



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS P1
FEBRUARY/MARCH 2018
MARKING GUIDELINES**

MARKS: 150

These marking guidelines consist of 19 pages.

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

- 1.1.1 C – public ✓✓
 1.1.2 D – income ✓✓
 1.1.3 C – free floating ✓✓
 1.1.4 A – trend line ✓✓
 1.1.5 A – life expectancy ✓✓
 1.1.6 B – interdependent ✓✓
 1.1.7 D – services ✓✓
 1.1.8 B – production price ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 D – a small initial increase in spending produces proportionately larger increase in aggregate national income ✓
 1.2.2 G – long term financial instruments e.g. bonds ✓
 1.2.3 A – removal of unnecessary laws, by-laws and power imbalances that inhibit free operations ✓
 1.2.4 H – measures the distance of oscillation of a variable from trend line to the peak and trough ✓
 1.2.5 F – expresses a country's export prices in terms of its import prices ✓
 1.2.6 E – information about the size and structure of a population ✓
 1.2.7 I – A key growth sector of the Integrated Manufacturing Strategy ✓
 1.2.8 C – people and their skills required for production ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 Households / Consumer ✓
 1.3.2 Composite ✓
 1.3.3 Balance of Payments ✓
 1.3.4 Demerit ✓
 1.3.5 Personal income tax / income tax / tax ✓
 1.3.6 Industrial development / Corridors / Spatial Development Initiatives / tax incentives ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions.

2.1.1 **Give TWO examples of leakages.**

- Taxes / T ✓
- Savings / S ✓
- Imports expenditure / M ✓ (2 x 1) (2)

2.1.2 **Why should the public sector participate in the management of the economy?**

To ensure the application of suitable and credible economic policies to ensure equal opportunities to everyone to increase the standard of living / Ensure efficient and effective application and distribution of resources in the economy / limit anti-competitive behaviour / ensure achievement of macro-economic objectives ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 **Which method was used in the calculation of the Gross Domestic Product (GDP) above?**

Production method / Value added / GDP(P) ✓ (1)

2.2.2 **Which year is currently used as the base year by the South African Reserve Bank (SARB)?**

2010 ✓ (1)

2.2.3 **Briefly describe the term *Gross National Product*.**

The value of all final goods and services ✓ produced by the citizens ✓ of a country over a particular period (2)

2.2.4 **Which sector steadily increased its contribution to the GDP since 2014?**

Tertiary sector ✓✓ (2)

2.2.5 **What happened to the value added by the primary sector between 2015 and 2016? Motivate your answer.**

The contribution of the primary sector declined ✓✓ from R307 875 m in 2015 to R291 143 m in 2016 ✓✓
(Accept any other correct relevant motivation) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Identify a trough in the business cycle above.

T₁ / T₂ / T₃ ✓ (1)

2.3.2 During which year was the first business cycle fully completed in the graph above?

2007 / 2001 – 2007 ✓ (1)

2.3.3 Briefly describe the term *real (actual) business cycle*.

A real business cycle occurs when the effects of irregular events / seasonal / long-term growth trends are removed from the time series data ✓✓

(Accept any other correct relevant response) (2)

2.3.4 How can the South African government use government spending as fiscal measure to stimulate the economy?

Governments can increase economic activity by increasing government spending ✓✓ (2)2.3.5 How could the South African Reserve Bank have prevented the business cycle from plunging to T₃?

