



# basic education

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

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P2**

**NOVEMBER 2016**

**MEMORANDUM**

**MARKS: 150**

**This marking guideline consists of 17 pages.**

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

- 1.1.1 A ✓✓ electricity  
1.1.2 B ✓✓ is horizontal  
1.1.3 C ✓✓ demand  
1.1.4 B ✓✓ externalities  
1.1.5 A ✓✓ implicit  
1.1.6 A ✓✓ biodiversity  
1.1.7 B ✓✓ stagflation  
1.1.8 C ✓✓ poverty (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 B ✓ expenses incurred by businesses when producing an article  
1.2.2 C ✓ situation where the business does not make a profit or a loss  
1.2.3 D ✓ businesses that produce similar products  
1.2.4 F ✓ the increase in the percentage output is less than the increase in the percentage input  
1.2.5 I ✓ buyers are charged differently for the same product  
1.2.6 E ✓ solid waste, for example plastic bags and garbage, that cannot be disposed of  
1.2.7 A ✓ a general increase in prices caused by an increase in factor costs  
1.2.8 G ✓ give businesses the right to pollute up to a certain extent (8 x 1) (8)

**1.3 GIVE THE TERM**

- 1.3.1 Economic profit / Supernormal / Abnormal ✓  
1.3.2 Short term / Short run ✓  
1.3.3 Market ✓  
1.3.4 Patent ✓  
1.3.5 Greenhouse ✓  
1.3.6 Opportunity cost ✓ (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS**

2.1 Answer the following questions.

2.1.1 **Name any TWO institutions that regulate unfair competition in South Africa.**

- Competition Commission ✓
- Competition Tribunal ✓
- Competition Appeal Court ✓

Any (2 x 1) (2)

2.1.2 **How will producers benefit from minimum prices that are implemented by the government?**

Producers will be able to make a comfortable profit, which will encourage them, to produce more – given them more certainty and for future planning ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 **Data response**

2.2.1 **Identify the market structure in the graph above.**

Perfect market / Perfect competition ✓

(1)

2.2.2 **Give the value of the market price depicted above.**

R50 ✓

(1)

2.2.3 **How will this equilibrium position change in the long run (long term)?**

- It will change to normal profit due to firms leaving the industry. ✓✓
- In the long run firms will leave the industry, which will increase the revenue, thereby reducing the loss ✓✓

Any (1 x 2) (2)

2.2.4 **What conditions must exist for this firm to shut down?**

- When it cannot meet its average variable cost / price is less than/equal to AVC /  $TR < AVC$  ✓✓
- When the firm's total revenue is less than its variable costs ✓✓
- When  $MR = AVC = MC$  ✓✓

Any (1 x 2) (2)

2.2.5 **Calculate the economic loss faced by this firm.**

Unit loss: R40 ✓

Total loss:  $100 \times 40$  ✓  
= R4000 ✓✓

**OR**  $TR - TC$  ✓

=  $5000 - 9000$  ✓  
=  $-4000$  ✓✓

(Allocate 2 marks if only unit loss is given)

(Allocate 4 marks if only the correct final answer is given)

(4)

## 2.3 Data response

### 2.3.1 Identify ONE external cost in the project above.

Pollution ✓ (1)

### 2.3.2 Identify a social benefit in the project above.

New job opportunities / quality service deliveries / High-quality product ✓ (1)

### 2.3.3 What can the government do to reduce the external cost of the project above?

The government can:

- Install equipment that will reduce pollution ✓✓
- Design the plant in such a way that pollution will be limited to the minimum ✓✓
- Tax the polluter ✓✓
- Issue marketable permits (regulations) for firms to pollute to a certain extent ✓✓
- Set maximum levels of pollution ✓✓

(Accept any other correct relevant response) (2)

### 2.3.4 How will the government benefit from the approval of the project above?

The government will:

- Earn more revenue from selling the product ✓✓
- Receive more money from taxes ✓✓
- Be able to create more jobs ✓✓

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

### 2.3.5 Why should the government do a cost-benefit analysis before starting each new project?

CBA will enable the government to:

- Make informed decisions ✓✓
- Be more objective in its decision making ✓✓
- Be more efficient in the allocation of resources ✓✓

