



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS  
FEBRUARY/MARCH 2012  
MEMORANDUM**

**MARKS: 300**

**This memorandum consists of 22 pages.**

**SECTION A (COMPULSORY)****QUESTION 1: LO1–LO4**

1.1	1.1.1	A – leading ✓✓		
	1.1.2	C – portfolio ✓✓		
	1.1.3	C – demand- and supply- ✓✓		
	1.1.4	B – productive inefficiency ✓✓		
	1.1.5	B – undersupply ✓✓		
	1.1.6	B – $MR > MC$ ✓✓		
	1.1.7	A – liberalisation ✓✓		
	1.1.8	A – comparative ✓✓		
	1.1.9	C – affirmative action ✓✓		
	1.1.10	B – cost-push inflation ✓✓		
	1.1.11	A – indigenous knowledge systems ✓✓		
	1.1.12	C – private benefit ✓✓	(12 x 2)	(24)
1.2	1.2.1	Open-market transactions ✓✓		
	1.2.2	Terms of trade ✓✓		
	1.2.3	AsgiSA ✓✓		
	1.2.4	Monopolistic competition ✓✓		
	1.2.5	Kyoto Protocol ✓✓	(5 x 2)	(10)
1.3	1.3.1	B – government spending and taxation ✓✓		
	1.3.2	C – workplace skills and leadership ✓✓		
	1.3.3	A – $\$1 = R7,40$ ✓✓		
	1.3.4	F – advertising campaigns ✓✓		
	1.3.5	D – minimum earnings required to prevent the entrepreneur from leaving the industry ✓✓		
	1.3.6	G – a tariff as a percentage of the value of imported goods ✓✓		
	1.3.7	E – the price level rises so rapidly that people lose confidence in the value of the currency of a country ✓✓		
	1.3.8	I – the enjoyment and appreciation of undisturbed nature ✓✓	(8 x 2)	(16)
<b>TOTAL SECTION A:</b>				<b>50</b>

**SECTION B****QUESTION 2: LO1 AS1–AS4 – MACROECONOMICS**

- 2.1     2.1.1     leakage ✓✓
- 2.1.2     fixed property ✓✓
- 2.1.3     Finance ✓✓
- 2.1.4     Monetarists ✓✓                                     (4 x 2)     (8)
- 2.2     • Primary sector ✓✓
- Secondary sector ✓✓
- Tertiary sector ✓✓                                     (3 x 2)     (6)
- 2.3     2.3.1     Shows the relation between tax rates and tax revenue of the government ✓✓                                     (2)
- 2.3.2     At point V ✓✓     (2)
- 2.3.3     Tax revenue will decrease ✓✓     (2)
- 2.3.4     At 100% tax rate, nobody will be prepared to work and the revenue of government will also be zero ✓✓     (2)
- 2.3.5     Tax evasion may occur ✓✓     (2)
- 2.4     2.4.1     Point B (peak)/D (trough) ✓✓     (Any 1 x 2)     (2)
- 2.4.2     It indicates the expected growth rate of a country ✓✓ /also referred to as the long-term growth potential of the economy ✓✓ /the general direction in which the indexes that were used in business cycles move ✓✓     (Any 1 x 2)     (2)
- 2.4.3     • Using expansionary monetary policies ✓✓ e.g. reducing interest rates ✓✓
- Expansionary fiscal policies ✓✓ e.g. reducing tax ✓✓
- Increased government expenditure ✓✓ e.g. capital investment projects ✓✓
- (Any other relevant examples)     (Any 2 x 2)     (4)
- 2.4.4     If the business cycle is currently in a downswing, it will lead to the turning point, moving into an upswing ✓✓ / if the business cycle is currently in an upswing, it will lead to an extended expansion phase ✓✓
- (Any other relevant answer)     (Any 1 x 2)     (2)

- 2.5
- There is a flow of goods (imports) to the business from the foreign sector ✓✓
  - which the business pays for ✓✓
  - This will be regarded as expenditure for the business ✓✓
  - There is also a flow of goods from the business to the foreign sector ✓✓
  - This will be income for the business ✓✓ (Any 4 x 2) (8)
- 2.6
- Free-floating exchange rates: They work automatically. If imports increase, the demand for foreign exchange increases. The currency depreciates as a result of working of market forces. Depreciation makes imports more expensive in the depreciating country and exports cheaper in the foreign country. Imports decrease and exports increase, and the currency appreciates.
  - Managed floating exchange rates: Central banks use their reserves to effect depreciation and appreciation. Over the long term currencies have to find their equilibrium levels.
  - Fixed exchange rates: Currencies are devalued and revalued. (Any 4 x 2) (8)
- [50]**