The Reserve bank can:

- adjust the repo rate downwards, that will lead to lower interest rates ✓✓
- decrease cash reserve requirements to make more money available at banks, for loans ✓✓
- buy securities in the open market (open market transactions) ✓✓
- stabilise the exchange rate ✓✓
- increase the money supply ✓✓

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

2.4 **Briefly discuss *economies of scale* and *choice* as arguments in favour of free trade.**

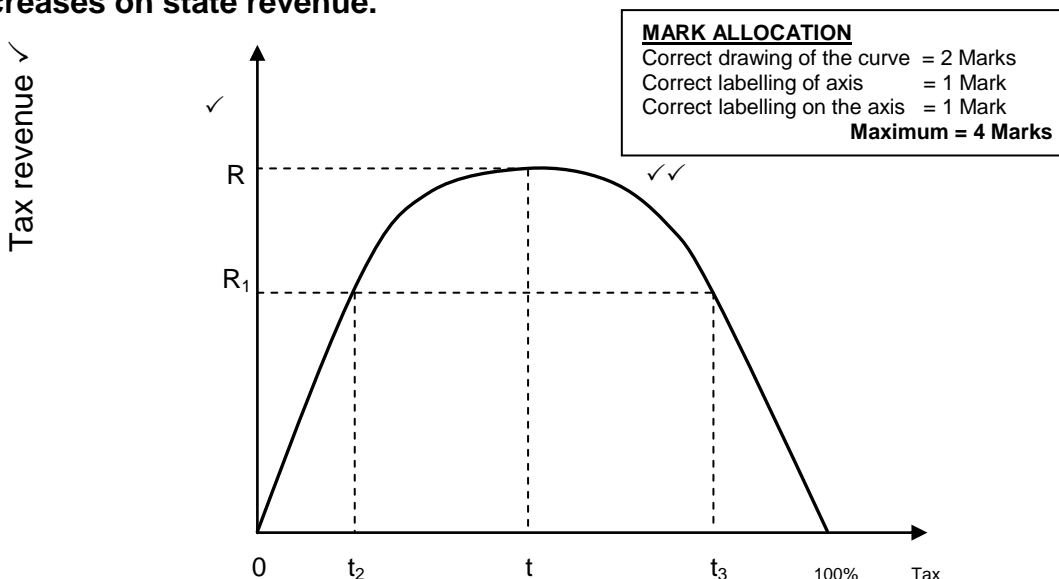
Economies of scale:

- Free trade allows industries to maximise economies of scale, reduce costs and become competitive in world markets ✓✓
- This benefits the world economy by distributing labour effectively and creating economic efficiency ✓✓
- Economies of scale are a source of comparative advantage ✓✓
- Economies of scale benefits consumers as low production costs lead to low prices ✓✓
- Increase in world trade leads to larger markets ✓✓ more investments in the production processes ✓✓ (2 x 2)

Choice:

- Free trade allows consumers the choice of what to buy from the whole world and not just from what is produced domestically ✓✓
 - This will increase consumer welfare because some consumers prefer to buy foreign goods rather than domestic goods ✓✓ (2 x 2)
- (Accept any other correct relevant response)
(A maximum of 4 marks should be allocated for mere listing of facts/ examples) (2 x 4) (8)

2.5 **With the aid of a well-labelled Laffer curve, explain the impact of tax rate increases on state revenue.**



Effects of a tax increase on state revenue

- As the tax rate increases, tax revenue increases ✓✓
 - Where the curve peaks (at tax rate t) the tax to government maximises ✓✓
 - At tax rates higher than t, state revenue will decline because workers will refuse to work or disclose their income (evasion/avoidance) ✓✓ (Max 4)
- (Accept any other correct relevant response) (8) [40]

QUESTION 3: ECONOMIC PURSUITS

3.1 Answer the following questions.

3.1.1 **Name any TWO basic services that influence one's standard of living.**

- Electricity ✓
 - Refuse disposal ✓
 - Water supply ✓
 - Sanitation ✓
 - Basic education ✓
 - Basic healthcare ✓
 - Housing ✓
 - Nutrition / school feeding scheme ✓
- (Accept any other correct relevant response)

(2 x 1) (2)

3.1.2 **How can SMMEs support economic growth?**

SMMEs can support economic growth by:

- increasing production processes ✓✓
 - creating employment opportunities for structurally unemployed people ✓✓
 - increasing competition ✓✓
 - increasing opportunities for exports ✓✓
 - increased entrepreneurial skills that will lead to higher production and investment ✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify the international institution that prepares statistics on human development from the extract.**

