



# basic education

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

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS  
FEBRUARY/MARCH 2013  
MEMORANDUM**

**MARKS: 300**

**This memorandum consists of 27 pages.**

**SECTION A (COMPULSORY)****QUESTION 1: LO1–LO4****1.1 MULTIPLE-CHOICE QUESTIONS**

- |        |                           |          |      |
|--------|---------------------------|----------|------|
| 1.1.1  | B (micro) ✓✓              |          |      |
| 1.1.2  | C (discretionary) ✓✓      |          |      |
| 1.1.3  | A (Lorenz) ✓✓             |          |      |
| 1.1.4  | A (marginal) ✓✓           |          |      |
| 1.1.5  | B (unregulated) ✓✓        |          |      |
| 1.1.6  | B (differentiated) ✓✓     |          |      |
| 1.1.7  | A (capital) ✓✓            |          |      |
| 1.1.8  | B (globalisation) ✓✓      |          |      |
| 1.1.9  | C (Mpumalanga) ✓✓         |          |      |
| 1.1.10 | C (3–6%) ✓✓               |          |      |
| 1.1.11 | A (private benefit) ✓✓    |          |      |
| 1.1.12 | C (Cape Fynbos Region) ✓✓ | (12 x 2) | (24) |

**1.2 ONE-WORD ITEMS**

- |       |                          |         |      |
|-------|--------------------------|---------|------|
| 1.2.1 | Keynesians ✓✓            |         |      |
| 1.2.2 | leakages/withdrawals ✓✓  |         |      |
| 1.2.3 | Cost Benefit Analysis ✓✓ |         |      |
| 1.2.4 | Greenhouse effect ✓✓     |         |      |
| 1.2.5 | Transfer payments ✓✓     | (5 x 2) | (10) |

**1.3 MATCHING ITEMS**

- |       |  |         |      |
|-------|--|---------|------|
| 1.3.1 | A (Balancing figure in the calculation of Gross Domestic Product (E) ✓✓                  |         |      |
| 1.3.2 | A (Flow of goods and services between households and businesses) ✓✓                      |         |      |
| 1.3.3 | H (It is impossible to make someone better off without making someone else worse off) ✓✓ |         |      |
| 1.3.4 | F (An increase in production that results in a decrease in long-term average cost) ✓✓    |         |      |
| 1.3.5 | B (Ratio of export prices and import prices) ✓✓  |         |      |
| 1.3.6 | G (Ad valorem or specific taxes on imported goods) ✓✓                                    |         |      |
| 1.3.7 | D (Low growth, high unemployment and high prices) ✓✓                                     |         |      |
| 1.3.8 | E (Oil, gold and coal) ✓✓  | (8 x 2) | (16) |

**TOTAL SECTION A: 50**

**SECTION B**

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

**QUESTION 2: LO1 AS1–AS4****2.1 Choose the correct word(s) from those given in brackets:**

2.1.1 exchange rate ✓✓

2.1.2 amplitude ✓✓

2.1.3 privatisation ✓✓

2.1.4 portfolio ✓✓ (4 x 2) (8)

**2.2 List THREE participants in a closed economy:**

• Households/consumers ✓✓

• Businesses/producers ✓✓

• State/government ✓✓

(3 x 2) (6)

**2.3 Study the table and answer the questions that follow:**

2.3.1 Balance of payments is a systematic record ✓ of a country's financial transactions with the rest of the world. ✓ (2)

2.3.2 SARB ✓✓

Stats SA ✓✓

Commercial banks ✓✓

(Any 1 x 2) (2)

2.3.3 Imports increased/Increasing/negative ✓✓ (2)

2.3.4 As the difference between GDP and PCE increases, ✓✓ the balance on the current account also increases negatively. ✓✓ (4)

2.4 **Study the graph and answer the questions that follow:**

2.4.1 Point **e**/At price R14 and a quantity of 100/demand DD equals/ intersects supply SS ✓✓ (2)

2.4.2 It increases ✓✓  
Reasons:

- Increase in the number of American's visiting SA
- Higher investment by Americans in the South African economy/foreign currency speculation by US investors ✓✓
- Increased exports to the USA
- Obtaining new loans from the United States
- Services (shipping, insurance) to USA.
- Receiving of interest and dividend on capital invested in USA (2 x 2) (4)