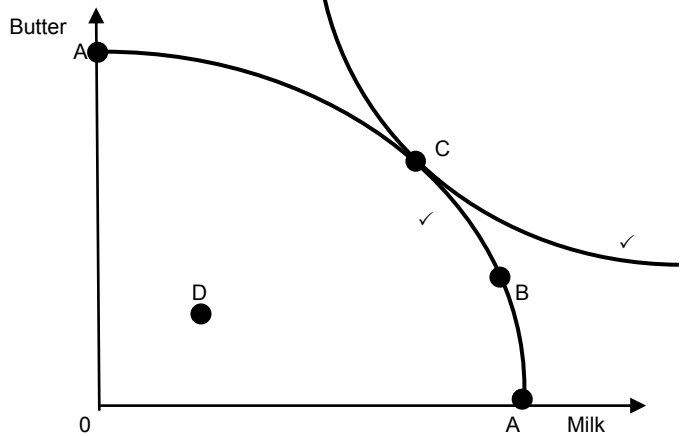
(Accept any other correct relevant response) Any (2 x 2) (4)

2.4 Differentiate between *productive inefficiency* and *allocative inefficiency*.

**Productive inefficiency**

- The producer does not produce at the lowest possible cost ✓✓
- There is room to reduce costs without producing fewer goods or without producing a lower quality good ✓✓
- Not all resources are used effectively ✓✓
- Occurs at any point inside the PPC / under-utilisation of resources ✓✓

(Max 4)



(Max 2)

**Allocative inefficiency**

- The producer is producing at a sub-optimal allocation (point B) ✓✓
- The allocation (combination) of resources is not in accordance with the consumer demand (tastes) ✓✓
- Not all resources are allocated effectively ✓✓
- The welfare of the community is not maximised ✓✓
- Government intervenes in an attempt to correct market failure ✓✓

(Accept tabular format)

(Max 4)

(Accept description connected to the graph)

(Accept any other correct relevant responses)

(2 x 4)

(8)

**2.5 How may differentiated products influence consumers and producers in a monopolistic competitive market?**

**Consumer**

- The consumer may regard one product as better, whether real or imagined, therefore, it is based on the opinion of consumers ✓✓
- Consumers tend to buy brand names and have their preferences in this regard ✓✓
- E.g. Levi jeans will be more popular than no name brand jeans ✓
- Advertising stresses differences that are attractive to consumers ✓✓
- Increase spending due to consumers wanting different brands of the same good ✓✓ e.g. Nike, Puma, etc. ✓
- Wider choice of goods / exposed to different products ✓✓
- Differences in packaging makes purchasing/buying easy ✓✓ (Max 4)

**Producers**

- By selling slightly differentiated product each producer distinguishes themselves from another producer ✓✓
- The unique characteristics of differentiated products allow producers to compete against others ✓✓
- Therefore they can justify a higher price for their product based on these 'uniqueness' (slight differentiation) ✓✓
- It may enjoy brand loyalty as customers have a preference towards a particular product ✓✓
- Profits used in research and development in order to make the product look different – stimulated creativity ✓✓
- Differentiated products create opportunities for non-price competition ✓✓

(Accept any other correct relevant response)

(Only 1 mark allocated for examples per participant)

(Max 4)

(8)  
[40]

**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**

3.1 Answer the following questions.

3.1.1 **Name any TWO millennium development goals that form part of international agreements that ensure a sustainable environment.**

- Eradication of poverty and hunger ✓
- Achieving universal primary education ✓
- Gender equality ✓
- Reducing child mortality rates ✓
- Combat HIV/Aids ✓
- Improve health ✓
- Ensure environmental sustainability ✓
- Global partnership for development ✓

Any (2 x 1) (2)

3.1.2 **How may taxes be used to ensure environmental sustainability?**

- Reduce pollution through green tax and environmental tax ✓✓
- By levying it on products associated with high pollution levels ✓✓
- Use tax revenue to promote environmental-friendly products e.g. solar geysers ✓✓

(Accept any other correct relevant response)

Any (1 x 2) (2)

3.2 **Data response**

3.2.1 **Identify the percentage wage increase in the extract above that was demanded by workers in the transport industry.**

25% ✓

(1)

3.2.2 **Which labour union represents the workers in the mining sector above?**

National Union of Mineworkers (NUM) ✓

(1)

