empowerment and SMME development. ✓✓
- They are normally private sector activities and make up the profit-generating element of a tourist destination. ✓✓
- A combination of public and private sector finance is used to develop destinations. ✓✓
- The public sector also provides a range of financial incentives for private sector tourism investment (grants, subsidies, loans, taxes) ✓✓
- There are also many informal and less traditional opportunities for tourism benefits and these serve as stepping stones for previously neglected groups in the tourism business. ✓✓
- (E.g.) car rentals, craft curios sales. ✓✓

1.4 Infrastructure ✓✓

- Adequate and well-maintained physical and basic services infrastructure are essential for tourist destination areas. ✓✓
- Economic infrastructure has been prioritised by Department of Tourism ✓✓
- (E.g.) accesses to beaches, lakes and rivers) ✓✓
- Social infrastructure has also been improved ✓✓
- (E.g.) ambulance services, medicines, and information services. ✓✓ (Max 28)

2. Tourism growth policies**2.1 Taxation**

- There has been an escalation in the number of countries that are now levying tourist taxes. ✓✓
- These taxes are merely used as a source of revenue. ✓✓
- THE WTTC recommends that these taxes be raised in accordance with the following guidelines. ✓✓
- **Equity** ✓✓ the taxes should be fair when compared to the other sectors of the economy. ✓✓
- (E.g.) a plane ticket. ✓✓
- **Efficiency** ✓✓ taxes should have a minimal effect on the demand for travel and tourism ✓✓
- (E.g.) an access fee to nature and game reserves ✓✓
- **Simplicity** ✓✓ taxes should be simple to pay and administer. ✓✓ They are levied at a flat rate and not a percentage. ✓✓ (Max 6)

2.2 Infrastructure development

- Roads, basic services are of critical importance for the efficient functioning of the economy. ✓✓
- Infrastructure must be properly maintained for the sake of local citizens, domestic and foreign tourists. ✓✓
- The following basic considerations should be taken into account.
- **Upgrading**: Where expansion is not possible, upgrading should be done. ✓✓
- (E.g.) dirt roads should be converted to tarred roads. ✓✓
- **New technology**: ✓✓ should be implemented in transport and communications ✓✓
- This is vital for effective marketing, promotion and distribution of travel and tourism products, services and information domestically and internationally. ✓✓
- **Infrastructure**: The accessibility and infrastructure of rural areas must be improved. ✓✓
- (E.g.) secondary roads be maintained and domestic tourism will increase dramatically. ✓✓ (Max 6)

Max 40

Yours sincerely/Yours faithfully. ✓

_____ (signature) ✓
S SITHOLE

(Max 2)

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[50]

TOTAL SECTION C: 100

GRAND TOTAL: 300