**QUESTION 3: LO2 AS1–AS3 – MICROECONOMICS**

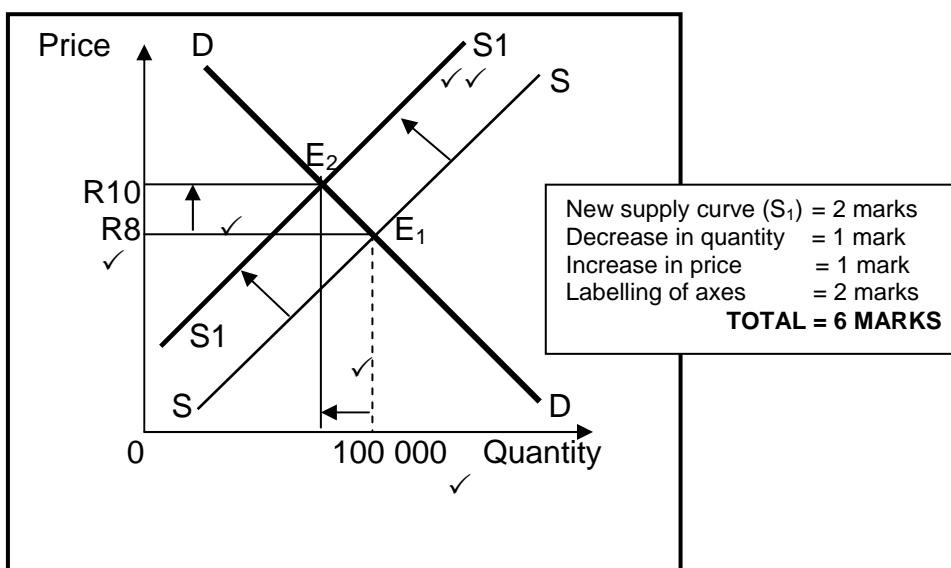
- 3.1 3.1.1 unregulated ✓✓
- 3.1.2 fixed ✓✓
- 3.1.3 social ✓✓
- 3.1.4 artificial ✓✓ (4 x 2) (8)

- 3.2
  - Competition Commission ✓✓
  - Competition Tribunal ✓✓
  - Competition Appeal Court ✓✓ (3 x 2) (6)

- 3.3 3.3.1 Perfect market ✓✓ (2)

3.3.2 Market demand and supply establishes the price in the market (R8) ✓✓ /  
 The individual producer on the market is a price taker ✓✓ and will sell any quantity at the price of R8. (2)

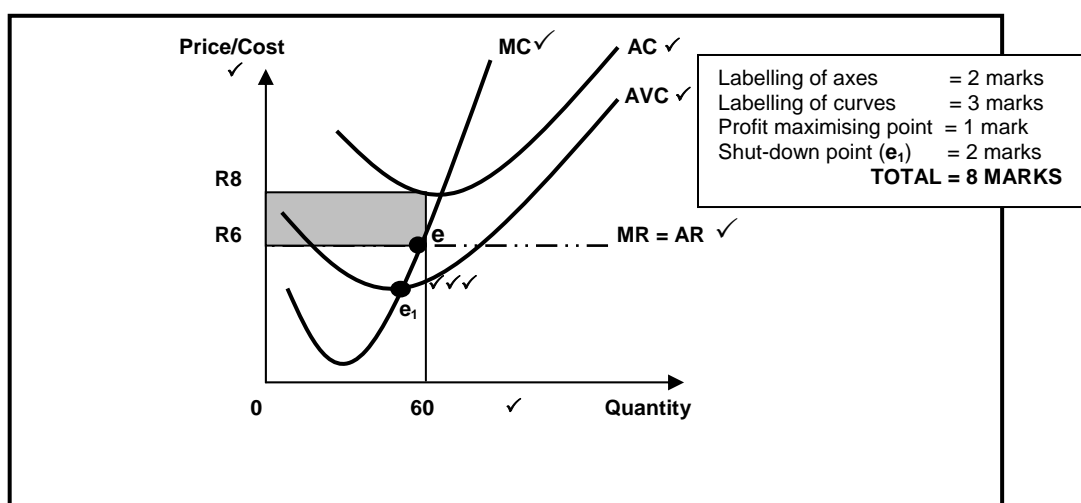
3.3.3



(6)