3.2.3 **Why is the wage demand by the transport workers unrealistic?**

It is far above the inflation target of 6% ✓✓

(2)

3.2.4 **Briefly explain ONE reason for the excessive wage demand above.**

The high cost of living results in wages being insufficient to cover the basic needs ✓✓

(Accept any other correct relevant response)

(2)

3.2.5 **What will be the impact on the mining industry if the entry-level workers' wage demands of R10 500 per month are met?**

- The mining industry which is already under high cost pressure might struggle to survive / become less competitive ✓✓
- These wage increases will force many mines to shut down production ✓✓
- Some mines might have no option but to lay-off workers ✓✓
- Meeting the wage demand might cause the ripple effect in the rest of the mining sector and related industries ✓✓
- Fewer strikes, hence less interruption in production ✓✓

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

3.3 **Data response**

3.3.1 **What, according to the information above, should be reduced to avoid global warming?**

The burning of fossil fuels/fossil fuel emissions / human activity ✓ (1)

3.3.2 **Identify ONE negative effect of global warming.**

- More heat returning to earth ✓
  - Nights warming faster than days ✓
  - Winter warming faster than summer ✓
  - Less heat escape the space ✓
  - Climate change ✓
  - Less oxygen in the air ✓
  - Cooling upper atmosphere ✓
  - Pattern of ocean warming ✓
  - More fossil-fuel carbon in the air ✓
  - More fossil-fuel carbon in coral ✓
- (1)

3.3.3 **Briefly describe the term *climate change*.**

It is the change in weather patterns due to global warming ✓✓  
(Accept any other correct relevant response) (2)

3.3.4 **Why do businesses resist changing to more environmentally friendly production methods?**

They resist (fear) the change to more environmentally friendly methods due to higher cost and possible revenue losses / Environmentally methods are time consuming and need a lot of training of employees ✓✓  
(Accept any other correct relevant response) (2)



3.3.5 **What can be done to reduce the emissions caused by the burning of fossil fuels?**

- Equipment can be installed in plants/cars that will reduce emissions ✓✓ e.g. catalytic converters / air filters ✓
- Businesses and households can switch to more environmentally friendly sources (technology) such as ✓✓ E.g. Solar energy/Wind energy/Hydro energy/Gas energy ✓
- Impose taxes or fines ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 1 mark for the listing of examples) (Max 4)

(4)

3.4 **Differentiate between *conservation* and *preservation*.**

**Conservation**

- It is the management of the environment in a way that prevents it from being damaged ✓✓
- E.g. game parks are used to keep certain endangered species ✓✓
- It is a creative continuity of the environment to ensure quality of life for both present and future generations ✓✓
- Conservation is needed due to pollution and over utilisation of the environment ✓✓
- Ensure economical use of renewable and non-renewable resources ✓✓

(Max 4)

**Preservation**

- It is the process of keeping the environment in its present state ✓✓
- It is often applied where elements of the environment are threatened by extinction ✓✓
- e.g. Rhinoceros species / heritage sites have cultural significance / ecosystems ✓ (Accept tabular format) (Max 4)

(Accept any other correct relevant response)

(A maximum of 1 mark for examples under each concept)

(2 x 4)

(8)

3.5 **How will you advise the Minister of Tourism to overcome the impact of negative externalities generated by tourism?**

- The minister can enforce the appointment of local unemployed people to ensure a redistribution of income and also provide opportunities to improve skills for people in that community. This will prevent the increase in equalities of rural people by tourism ✓✓
- The minister can use discriminatory pricing policy to benefit local people because tourists are willing to pay higher prices because of a favourable exchange rate ✓✓
- The minister should be made aware of programmes to address deficiencies in education and training ✓✓
- The minister can employ local unemployed people to facilitate traffic flow or get local people to fill up waste bags for recycling. This will alleviate traffic congestion and pollution caused by tourism ✓✓
- The minister can create specific business zones that will not impact negatively on the aesthetic appearance of the community. There should also be consultation with the community before erecting any infrastructure that will alter the landscape ✓✓
- Some tourists bring diseases such as Ebola. Government must screen people on arrival ✓✓

(Accept any other correct relevant response)

(4 x 2)