2.4.3 Appreciated/Increased (2)

- Increased supply for dollars
- Decreased supply for rand ✓✓
- Less rand for dollars
- Cheaper to buy dollars (Any 1 x 2) (4)

2.5 **Explain how the gross domestic product (GDP) at market prices is derived by using the GDP(E) method:**

- Expenditure on GDP measures total expenditure on final goods and services produced within the borders of the country. ✓✓
- It is calculating by adding together expenditures of the participants in an open economy/(households, state, businesses) ✓✓
- Households spend on durable goods/ semi-durable goods/ non-durable goods and services. ✓✓
- State spends on public goods ✓✓
- Businesses spends on capital goods ✓✓
- The residual item is included as balancing item. ✓✓
- The exports of the foreign sector are added and the imports are subtracted. ✓✓
- $GDP(E) = C + G + I + (X - M)$  ✓✓ (Any 4 x 2) (8)

2.6 **Study the Laffer curve and explain the relationship between tax rate and taxable income:**

- The curve shows that as tax increase government revenue increases up to a certain point (e.g.  $t_1$ ) ✓✓
- If the tax rate rises beyond  $t$ , e.g. at  $t_2$  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 ✓✓

(No marks to be allocated for the Laffer curve)

(Any 4 x 2)

(8)  
**[50]**

**QUESTION 3: LO2 AS1–AS3****3.1 Choose the correct word(s) from those given in brackets:**

3.1.1 normal ✓✓

3.1.2 implicit ✓✓

3.1.3 non-excludable ✓✓

3.1.4 market ✓✓

(4 x 2) (8)

**3.2 List any THREE characteristics/conditions of a perfect market:**

- Many buyers and many sellers ✓✓
- Homogenous product ✓✓
- Perfect market information ✓✓
- Freedom of entry and exit ✓✓
- No government interference/unregulated market ✓✓
- Efficient transport and communication ✓✓
- No collusion ✓✓
- All factors of production are completely mobile ✓✓

(Any 3 x 2) (6)

**3.3 Study the graph and answer the questions that follow:**3.3.1  $a / MR = MC$  ✓✓

(2)

3.3.2 Average cost/AC/ATC ✓✓

(2)

3.3.3 R20 ✓✓

(2)

3.3.4  $R20 - R11 = R9$  (Unit profit)  
 $R9 \times 500$  ✓  
 $R4\ 500$  ✓✓

TR–TC  
 $R10\ 000$  ✓ –  $R5\ 500$  ✓  
 $R4\ 500$  ✓✓

Award a maximum 2 marks for any relevant step preceding the final answer.

(4)

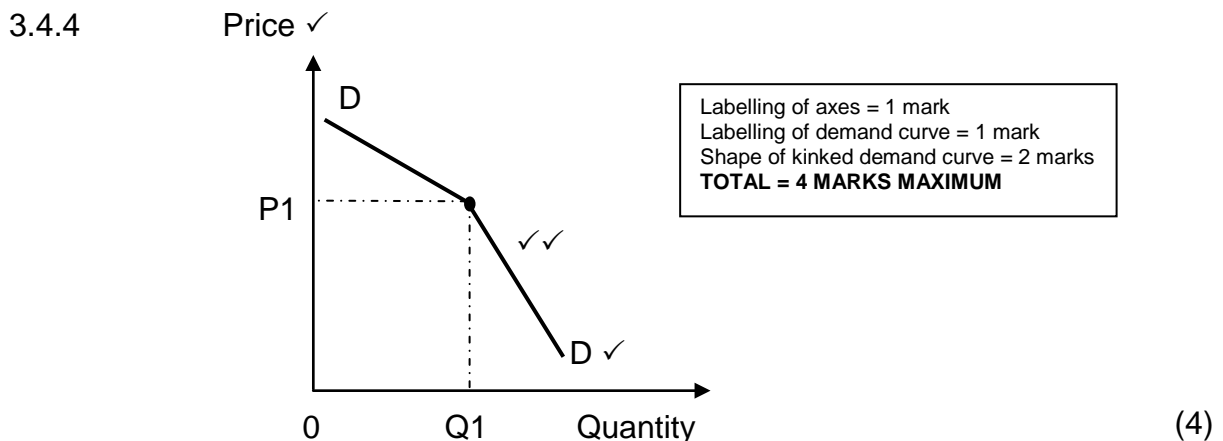
## 3.4 Study the cartoon and answer the questions that follow:

3.4.1 Oligopoly ✓✓ (2)

3.4.2 Collusion/Cartels ✓✓ (2)

3.4.3 Advertisements  
Special promotions  
Efficient service/after sales  
Extended shopping hours  
Internet transactions (banking and shopping)  
Loyalty rewards for customers  
Door to door sales

✓✓  
(Any 1 x 2) (2)



## 3.5 List and discuss the role of any TWO institutions involved in the competition policy of South Africa:

- Competition Commission:** ✓✓  
They try to give all South African equal opportunities to participate fairly in economic activities ✓✓  
They investigate restrictive business practices/abuse of dominant positions/and mergers ✓✓  
in order to achieve equity and efficiency ✓✓
- Competition Tribunal:** ✓✓  
They accept or reject the recommendations of the Competition Commission ✓✓  
They grant exemptions, stop or allow mergers and grant an order for costs to the guilty party ✓✓
- Competition Appeal Court:** ✓✓  
They can review a decision of the Competition Tribunal on appeal ✓✓  
They can confirm, amend or set aside a decision under review ✓✓  
It can also confirm the order for the divestment (liquidation) of assets which is opposite to a merger ✓✓  
(Any 2 x 4) (8)

3.6 **Draw a comparison between the perfect market and the monopoly with regard to prices, profit, quantities and cost:**

- Prices: The monopolist produces at higher prices ✓ than the perfect competitor ✓
- Profit: Under perfect competition, only normal profit will be made in the long term; ✓ the monopolist, on the other hand, can make economic profit in both the short and long term ✓
- Quantity: The monopolist produces less ✓ than the perfect competitor ✓
- Cost: The monopolist does not produce at the lowest possible cost due to a lack of competition ✓ whilst the perfect competitor will always produce at the lowest possible cost due to competition ✓ (Lowest point of LAC curve)

(4 x 2)

(8)

**[50]**





4.4 **Study the extract below and answer the questions that follow:**

- 4.4.1 Economic growth is the increase in the production capacity of a country to produce more/Increase in the Real GDP ✓✓  
Accept any other relevant answer. (2)
- 4.4.2
- Historical importance – discovery of gold in 1886 ✓✓
  - Biggest earner of foreign exchange ✓✓
- Accept any other relevant answer. (Any 2 x 2) (4)
- 4.4.3
- To redress inequalities of the past ✓✓
  - To increase ownership (stake) of the economy. ✓✓
  - To increase jobs (top management/structure of mining industry) ✓✓
  - To improve the standard of living ✓✓
  - Make mines more competitive ✓✓ (tendering purposes)
- Accept any other relevant answer. (Any 2 x 2) (4)

4.5 **Discuss employment as an economic indicator and suggest solutions to the unemployment problem in South Africa:**

- The number of the employed persons expressed as a percentage of the economic active people gives the employment rate ✓✓
- The employment rate in South Africa is approximately 75% ✓✓
- This is low compared to rates in developed and even some developing countries such as Argentina and Pakistan ✓✓
- The growth in the economy is not accompanied by a similar growth in employment numbers ✓✓
- Employment indicators are important and are used for at least three purposes:
  - ❖ To calculate trends in employment in different sectors of industries ✓✓
  - ❖ To calculate productivity ✓✓
  - ❖ To show the success of the economy ✓✓

**SOLUTIONS:**

- Government: e.g. public works programmes ✓✓ any other relevant answer
  - Business: labour intensive production activities ✓✓ any other relevant fact
  - Households: involvement in informal sector activities ✓✓
- Any other relevant fact (any 4 x 2) (8)

4.6 **Tabulate the major differences between the developed countries in the north and the developing countries in the south (North-South divide):**

<b>NORTH Developed Countries</b>	<b>SOUTH Developing Countries</b>
Per capita income – 87% produced by 15% of world's population ✓✓	85% of world's population living on $\frac{1}{5}$ of world's income ✓✓
Life expectancy is high in developed countries = 75 years ✓✓	Life expectancy in developing countries is low due to malnutrition, disease and ill health = 48 years ✓✓
Level of education: high – everyone literate ✓✓	Level of education low – only 46% adult literacy ✓✓
Trade: rich countries subsidise production – developing countries cannot compete ✓✓	Trade: developing countries are marginalised by subsidies ✓✓
Mass consumption of oil and coal – damage to ozone layer – air, water, noise pollution and toxic waste ✓✓	Focus on agriculture – soil conditions, adequate rainfall and health of crops – degradation and depletion of land, water and vegetation – do not produce sufficient food – hunger and malnutrition ✓✓
(Any 2 x 2)	(Any 2 x 2)