- 3.4 3.4.1 Collusion is an arrangement between businesses with the aim to limit competition between them ✓✓ (2)
- 3.4.2
- Type of product ✓✓ wine is a differentiated product ✓✓
  - Market entry ✓✓ although it is free, it is not easy ✓✓
  - Control over prices ✓✓ Consol and Nampak has considerable control over prices, but not as much as Owens Illinois as monopolist ✓✓
  - Mutual dependence ✓✓ one business is influenced by the other businesses' action ✓✓ (Any 1 x 4) (4)
- 3.4.3 Through the competition policy the government can:
- Prevent the abuse of economic power ✓✓ /
  - The growth of market power ✓✓ /
  - Prevent restrictive practices ✓✓ (Any 1 x 2) (2)
- 3.4.4 Positive effect on local wine prices (decrease) *cet.par.* ✓✓ (2)
- 3.5
- If the provision of public goods were left to the market we would not have any public goods. ✓✓
  - The provision of public goods and services requires a huge capital outlay ✓✓ and the return on investment in provision of public goods is not profitable ✓✓
  - The failure to supply public goods means we would be less well-off. ✓✓
  - There would be allocative inefficiency ✓✓
  - The reason why the market fails to supply these goods is because:
    - public goods are non-excludable ✓✓
    - public goods are non-rival ✓✓
 (Any 4 x 2) (8)

3.6 Fully labelled graph to illustrate shut-down point in a perfect market



(8)  
[50]



- 4.5
- Calculated from using the information provided by the Lorenz curve ✓✓
  - Shows the distribution of income among proportions of the population ✓✓
  - Is the ratio of the proportion of the population who lives on less than a proportional income ✓✓
  - Measures the degree of inequality in incomes ✓✓
  - If income is perfectly distributed the co-efficient is 0 ✓✓
  - At the other extreme the co-efficient would be 1 ✓✓
  - A government should try to address the unequal distribution of incomes in a country by using tools such as the progressive tax scale ✓✓ and by creating opportunities to create higher incomes ✓✓ through BEE ✓✓ and employment equity ✓✓ (Any 4 x 2) (8)
- 4.6
- South Africa's SDI programme is aimed at attracting infrastructure ✓✓ and investments to neglected and underdeveloped areas ✓✓
  - It endeavours to foster sustainable industrial development and growth ✓✓ particularly in areas where poverty and unemployment are at their highest ✓✓
  - SDI's enable government to enforce its industrial development commitment across national, provincial and local government boundaries ✓✓
  - The SDI is an interdepartmental investment strategy led by the national departments of Trade and Industry and Transport ✓✓
  - Some SDI's are in the form of corridors ✓✓
  - A corridor is a track of land that forms a passageway allowing access from one area to another and offering particular advantages to mining, manufacturing and other businesses ✓✓
  - (e.g.) Maputo Corridor, Coast-to-Coast corridor ✓✓ (Any 4 x 2) (8)
- [50]**

**QUESTION 5: LO4 AS1–AS4 – CONTEMPORARY ECONOMIC ISSUES**

- 5.1
- 5.1.1 stagflation ✓✓
- 5.1.2 debtors ✓✓
- 5.1.3 within ✓✓
- 5.1.4 sustainable ✓✓ (4 x 2) (8)