United Nations / UN ✓

(1)

3.2.2 **Name ONE indicator from the extract that is used in measuring the standard of living.**

- Gross income per capita / GNI p.c. ✓
- Life expectancy ✓
- Education ✓

(1)

3.2.3 **Briefly describe why urbanisation is regarded as an economic indicator.**

Urbanisation is an **economic indicator** because it indicates to businesses the availability of workers and the purchasing power and services which they can cater for ✓✓

(Accept any other correct relevant response)

(2)

3.2.4 **Briefly describe why urbanisation is regarded as a social indicator.**

Urbanisation is a **social indicator** because it points out to governments and developers that land has to be provided for a variety of purposes and services e.g. more housing ✓✓
(Accept any other correct relevant response)

(2)

3.2.5 **How should high education inequalities be addressed to improve the standard of living of South Africans?**

The standard of living could be improved by:

- proper training and skilling of school management to become effective and efficient ✓✓
- provisioning of sound educational infrastructure in the form of laboratories and libraries ✓✓
- up-skilling and reskilling of the teachers ✓✓
- insisting on a sound teaching and learning atmosphere ✓✓
- improved corporate funding and government subsidies ✓✓
- free tertiary education and no fee schools ✓✓
- other languages should be recognised as language of teaching and learning ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 **DATA RESPONSE**

3.3.1 **What challenge must South Africa address by 2030, according to the extract above?**

To roll back poverty and inequality ✓

(1)

3.3.2 **In the extract above, identify ONE way in which South Africa could minimise the challenges it faces.**

Improve education ✓

(1)

3.3.3 **Briefly describe the term *economic growth*.**

An increase in the productive capacity / goods and services of the economy over a period of time / increase in real GDP ✓✓
(Accept any other correct relevant response)

(2)

3.3.4 **What economic benefit will the implementation of the National Development Plan have on the economy?**

- Reduce youth unemployment ✓✓
- Provide young people with broader opportunities ✓✓
- Increase the competitive capacity of the economy ✓✓
- Improve the standard of living of the people ✓✓
- Increase the pace of industrialisation ✓✓

(Accept any other correct relevant response)

Any (1 x 2)

(2)

3.3.5 How can poverty and inequality be addressed in South Africa?

Poverty and inequality can be addressed by:

- improving the efficiency and effectiveness of the provision of services ✓✓
- distributing resources more fairly ✓✓
- improving the education standards ✓✓
- creating employment opportunities in the country e.g. EPWP ✓✓
- providing cash benefits e.g. social grants ✓✓
- awareness programmes e.g. family planning ✓✓
- changing of labour laws e.g. BEE, employment equity ✓✓

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

3.4 Briefly discuss the *repo rate* and *money supply* as economic indicators.

Repo rate:

- is the rate at which the SARB provides loans to commercial banks ✓✓
- effective utilization of the decisions made on the change of the repo rate by the Monetary Policy Committee (MPC) ✓✓
- when the MPC lower the repo rate, banks should likewise reduce their interest rates in order to produce increased consumption spending by consumers ✓✓
- when the MPC increases its repo rate, banks would increase their interest rates and this would have a negative effect or decline in the consumption spending by consumers ✓✓
- if interest rates increase, debt of households and businesses increase and repayment of debt becomes larger too ✓✓
- it may signal that a downturn in the business may occur and thus the welfare of consumers becomes affected ✓✓ (2 x 2)

Money supply:

- The SARB is currently focusing on targeting inflation rather than the money supply ✓✓
- The quantity of money consists of M1: that includes coins and notes outside the monetary sector and demand deposits of the domestic private sector with monetary institutions ✓✓
- M2: equal to M1 plus all other short-term and medium-term deposits of the domestic sector with monetary institutions ✓✓
- M3: equal to M2 plus all long-term deposits of the domestic private sector with monetary institutions ✓✓ (2 x 2)

(Accept any other correct relevant response)