(8)  
[50]

**QUESTION 5: LO4 AS1–AS4****5.1 Choose the correct word(s) from those given in brackets:**

5.1.1 hyperinflation ✓✓

5.1.2 salaries and wages ✓✓

5.1.3 negative ✓✓

5.1.4 energy ✓✓

(4 x 2) (8)

**5.2 List any THREE causes of demand-pull inflation:**

- Increase in disposable income of households ✓✓
- Availability of credit increases demand ✓✓
- Increase in economically active population ✓✓
- Decrease in income tax ✓✓
- Increase in aggregate demand ✓✓

(Any 3 x 2) (6)

**5.3 Study the extract and answer the questions that follow:**

5.3.1 Environmental sustainability is the ability of the environment to survive its use for economic activity ✓✓

(2)

- 5.3.2
- Shortage in food production
  - Climate change
  - Land degradation
  - Water degradation
  - Urbanisation

} ✓✓

(Any 1 x 2) (2)

- 5.3.3
- Climate change increases the serious shortage in food production ✓✓
  - The shortage in food is intensified by floods, tsunamis and drought ✓✓

Any other relevant fact

(Any 2 x 2) (4)

- 5.3.4
- Subsidise farmers in times of drought or due to any other climate change ✓✓
  - State farms where mass production is possible ✓✓
  - Supply water schemes dams ✓✓
  - Subsidise alternative energy sources ✓✓
  - High-technology farming e.g. precision farming ✓✓
- Any other relevant fact.

(Any 1 x 2) (2)

5.4 **Study the cartoon and answer the questions that follow:**

- 5.4.1 Inflation can be defined as a sustained and significant increase in the general price level over a period of time ✓✓ (2)
- 5.4.2 Government ✓✓ (2)
- 5.4.3 Administered prices ✓✓ (2)
- 5.4.4
- Most of the crude oil used in South Africa is imported and bought in US\$ per barrel ✓✓
  - Unfavourable exchange rate means more rand (R) = dollar (\$)1 ✓✓
  - Petrol forms part of the production cost of firms that will increase also ✓✓
- Any other relevant fact (Any 2 x 2) (4)

5.5 **Discuss government policy with regard to preservation of the environment:**

- Buy or expropriate ✓✓ under government control social welfare may be maximised but it may be costly ✓✓ such assets are simply closed for human use such as indigenous forests in South Africa ✓✓
- Subsidise ✓✓ the river mouth ecosystem could be left to private ownership but a subsidy given through maintenance grants or tax concessions ✓✓ a subsidy would increase net benefits to the owner and raise the property's present value – a servitude may be registered ✓✓
- Controls ✓✓ government can compel the owner to apply control measures such as the number of visitors allowed per day ✓✓ (Any 2 x 4) (8)

5.6 **Tabulate the differences between consumer price index (CPI) and producer price index (PPI):**

CPI	PPI
Pertains to cost of living ✓✓	Pertains to cost of production ✓✓
Basket consists of consumer goods and services ✓✓	Basket consists of goods ✓✓
Capital and intermediate goods are excluded ✓✓	Capital and intermediate goods are included ✓✓
Prices include VAT ✓✓	Prices exclude VAT ✓✓
Interest rates are taken into account	Interest rates are excluded ✓✓
Prices of imported goods are not shown explicitly ✓✓ (Any 2 x 2)	Prices of imported goods are shown explicitly ✓✓ (Any 2 x 2)

(8)  
[50]

**QUESTION 6: LO1 & LO4 AS1–AS4****6.1 Choose the correct word(s) from those given in brackets:**

6.1.1 restrictive ✓✓

6.1.2 parastatals ✓✓

6.1.3 exports ✓✓

6.1.4 bio-diesel fuels ✓✓

(4 x 2) (8)

**6.2 Give THREE reasons for the necessity of the public sector:**

- Provides public goods and services ✓✓
- Manages the economy ✓✓
- Takes care of common resources ✓✓

(3 x 2) (6)