- 5.2
- Increase in disposable incomes of households/consumption/general public not savings conscious ✓✓
  - Easy availability of credit ✓✓
  - Increase in economically active population ✓✓
  - Increase in money supply without corresponding increase in production ✓✓
  - Excessive demand/commodities demand ✓✓
  - Investment spending/not enough savings to finance essential capital investments ✓✓
  - Government spending increases ✓✓
  - Government's spending becomes extravagant ✓✓
  - Export earnings increase ✓✓
  - Working of market mechanism ✓✓ (Any 3 x 2) (6)
- 5.3
- 5.3.1 Environmental sustainability means the ability of the environment to survive its use for economic activity ✓✓ (2)
- 5.3.2 World Climate Summit/Cancun Summit in Mexico ✓✓ (2)
- 5.3.3 Natural disasters limit their availability due to the rate at which they can be produced ✓✓ (2)
- 5.3.4 Earthquakes cause water pipes to burst leading to water shortage ✓✓  
Tsunamis destroys fresh water resources/pollute fresh water/cause widespread flooding ✓✓ (4)
- 5.4
- 5.4.1 South African Reserve Bank ✓✓ (2)
- 5.4.2 Monetary Policy Committee ✓✓ (2)
- 5.4.3 Interest rates ✓✓ (2)
- 5.4.4 Inflation target ✓✓ (2)
- 5.4.5 Monetary policy ✓✓ (2)
- 5.5
- **Increased direct taxation** ✓✓ reduce excessive demand in the economy ✓✓
  - **Increased indirect taxation** ✓✓ e.g. VAT and excise duties ✓✓
  - **Reducing government spending** ✓✓ cancel government projects ✓✓
  - Introduce measures like **tax rebates** to improve productivity ✓✓
  - **Loan levy** can be introduced ✓✓
  - **Finance budget deficit** on non-inflationary basis ✓✓ get loans from non-banking sector ✓✓
  - Imposing **surcharge on imported goods** ✓✓ increases prices of imported goods – consumers buy fewer goods ✓✓
  - **Supply-side economy** ✓✓ reducing tax on personal income, company tax, tax on interest and dividends and government spending ✓✓ (Any 2 x 4) (8)

- 5.6
- **Granting property rights** ✓✓ ensures that people cares for things that belong to them by using them as profitable as possible ✓✓ if property rights are expanded to common goods, polluters can be charged for the right to pollute ✓✓
  - **Charging for the use of the environment** ✓✓ impose environmental charges – levies fee on consumers and producers for waste they produce and dump in environment ✓✓
  - **Environmental taxes** ✓✓ taxes imposed on output of good e.g. taxes charged on items such as tyres will increase the price of tyres ✓✓
  - **Environmental subsidies** ✓✓ for activities that reduce environmental damage – cost to reduce or prevent harmful effects is recovered from proceeds of taxation ✓✓ used for development of new techniques or equipment ✓✓ encourage production of environment friendly substitutes ✓✓ encourage recycling of waste ✓✓
  - **Marketable permits** ✓✓ businesses are allowed to pollute by giving them a licence to pollute up to a maximum – these licences can be sold to other businesses if they do not pollute at all ✓✓

(Any 2 x 4)

(8)  
[50]

**QUESTION 6: LO2 & LO3 AS1–AS4 – MICROECONOMICS AND ECONOMIC PURSUITS**

- 6.1
- 6.1.1 HDI ✓✓
- 6.1.2 Industrialised ✓✓
- 6.1.3 Identical ✓✓
- 6.1.4 Public ✓✓ (4 x 2) (8)
- 6.2
- Health and nutrition ✓✓
  - Education ✓✓
  - Services ✓✓
  - Housing and urbanisation ✓✓ (Any 3 x 2) (6)
- 6.3
- 6.3.1 Manufacturing sector is concerned with the transformation of raw materials into semi-finished or finished goods ✓✓ (2)
- 6.3.2 More jobs can be created/increased competition in the market benefits the consumer (lower prices) ✓✓ (Any other relevant fact) (2)
- 6.3.3
- Exports ✓✓
  - Tourism ✓✓
  - Agriculture ✓✓
  - Information, communication and technology ✓✓
  - Cultural industries ✓✓ (Any 1 x 2) (2)