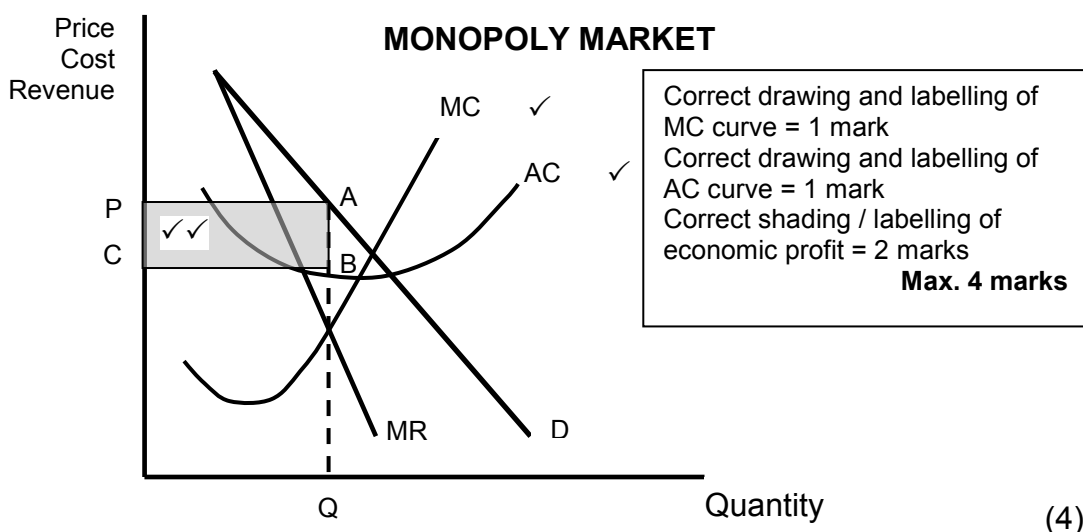
(8)

**[40]**

**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**

- 4.1 4.1.1 **Name any TWO types of tourism.**
- Leisure and recreation ✓
  - Business and professional ✓
  - Eco-tourism ✓
  - Cultural ✓
  - Medical ✓
  - Community ✓
  - Paleo ✓
  - Adventure ✓
  - Humane ✓
- (Accept any other correct relevant response) Any (2 x 1) (2)
- 4.1.2 **Why is a perfect competitor unable to influence the market price?**
- The producer is too small in relation to the size of the market, therefore he is a price taker ✓✓ (1 x 2) (2)
- 4.2 **Data response**
- 4.2.1 **Which curve represents the average revenue (AR) curve?**
- D / Demand curve ✓ (1)
- 4.2.2 **How many firms dominate this type of market?**
- One / 1 ✓ (1)
- 4.2.3 **Why does the marginal revenue (MR) curve lie below the demand curve?**
- Due to the negative-sloping demand curve, every additional unit is sold at a lower price ✓✓ (2)
- (Accept any other correct relevant response)
- 4.2.4 **Why will the monopolist not be able to charge excessively high prices for his/her product?**
- Although the monopolist is the only supplier in the market, it is still influenced by market forces ✓✓
  - Due to the limited budget that the consumer operates on, if the prices are too high there will not be enough demand for the product / consumer may switch to other alternative products ✓✓
  - Price increases are sometimes regulated by the government to protect the consumer ✓✓
  - Although the monopolist can set his own price he cannot do so without affecting the quantity that will be sold ✓✓
  - To sell more products he must decrease the price ✓✓ (2)

4.2.5 **Redraw the graph above into the ANSWER BOOK. Indicate economic profit on your graph by inserting the average cost (AC) curve and marginal cost (MC) curve on the same set of axes.**



4.3 **Data response**

4.3.1 **Give ONE reason in the extract above why South Africa is regarded as a very popular tourist destination.**

- Spectacular scenery ✓
  - Friendly people ✓
  - World-class infrastructure ✓
- (1)

4.3.2 **Identify in the extract above why the tourism industry has been earmarked as a key sector?**

Because of its growth potential / economic recovery ✓ (1)

4.3.3 **Briefly describe the term *tourism*.**

Activities of people travelling to and staying in places outside their usual environment for no more than one year ✓✓  
 (Accept any other correct relevant response) (2)

4.3.4 **Give ONE reason why the tourism industry is growing at such a high rate.**