**6.3 Study the extract and answer the questions that follow:**

6.3.1 A small increase in spending ✓ produces a proportionately larger increase in national income ✓ (2)

6.3.2 Injections = Leakages ✓✓ (2)

6.3.3  $mpc = \frac{R100\ 000 - R40\ 000}{100\ 000} = \frac{R60\ 000}{100\ 000} = 0,6$  ✓ or  $0,6$  ✓✓ (2)6.3.4  $K = \frac{1}{1-mpc}$   
 $= \frac{1}{1-0,6}$   
 $= 2,5$  ✓✓ (4)**6.4 Study the data and answer the questions that follow:**

6.4.1 White bread/brown bread/maize meal ✓✓ (2)

- 6.4.2
- More competition in urban areas lower the prices of products ✓✓
  - No decentralisation of businesses ✓✓
  - Inefficiency ✓✓
  - Poor management ✓✓
  - Lack of capital/lack of infrastructure ✓✓
  - Lack of economies of scale ✓✓

Any other relevant answer

(Any 2 x 2) (4)

6.4.3 Rural areas ✓✓

Total expenditure on goods in rural areas equals R129,31 compared to expenditure in urban areas of R115,18 ✓✓ (4)

**6.5 Briefly discuss lagging indicators as a feature underpinning forecasting:**

- Follow coincident indicators ✓✓
- Serve to confirm the behaviour of the coincident indicators ✓✓
- If it does not confirm the upswing or downswing for instance, it signals that the upswing or downswing is weak and will most likely end at an early stage ✓✓
- Change direction after reference turning points in the business cycle has been reached ✓✓
- Confirm changes that were first indicated by the leading indicators and then the coincident indicators ✓✓
- Provide an advance signal of a turning point in the business cycle ✓✓
- First to reflect imbalances that intensify (increase) or subsidise (decrease) in the economy ✓✓
- Influence of movements on subsequent movements in the leading indicators help explain the view that one business cycle generates the next one ✓✓

(Any 4 x 2) (8)

**6.6 Explain monetary measures that are used to combat inflation:**

- Increase in the interest rates of banks ✓✓
  - make it more expensive to borrow money from banks – encourage savings ✓✓
  - Decrease the money supply ✓✓
  - Reduce the availability of credit from the banks ✓✓
  - Introduce currency and credit controls ✓✓
- Any other relevant fact.

(Any 4 x 2) (8)

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

**SECTION C**

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

**MARK ALLOCATION FOR ESSAY RESPONSES**

<b>STRUCTURE OF ESSAY:</b>	<b>MARK ALLOCATION:</b>
<b>Introduction</b>	Max 3
<b>Body:</b>	
• <u>Main part:</u> For example discuss/distinguish/differentiate/ explain/analyse/evaluate/assess	Max 30
• <u>Additional part:</u> For example draw a graph or diagram/deduce/ outline/briefly explain/expand on/your own opinion/support	Max 10
<b>Conclusion</b>	Max 2
<b>Interpretation</b>	Max 5
<b>TOTAL</b>	<b>50</b>

**QUESTION 7: LO1AS3**

**Evaluate the problems of public sector provisioning in South Africa. In addition cite examples of problems you have experienced in your own community.**

**[50]****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 quality 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 does not pursue 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 and collective goods ✓✓ (e.g.) defence, police ✓✓ 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 ✓✓ cost of maintaining and managing state-owned enterprises are high which can lead to higher taxes and larger public debt ✓✓ State-owned enterprises are not run as efficiently as private enterprises ✓✓ 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, increasing competitiveness ✓✓ **(Max 30 marks)**

**Possible problems in your community or elsewhere**

- Lack of drinking water due to burst pipes ✓✓
- Lack of electricity due to lack of infrastructure (load shedding) ✓✓
- Lack of schooling – no buildings available – lack of maintenance ✓✓
- Lack of health services due to lack of staff, infrastructure, strikes ✓✓
- lack of adequate housing (RDP)

**(Max 10 marks - List of examples max 5 marks)**

Accept any other relevant answer

**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 marks)**

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 AS2**

**Give a detailed explanation of the causes of market failure and use a graph to illustrate how a negative externality influences price and quantity.**

**[50]****INTRODUCTION**

Market failures occur when the market is not efficient. Sometimes free markets fail to produce maximum of goods and services from a given set of resources./The market also fails to produce the optimal mix of goods and services desired by consumers  
Accept any other relevant introduction ✓✓✓ **(Max 3)**