- 6.3.4 It promotes BEE because it complies with transforming the South African economy so that the number of black people that own and manage and control the economy can increase significantly ✓✓ and income inequalities will decrease substantially ✓✓  
(Any other relevant answer) (2 x 2) (4)
- 6.4 6.4.1 Occurs when some of the costs and benefits of a decision or action are borne or enjoyed by a second or third party not directly involved in the decision making ✓✓  
(Any other relevant answer) (2)
- 6.4.2 Negative ✓✓ (2)
- 6.4.3 At quantity Q1 ✓✓ (2)
- 6.4.4 The cost of the externality is not included in the market price ✓✓ the market overproduces ✓✓ therefore there is a misallocation of resources ✓✓ If the cost of externality was taken into account, then the market would produce at Q2 ✓✓ which is more desirable to society ✓✓  
(Any 2 x 2) (4)
- 6.5
- **Economic growth** is defined as an increase in the real value of production and income in a country ✓✓
  - Economic growth occurs as a result of an increase in the productivity capacity of a country and is reflected by an increase in the value of real gross domestic product (GDP) ✓✓
  - **Economic development** can be defined as structural changes in the economy that can lead to an increase in the standard of living ✓✓ and an increase in the level of economic welfare of the poor ✓✓
  - Economic development would result in a more equal distribution of wealth and income, better access to health care and education of the poor ✓✓
- (Any other relevant answer) (2 x 4) (8)
- 6.6
- Through its taxing (Progressive Tax System ✓✓) and spending powers (Budget ✓✓) the government can distribute income by subsidising goods and services ✓✓
  - Transferring income to poorer households ✓✓ (e.g.) grants ✓✓
  - Providing certain goods free of charge ✓✓
  - Implementing job creation programmes ✓✓
  - Implementation of minimum wages for the unskilled worker ✓✓
  - Setting of maximum prices on basic foodstuffs (paraffin) ✓✓ which benefit the poor ✓✓
  - Policy measures (e.g.) Land Reform programmes ✓✓/BEE ✓✓/ Affirmative Action ✓✓ (Employment Equity Act), Property subsidies ✓✓
  - Preferential access to government contracts for the previously disadvantaged ✓✓
- (Any 4 x 2) (8)

**[50]****TOTAL SECTION B: 150**

**SECTION C**

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

Essay responses:

- 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.

**QUESTION 7: LO1 AS3 – MACROECONOMICS**

**Discuss the problems of public sector provisioning.**

**INTRODUCTION**

The government responds to market failures by establishing and maintaining state-owned enterprises to provide public goods and services ✓✓✓  
(Any other relevant introduction) (Max. 3)

**BODY**

1. **Accountability** ✓✓
  - It is required to give an explanation of one's decisions, actions and expenditures over a period of time ✓✓
  - There are mechanisms for evaluating government's economic and financial performance ✓✓
  - That the desired quantities and quantity of goods and services for which taxes are raised are delivered ✓✓
  - That monopolies, corruption, nepotism, incompetence and apathy does not occur ✓✓
  - Two important elements of accountability is participation and transparency ✓✓
  - Ministerial responsibilities i.e. the ministers of government departments are responsible for decisions and actions and expenditures ✓✓
  - Parliamentary questioning arises and members of the government departments have to respond ✓✓
  - The national treasury is responsible for treasury control ✓✓
  - The Auditor-General reports annually in writing on each government department ✓✓

## 2. **Efficiency** ✓✓

- Public goods are efficiently provided if Pareto efficiency is achieved ✓✓
- That is if resources are allocated in such a way that no one can be made better off without making someone else worse off ✓✓
- Bureaucracy ✓✓ the official rules and procedures. ✓✓/insensitivity to the needs of their clients ✓✓
- Incompetence ✓✓ the lack of skill or ability to do a task successfully ✓✓ /
- may have improper qualifications/or an attitude of apathy ✓✓
- Corruption ✓✓ the exploitation of a person's position for private gain ✓✓ / taking bribes, committing fraud, nepotism ✓✓

## 3. **The problem of assessing needs** ✓✓

- State owned enterprises do not operate according to the forces of supply and demand ✓✓
- It becomes thus very difficult for state-owned enterprises to assess needs and they are thus prone to under- or over-supplying public goods and services ✓✓
- The census and other household surveys as well as local government structures provide this type of information ✓✓
- Since resources are scarce, government must then decide which needs and whose needs are to be satisfied ✓✓
- In the private sector houses are built according to the price that people are able and willing to pay ✓✓
- In the public sector housing is regarded as a social responsibility and authorities supply them according to the needs of people ✓✓