- Increase in disposable income ✓✓
  - Reduction on working hours ✓✓
  - More awareness of leisure and recreation ✓✓
  - Improved transport/accommodation/communication ✓✓
  - Increase advertisements and promotion ✓✓
  - Scenery / friendly people / easily obtaining foreign exchange / improved political climate ✓✓
- (Accept any other correct relevant response) (2)

**4.3.5 In your opinion, how can the tourism industry benefit the poor, rural communities of South Africa?**

- Increase in employment opportunities / guesthouses / hotels / restaurants ✓✓
  - Expansion of the market for indigenous arts / culture / products ✓✓
  - Improvement of infrastructure in rural areas ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)

**4.4 Explain the goals of the South African competition policy.**

- Prevent the abuse of economic power ✓✓ e.g. forming of monopolies ✓
  - Regulate the growth of market power by means of takeovers and mergers ✓✓
  - Prevent restrictive practices, especially by oligopolist ✓✓ such as fixing of selling prices, collusion and price discrimination ✓
  - Improve the efficiency in the market through legislation ✓✓
  - Promote healthy competition between businesses ✓✓
  - Protect the consumer against unfair prices and inferior products ✓✓ for example through the Competition Act ✓
  - Contribute to South Africa's development objectives to ensure that all South African have equal opportunities to participate fairly in economic activities ✓✓ They also improve equity in the market ✓✓ for example through the Employment Equity Act / enable SMME's ✓
- (Accept any other correct relevant response)  
(Max 2 for the mere listing of examples) (Max 8) (8)

**4.5 How do consumers as key market role-players fail to protect the environment?**

- As a result of the lack of knowledge consumers' actions often have a negative impact on the environment / consumers not aware of recycling ✓✓
  - By using certain products such as aerosol they cause environmental damage without realising it ✓✓
  - Due to the fact that some resources are not privately owned, they have an element of non-excludability. Therefore, these resources are often overused ✓✓ e.g. oceans and rivers ✓
  - Consumers often care less about their practices that harm the environment because of self-interest ✓✓
  - Some consumers pollute the environment through littering, disposal of waste, etc. because the costs (negative externalities) are borne by others ✓✓
- (Accept any other correct relevant response)  
(Allocate only 2 marks for examples) (8)

(8)  
[40]

**TOTAL SECTION B: 80**

**SECTION C**

Answer any ONE of the two questions in this section in the ANSWER BOOK.  
Your answer will be assessed as follows:

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b>	Max. 2
<b>Body</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/How?/Suggest	Max. 26  Max. 10
<b>Conclusion</b> Any higher-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned</li> <li>• Any opinion or valued judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS**

The oligopoly is a necessary market structure in a free-market system.

- Discuss in detail an oligopoly as a market structure. (26 marks)
- Explain, with the aid of a well-labelled graph, why the oligopolist will not compete on price to increase his/her market share. (10 marks)

**[40]****INTRODUCTION**

The oligopoly is a type of imperfect market in which only a few producers dominate the market ✓✓

(Accept any other correct relevant response)

(Max 2)

**MAIN PART****Nature of the product ✓**

- The product may be homogeneous (the same) or differentiated (heterogeneous) – slight differences ✓✓
- If the product is homogeneous, it is known as a pure oligopoly ✓✓
- If it is differentiated, it is known as a differentiated oligopoly ✓✓

**Market information ✓**

- There is incomplete information ✓✓

**Market entry ✓**

- Entry is easy to difficult, it is limited in the sense that huge capital outlay might be necessary ✓✓

**Control over price ✓**

- Considerable control over price, it can influence price, but not as much as the monopolist ✓✓
- Oligopolies can frequently change their prices in order to increase their market share and this can result in price wars ✓✓

**Mutual dependence ✓**

- Mutual dependence (interdependence) exists amongst these businesses ✓✓
- Each firm knows its market share, the behaviour of one firm can influence other significantly ✓✓
- A change in the price or change in the market share by one firm is reflected in the sales of the others ✓✓

**Non-price competition ✓**

- Because price competition can result in destructive price wars, oligopolists prefer to compete on a different basis ✓✓
- This encourage non-price competition through advertising, packaging, after-sales-services ✓
- Participants observe one another carefully – when one oligopolist launches an advertising campaign, its competitors soon follow suit ✓✓
- If oligopolies operate as a cartel, firms have an absolute cost advantage over the rest of the other competitors in the industry ✓✓