**BODY****REASONS**1. **Externalities** ✓✓

- Known as spill-over effects ✓✓
- Sometimes in ideal market conditions some people gain or suffer due to the existence of externalities/cost and benefits to third parties which are not included in the market price ✓✓
- Private costs (internal costs) and benefits are determined by the market mechanism ✓✓
- Externalities do not go through the market mechanism and thus do not have a price attached to them ✓✓
- Externalities converts private costs and benefits to social costs and benefits ✓✓/Externalities are differences between social costs and benefits and private costs and benefits ✓✓
- Negative externality e.g. pollution, disposing waste products, decreasing appeal of area etc ✓✓ More of these goods are produced than is socially desirable ✓✓
- Positive externality: e.g. Supply of clean water which leads to less illness, education ✓✓ Less is produced than is socially desirable.
- Market fails because output is based on private costs and benefits.

2. **Public goods** ✓✓

- Markets are incomplete –they do not meet demand for certain goods – public sector provides these goods known as public goods ✓✓
- Private people are reluctant to produce these goods due to the large capital outlay and a low return on investment ✓✓
- Divided into community (police and street lighting) which is non-excludable ✓✓ and collective goods (parks, community swimming pool) which can be excludable if a fee is charged ✓✓
- Public goods are not provided via the price mechanism – producer cannot withhold goods for non-payment ✓✓
- State finance public goods through taxation and provide it themselves ✓✓
- In RSA – most goods and services private goods – have rivalry in consumption and excludability ✓✓

- Features of public goods:
  - non-rivalry ✓✓ consumption by one person does not reduce consumption by another individual e.g. lighthouse ✓✓
  - non-excludability ✓✓ consumption of public goods cannot be confined to those who pay for it (free riders e.g. radio ) ✓✓
  - social benefits outstrip private benefits ✓✓ large social benefits relative to private benefits e.g. health care and education ✓✓
  - infinite consumption ✓✓ once provided, marginal cost of supplying one more individual is zero (traffic lights) ✓✓
  - non-reject ability ✓✓ individuals may not be able to abstain from consuming them even if they want to (e.g. street lighting) ✓✓

### 3. Merit and demerit goods ✓✓

#### MERIT GOODS (/ ✓)

- Some goods highly desirable for general welfare – not highly rated by market – leads to too little consumed – market fails ✓✓
- E.g. health care and education, safety – merit goods – special form of private goods ✓✓
- Few people would pay for education if they had to meet full cost – results in market failure ✓✓
- In pure market system – consumers' spending on merit goods determined by private benefits ✓✓
- Merit goods have positive externalities – social benefits derived from their consumption exceed private benefits ✓✓

#### DEMERIT GOODS (/ ✓)

- E.g. cigarettes, alcohol and non-prescription drugs – over-consumed ✓✓
- Consumer unaware of true cost of consuming them, e.g. increased health costs,
- social decay = negative externalities ✓✓

### 4. Imperfect competition ✓✓

- Competition is often reduced by power in market economies – power lies with producers ✓✓
- Conditions of imperfect competition: restrict output and raise prices which prevent new businesses to enter and also prevents full adjustment to changes in demand ✓✓
- Modern market does not allow for price negotiations ✓✓
- Advertising promote producer sovereignty – encourage consumer to buy products – delay products from market until it is in businesses' financial interest ✓✓

### 5. Lack of information ✓✓

- Information is not always available to make rational decisions. ✓✓
- Consumers ✓✓ – need detailed information to maximize their utility – technology increase information but it is not perfect. ✓✓
- Workers ✓✓ unaware of job opportunities, advantages and disadvantages, health risks of current jobs ✓✓
- Entrepreneurs ✓✓ lack of information about costs, availability and productivity of some factors of production – operating on basis of incorrect information ✓✓
- Which leads to market failure ✓✓