## 4. **Pricing policy** ✓✓

- In a market economy prices are determined by supply and demand ✓✓
- The objectives of firms are to maximise their profits and they usually set prices to achieve this objective ✓✓
- Government is not set confined to the profit maximisation objective ✓✓
- Government takes into account certain social, economic, political and environmental conditions as well as public opinion ✓✓
- **Free-of-charge services** ✓✓ this is met from taxes ✓✓ and applies to most community goods ✓✓ (e.g.) defence, police ✓✓ and collective goods ✓✓ whereby charges and toll fees are levied ✓✓
- **User-charges** ✓✓ option to charge depends on technical reasons ✓✓ (e.g.) cost of providing a double lane road could be recovered by toll charges ✓✓ Economic reasons ✓✓ such as services like water and electricity ✓✓ that have a zero price ✓✓ political reasons ✓✓ where income distribution is significantly unequal, administrative rationing according to need takes place ✓✓ (e.g.) public health and education ✓✓
- **Direct and indirect subsidies** ✓✓ direct subsidies are used to cover part of the costs ✓✓ (e.g.) urban bus service ✓✓ and an indirect subsidy is used to write off accumulated losses or deficits ✓✓
- **Standing charges** ✓✓ called availability charges ✓✓ (e.g.) water and electricity ✓✓ standing charges goes to meet fixed costs and the price per unit consumed covers variable costs ✓✓

- **Price discrimination** ✓✓ different users have different elasticities of demand for a good ✓✓ (e.g.) commercial and manufacturing businesses pay higher rates than households and they pay on a sliding scale ✓✓
5. **Parastatals** ✓✓ state-owned enterprises ✓✓ that either render a service or when an existing enterprise is nationalised ✓✓ They focus on making a profit and maximizing cost at the expense of the needs of some groups ✓✓ (e.g.) Iscor ✓✓ SABC, SAA, Spoornet ✓✓
6. **Privatisation** ✓✓ refers to the process whereby state-owned enterprises and state-owned assets are handed over or sold to private individuals ✓✓ Nationalisation is the process whereby the state takes control and ownership of privately owned assets and private enterprises ✓✓ It includes contracting of services, Public-Private Partnerships, deregulation, increasing competitiveness ✓✓  
(Any 5 x 8)

### CONCLUSION

If the above problems are not dealt with timeously by government, government will continue to fail its people in terms of service delivery ✓✓

(Any other relevant conclusion)

(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)

(Max. 5)

[50]

**QUESTION 8: LO2 AS3 – MICROECONOMICS**

**Discuss monopoly as a market structure and illustrate, with the aid of a graph, how a monopolist can achieve economic profit.**

**INTRODUCTION**

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

**BODY****MONOPOLY AS MARKET STRUCTURE**

1. **Number of firms** ✓✓
  - The monopoly consists out of one single firm ✓✓
  - Example: Eskom ✓✓ or De Beers – diamond-selling ✓✓  
(Accept any other relevant example)
2. **Nature of product** ✓✓
  - The product is unique with no close substitute ✓✓
  - Example: Diamonds are unique ✓✓
3. **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 ✓✓ or limited size of the market ✓✓ or exclusive ownership of raw materials ✓✓ or patents ✓✓ or licensing ✓✓ or sole rights ✓✓ or import restrictions ✓✓
4. **Market Information** ✓✓
  - For a monopolist all information on market conditions is available to both buyers and sellers ✓✓
  - This means that there are no uncertainties ✓✓
5. **Control over price** ✓✓
  - Regarded as a price maker ✓✓
  - Able to influence price through changing the quantity ✓✓ but limited by market demand and the goal of profit maximisation ✓✓
  - Monopolist chooses the combination of price and quantity that suits it the best ✓✓

6. **Demand curve for the firm's product** ✓✓

- It equals the market (industry) demand curve ✓✓ since it is responsible for the entire output of the industry.
- Downward-sloping from left to right ✓✓

7. **Marginal revenue curve** ✓✓

- Because the demand curve is downward sloping price will decrease for each additional unit produced ✓✓
- Therefore the marginal revenue will be less than price, thus the demand curve and Marginal revenue curve is not the same ✓✓
- The Marginal revenue curve lies below the demand curve. ✓✓