**Collusion ✓*****Overt collusion:* ✓**

- Firms can work together to form a cartel, a cartel is a formal agreement amongst firms to work together in limiting total industry supply in order to increase prices or fix prices at certain levels ✓✓
- The main idea is to increase individuals' members' profits by reducing competition. ✓✓
- This is illegal and often investigated by the Competition Commission in South Africa ✓✓
- Guilty businesses are often heavily penalised in the form of fines ✓✓

***Tacit collusion:* ✓**

- The oligopoly market may be characterised by a definite price leader, other may follow the pricing policy of the leader ✓✓
- This is not a formal agreement and thus not illegal in South Africa. ✓✓
- Examples in South Africa are cell phone operators: Cell C, MTN, Vodacom, Telkom Mobile, petrol garages like Engen, Total, Caltex, Shell, BP; Banks like FNB, ABSA, Standard Bank, Nedbank, Capitec ✓

**Limited competition ✓**

- There are only a few suppliers manufacturing the same product ✓✓

**Economic profit ✓**

- Oligopolies can make an economic profit over the long term ✓✓
- Abnormal profits may a result of joint decision-making in an oligopoly ✓✓

**Demand curve ✓**

- The demand curve slopes from left to right (downward sloping) ✓✓
- Also known as die kinked demand-curve ✓✓
- Contains two curves (elastic and inelastic parts) ✓✓

**Productive/Technological efficiency ✓**

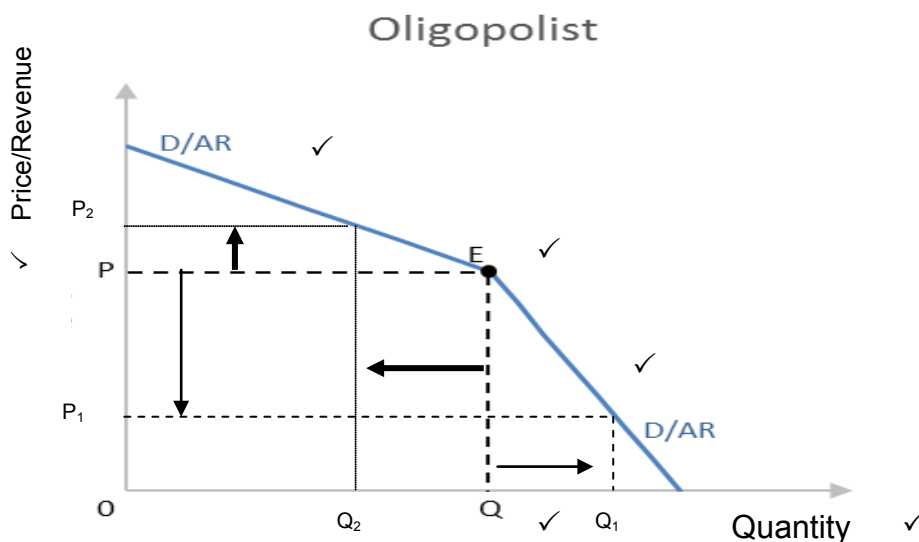
- Productive efficiency is possible ✓

**Allocative efficiency ✓**

- Allocative efficiency is not possible ✓

(Max. 26)

**ADDITIONAL PART**



Labelling of axis	= 1 mark
Equilibrium (point E)	= 1 mark
Shape of DD curve (kinked)	= 1 mark
Labelling of DD curve	= 1 mark
OP	= 1 mark
OQ	= 1 mark
<b>(Max 6 marks)</b>	

- As an oligopolist **raises its price above point E**, it will lose customers because the other oligopolists will not raise their price ✓✓
- Although he will benefit from the increased revenue per unit, his total revenue will be lower because of a greater loss of customers ✓✓
- If an oligopolist **lowers its price below point E**, other oligopolists will lower their price to compete, and as a result, the decrease in price does not attract many new customers ✓✓
- Because raising or lowering the price is not beneficial for the oligopolist, it engages in mostly non-price competition such as product differentiation and efficient service underscored by advertising ✓✓

(Accept any other correct relevant response)

Max 6  
(Max 10)

**CONCLUSION**

Oligopolies are interdependent, their actions are influenced by other firms in the market ✓✓

(Accept any other correct relevant response)