6. **Immobility of factors of production** ✓✓

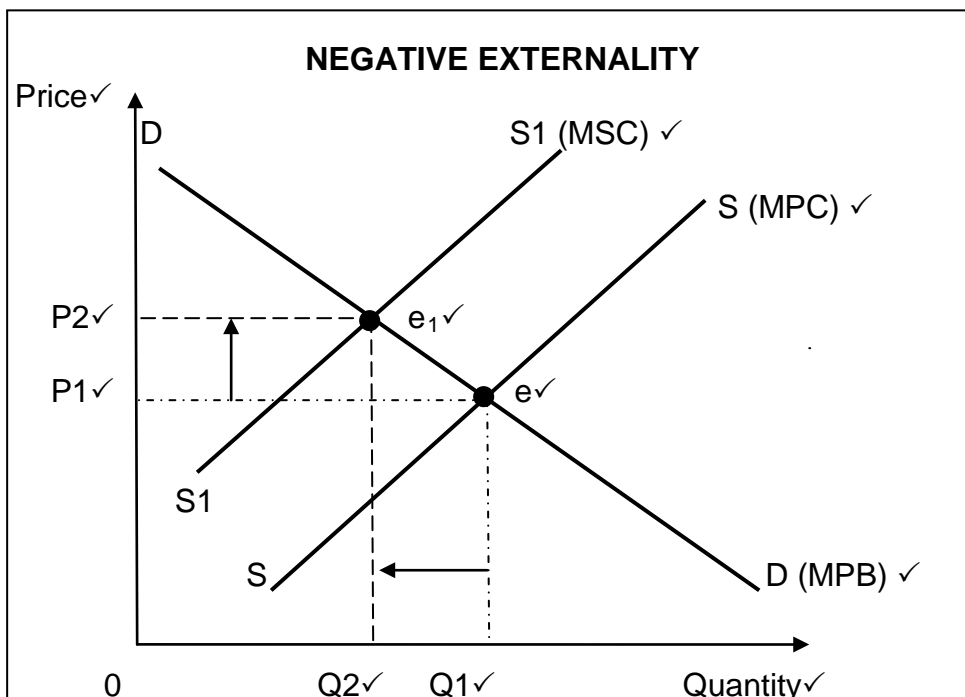
- Most markets do not adjust rapidly to changes in supply and demand – due to resources not being mobile ✓✓. Thus a misallocation of resources results.
- Labour ✓✓ takes time to move occupationally and geographically – adjust slowly and inadequately ✓✓
- Unskilled workers ✓✓ not able, willing or have time to gain necessary skills ✓✓
- Physical capital ✓✓ infrastructure like telephone lines – can move from one location to another at irregular intervals ✓✓
- Structural changes ✓✓ occur slowly – demand increases or decreases – technology used like robots – takes time for labour-intensive textile production to be switched to computer assisted production ✓✓

7. **Imperfect distribution of income and wealth** ✓✓

- Market system is neutral to income distribution ✓✓
- Market economy provides opportunities to earn an income, but it's not equal – no equal education and skills ✓✓
- Results in the poor, women and disabled people earning less ✓✓

8. **Price discrimination** ✓✓

- A situation in which identical goods and services are sold at different prices to different consumers ✓✓
  - Leads to a situation where some consumers pay lower prices ✓✓
  - E.g. when airlines sell tickets on the same flight at different prices to different customers ✓✓
- (Max 30 marks)**



**(Max 10 marks)**

**CONCLUSION**

Any suitable conclusion. ✓✓

**(Max 2 marks)**

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 marks)****[50]**

**QUESTION 9 LO3AS3**

**Discuss the arguments in favour of protection and explain how successful South Africa is in protecting the local textile industry against foreign competition.**

**[50]****INTRODUCTION**

Protectionism is one leg of the South African International Trade Policy ✓✓✓

Accept any other relevant introduction

**(Max 3 marks)****Arguments in favour of protectionism:****1. Raising revenue for the government: ✓✓**

- In developing countries the tax base is more often limited because of low incomes of individuals and businesses ✓✓
- Low incomes do not provide much in form of income taxes ✓✓
- Customs duties on imports – significant source of revenue ✓✓

**2. Protecting the whole industrial base: ✓✓**

FOUR considerations relevant for protecting industrial base of country:

- Maintaining domestic employment/reduce unemployment and provide more job opportunities ✓✓
  - countries with high levels of unemployment – pressurised to stimulate employment creation ✓✓
  - protectionist policies used to stimulate industrialisation ✓✓
  - domestic employment encouraged through imposing import restrictions ✓✓
- Protecting workers ✓✓
  - countries with low wages represent unfair competition and threaten the standard of living of more highly paid workers ✓✓
  - protection necessary to prevent local wage levels from falling ✓✓
  - helps protect local businesses from closing down or becoming unprofitable ✓✓
- Diversifying the industrial base ✓✓
  - protectionism helps countries not to over-specialize ✓✓
  - import restrictions may be imposed on range of products in order to ensure that more domestic industries develop ✓✓
- Developing strategic industries ✓✓
  - certain industries of strategic importance e.g. minerals and energy ✓✓
  - developing countries need to develop these industries to become more self-sufficient ✓✓