8. **Cost of production** ✓✓

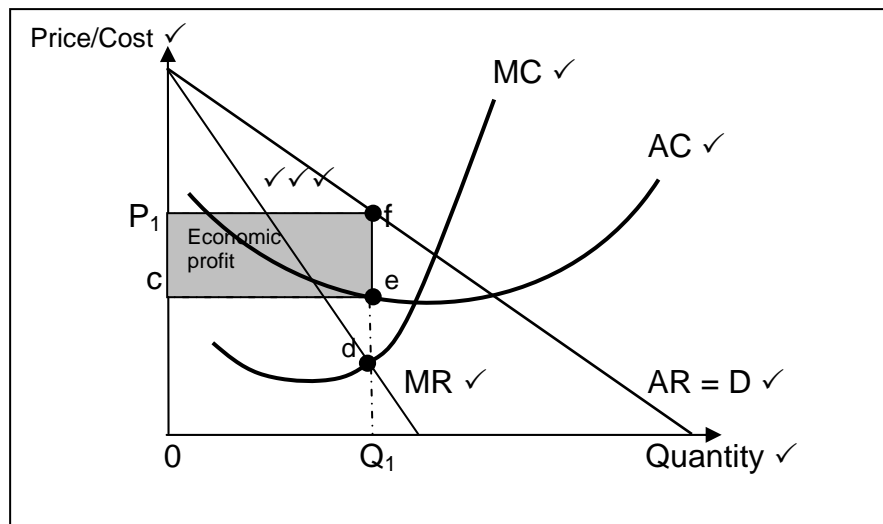
- The shape of the cost curves (MC and AC) is the same as any other producer ✓✓
- The MC increases as more is produced ✓✓
- The AC declines, reaches a minimum and then increases ✓✓
- Profit maximisation is where  $MC = MR$  ✓✓

9. **Profit** ✓✓

- Can earn economic profit in the short run and the long-run ✓✓
- Because new entries are blocked (no competition) 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 ✓✓

(Max. 30)

**Graph to illustrate economic profit for a monopolist**



Labelling of axes	= 2 marks
Shape of cost curves	= 2 marks
Shape of revenue curves	= 2 marks
Profit maximising point	= 1 mark
Indicating economic profit	= 3 marks
<b>TOTAL = 10 MARKS</b>	

(8)  
[50]



**CONCLUSION**

In the short run a monopolist can make an economic profit or an economic loss. They produce less output than competitive industries and sells at a higher price. ✓✓

(Any other relevant conclusion must be accepted.) (Max. 2)

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

<b>MARKS</b>	<b>INTERPRETATION OF TOPIC</b>
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)

(Max. 5)

**[50]**

**QUESTION 9: LO3 AS3 – ECONOMIC PURSUITS**

**Discuss export promotion as part of South Africa's foreign trade policy.**

**INTRODUCTION**

Export promotion refers to measures taken by governments increase production of goods and services that can be exported. The government provides incentives to encourage production ✓✓✓ (Max. 3)

**BODY****REASONS**

- Export promotion measures lower cost of production which make it easier to compete on the international market ✓✓
- 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 ✓✓ Trade missions help to market SA products abroad ✓✓ and supply SA companies with information about potential markets ✓✓
- **Direct Subsidies** ✓✓ described as direct because it involves government expenditure. Include cash payments to exporters, refunds on import tariffs and employment subsidies. The aim is to increase the competitiveness of exporting company ✓✓ reduce cost of production ✓✓ and explore and establish overseas markets ✓✓
- **Indirect subsidies** ✓✓ Regarded as indirect because it results in the government receiving less revenue ✓✓ e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes e.g. custom duties on imported goods used in the manufacturing process ✓✓ allows companies 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

The South African government has mandated Trade and Investment South Africa (TISA) ✓✓ 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.) (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)

(Max. 5)

**[50]**

**QUESTION 10: LO4 AS2 – CONTEMPORARY ECONOMIC ISSUES**

**Discuss the benefits of tourism to the different sectors in the South African economy.**

**INTRODUCTION**

Tourism describes the activities of people traveling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes ✓✓✓ (Max. 3)

**BODY****1. BENEFITS OF TOURISM TO THE DIFFERENT SECTORS IN THE ECONOMY:****1.1 Households ✓✓**

- They receive income because of salaries and wages through employment ✓✓ and their own involvement in the tourism industry as tour operators.
- 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. ✓✓
- Learnerships for a number of skills required by the tourism industry are offered ✓✓ e.g. tour guides, travel agents and chefs ✓✓

**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. 40)

### CONCLUSION

From the above discussion it is clear how households, businesses, the government and infrastructure benefit from increased tourism. (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)

(Max. 5)

[50]

**TOTAL SECTION C: 100**  
**GRAND TOTAL: 300**