(Max. 2) **[40]**

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

**Inflation originates from the demand side or supply side of the economy.**

- **Examine in detail the causes of demand-pull inflation.** (26 marks)
- **How successful have monetary policy measures been in combatting demand-pull inflation in South Africa?** (10 marks)

**[40]****INTRODUCTION**

Inflation is a sustained and significant increase in general price level over a period of time and a simultaneous decrease in the purchasing power of money ✓✓

**OR**

Demand-pull inflation occurs when aggregate demand in an economy outpaces (is faster than) aggregate supply ✓✓ (Max. 2)

**MAIN PART**

- Demand-pull inflation occurs when the total spending in the economy increases and the economy is unable to expand output to meet the increase in spending ✓✓
- **Increased consumption by households (C)** ✓ The disposable income of households can increase at a faster rate than aggregate supply for the following reasons ✓✓
  - It is caused by easier access to credit ✓ or lower interest rates, which make credit cheaper ✓✓ With credit being cheaper, households will borrow more ✓✓
  - Lack of savings ✓ Consumers may spend their entire income and fail to save ✓✓ This results in a lack of liquidity for banks to finance essential capital investment ✓✓
  - Reduction in taxes ✓ If the government decides to decrease personal income tax, consumers will use the extra income to buy more goods and services ✓✓
- **Investment spending (I)** ✓
  - A reduction in interest rates will encourage firms to expanding their operations ✓✓
  - Businesses invest more and this may lead to an increase in the demand for goods and services that are part of the investment ✓✓ e.g. new buildings, cement, bricks and labour ✓
  - If aggregate demand increases at a faster rate than aggregate supply, price increases will follow ✓✓
- **Government spending (G)** ✓
  - An increase in government spending without an increase in productivity will lead to inflation ✓✓
  - If increases in government spending are financed by borrowing from financial institutions, large sums of money are placed into circulation – aggravating the demands in the economy's real capacity ✓✓
  - Government uses three channels for increased spending:
    - **Infrastructure** ✓ government may embark in capital projects, such as roads, housing and water ✓✓ the sizes of these projects outstrip the economy's capacity which will increase prices ✓✓



- **Consumption expenditure** ✓ most governments will at times increase expenditures on education and health ✓✓
- **Social spending** ✓ Governments sometimes feel they have to do something substantive about unemployment and poverty ✓✓ e.g. public work programmes ✓ such expenditures invariably leads to inflation because they add to aggregate demand without adding anything to aggregate supply ✓✓
- **Export earnings (X)** ✓
  - Increases in earnings from exports can come from various sources:
    - **Foreign growth** ✓ growth of the economies of trading partner countries may create a demand for a variety of locally produced goods ✓✓ the sales of exports bring money into the country ✓✓ demand increases without corresponding increases in supply – resulting in an increase in prices ✓✓
    - **Commodities demand** ✓ the world's demand for commodities expands and contracts like business cycles do ✓✓ during an expansionary period foreign demand increases and this leads to greater volumes of exports ✓✓ the income earned from these exports adds to aggregate demand and prices increase ✓✓

(Max 26)

**ADDITIONAL PART**

- The South African Reserve Bank (SARB) and the government apply certain monetary measures to curb inflation successfully ✓✓
  - The SARB has successfully adjusted the quantity of money regularly to the needs of the economy (e.g. through open-market policy) thus maintaining a fine balance between the supply of goods and services and money supply ✓✓
  - The SARB tries to curb inflation by adhering to the inflation target of 3 – 6%, but haven't always been successful (currently at the upper end) ✓✓
  - The bank rate of the central bank (SARB) has always affected the interest rates in the economy (an increased repo rate) to encourage more savings or encourage credit granting (a decreased repo rate) ✓✓
  - The SARB applies moral pressure (moral suasion) on financial institutions to be more careful when granting credit ✓✓ e.g. a lack of moral pressure from SARB caused Bank of Africa to be liquidized ✓ on the other hand SARB's division of bank supervision led to severe penalties on some of the major banks in South Africa ✓
- (Accept any other correct relevant response) (Max. 10)

**CONCLUSION**

Money can be regarded as the most important driver of inflation; high volumes off money will lead to higher income, higher expenditure and higher inflation, therefore authorities should effectively control the country's money supply ✓✓

(Accept any other correct relevant response) (Max. 2) [40]

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**