**3. Protecting particular industries: ✓✓**

- Dumping ✓✓
  - due to government subsidies enterprises are permitted to sell at very low prices – leads to price discrimination ✓✓
  - products can be exported to dispose of accumulated stocks – importing country will benefit ✓✓
  - objective can also be to drive out domestic producers and gain strong market position – consumers will lose out due to reduction in choice ✓✓
- Infant industries/Industrial development ✓✓
  - newly established industries suffer to survive due to higher average costs ✓✓
  - competition in the early days makes growth possible, they can take advantage of economies of scale, lower average costs and become more competitive – protection can now be removed ✓✓
- Declining industries ✓✓
  - structural changes in demand and supply may influence industry
  - negatively ✓✓
  - these businesses must leave the industry gradually – possible if protection is granted – gives factors of production time to move to other industries ✓✓
  - they lost their comparative advantage – may lead to large-scale unemployment ✓✓

**4. Protecting domestic standards: ✓✓**

- Trade restrictions like food safety, human rights and environmental standards ✓✓
- Stabilising exchange rate and balance of payments ✓✓
- Protecting natural resources from being exploited ✓✓
- Economic self-sufficiency ✓✓
- Greater economic stability ✓✓
- Natural resources not depleted ✓✓

**(Max 30 marks)****How successful is South Africa in protecting the local textile industry against foreign competition?**

- Not successful: ✓✓ many domestic textile manufacturers closed down due to unfair international competition ✓✓
- Many wholesalers make use of suppliers from abroad ✓✓ e.g. Woolworths/Walmart ✓✓
- Dumping still occurs – European manufacturers still dump clothing in Africa out of season at prices below cost ✓✓
- Job losses due to a lack of protection in this industry ✓✓

Any other relevant fact

**(Max 10 marks)**



**CONCLUSION**

South Africa's international trade policy facilitates globalisation.✓✓

Accept any other relevant conclusion

**(Max 2 marks)**

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

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**(Max 5 marks)**

**[50]**

**QUESTION 10: LO4 AS2**

**Discuss the benefits of tourism and briefly explain how marketing as a policy can contribute to growth in tourism.**

**[50]****INTRODUCTION:**

The activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes. Not related to an activity remunerated from within the place visited. ✓✓✓

Accept any other relevant introduction.

**(Max 3 marks)****BODY:****ADVANTAGES:****1. Households ✓✓**

- Income is earned through employment ✓✓
- Infrastructure is created for use by both tourists and local people ✓✓
- Skills require education and training – offered as school subjects: Tourism, Hospitality ✓✓

**2. Businesses ✓✓**

- Economic and basic services infrastructure provided by public sector forms foundation for superstructure ✓✓
- E.g. accommodation, transport, built attractions, retailing and recreation services ✓✓
- Combinations of public sector, private sector combinations (PPP) develop ✓✓
- Informal opportunities like car rental, arts and craft also exist ✓✓

**3. Government ✓✓**

- Levying of taxes ✓✓ with two purposes:
- Recover external costs (showers on the beach) ✓✓
- Raise revenue (tourists seen as part of tax base) ✓✓

**4. Infrastructure ✓✓**

- Residents and visitors enjoy adequate and well-maintained physical and basic services essential in tourist destinations ✓✓
- DEAT, SDI, corridors and PPPs with tourism as focus ✓✓
- Also require social infrastructure e.g. ambulance services ✓✓ **(Max 30 marks)**

Any other relevant facts.

**IN ADDITION INDICATE HOW MARKETING CAN CONTRIBUTE AS POLICY:**

- Marketing of SA tourism has an international and local dimension ✓✓
- In an international context, generic marketing endeavours to have SA included as tourist destination when tourists consider their itinerary or when travel agents present their clients with options ✓✓
- Non-specific criteria are emphasized such as value for money ✓✓
- World in one country ✓✓
- Political miracle ✓✓
- Climate ✓✓
- Safety ✓✓
- Friendliness ✓✓
- Cleanliness ✓✓
- Tranquillity ✓✓
- In a national context generic marketing tries to persuade all citizens to travel when they take holidays ✓✓

Any other relevant fact.

**(Max 10 marks)**

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

<b>MARKS</b>	<b>INTERPRETATION OF TOPIC</b>
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**(Max 5 marks)****[50]**

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