(A maximum of 4 marks can be allocated for mere listing of facts/ examples) (2 x 4) (8)

3.5 Why is it important for the government to assess the performance of the economy from time to time?

The government should assess the economy to benefit from:

- using economic indicators to check how the economy is doing from time to time ✓✓ e.g. GDP that shows the behaviour of one of the variables usually overtime ✓
 - using indicators for output, money interests, prices etc., at all times to compare amongst them and assists in the decision making processes ✓✓
 - taking into account any changes in these indicators such that they would use for planning purposes and compiling policies to improve the economy ✓✓
 - comparing similar figures to those of other countries and tell us the relative performance ✓✓
 - achieving of main macro-economic objectives e.g. an increase in the real GDP ✓✓
 - gain a better understanding on the purpose and reasons why they should be prepared ✓✓ e.g. the CPI is calculated to show price increases of consumers' goods and reflects the cost of living ✓
 - assisting the business community to understand the use of CPI to base their increases on prices ✓✓
- (Accept any other correct relevant response)
(A maximum of 2 marks can be allocated for mere listing of facts/ examples)

(8)
[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS

4.1 Answer the following questions.

4.1.1 **Give any TWO reasons for public sector failure.**

- Management failure ✓
- Apathy ✓
- Lack of motivation ✓
- Politicians ✓
- Bureaucrats (public servants) ✓
- Special interests groups ✓
- Structural weaknesses ✓

(2 x 1) (2)

4.1.2 **What impact will the introduction of the green economy have on the industrial development plan of South Africa?**

Industries would now:

- focus on substituting products that are more environmentally friendly e.g. paper bags instead of plastic ✓✓
- use new techniques or equipment to save energy and replace coal and oil with greener energy resources such as wind or sun, that will lead to greater efficiency and less waste ✓✓
- recycle waste such as bottles, cans and cardboard ✓✓
- comply to pressures by the Green Party that forced industries to encourage consider the environment when making business decisions ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

4.2 **DATA RESPONSE**4.2.1 **Who presents the budget speech in Parliament?**

Minister of Finance ✓

(1)

4.2.2 **Identify the type of budget mentioned in the extract above.**

Mini budget / Medium term budget policy statement / MTBPS ✓

(1)

4.2.3 **Briefly describe the term *budget*.**

A budget is a document showing anticipated revenue ✓ and estimated expenditure ✓

(Accept any other correct relevant response)

(2)

4.2.4 **What is the main purpose of levying a sugar tax?**

- increase state revenue ✓✓
- discourage people from the excessive use of sugar which causes diabetes and heart diseases ✓✓

(2)

4.2.5 **Explain why an increase in VAT will have a negative impact on the economy.**

An increase in VAT will:

- cause an increase in prices of a wide range of products ✓✓ which will lead to an increase in inflation ✓✓
 - disadvantage the middle class and poor ✓✓ decrease in disposable income / they will purchase less ✓✓
 - lower demand influencing production in a negative way ✓✓ and decrease economic growth ✓✓ (2 x 2) (4)
- (Accept any other correct relevant response)

4.3 **DATA RESPONSE**

4.3.1 **In the information above, identify a government department that drives the implementation of regional development policies.**

Department of Trade and Industry / DTI ✓ (1)

4.3.2 **Which corridor is represented by ① in the map above?**

Maputo development corridor ✓ (1)

4.3.3 **Briefly describe the term *corridor*.**

Spatial area that offer particular advantage to mining, manufacturing tourism and other businesses / a gateway that links two areas ✓✓
(Accept any other correct relevant response) (2)

4.3.4 **What is the aim of the government in the adoption of regional development policies?**

Assist with the promotion of a more spread of industries so that capital and labour can be directed towards under-developed areas ✓✓
(Accept any other correct relevant response) (2)

4.3.5 **How can the introduction of SEZs benefit the economy of South Africa?**

SEZ's can benefit the economy by:

- attracting new businesses (tax incentives) / investment ✓✓
- assisting businesses that establish new products lines and expand their operations ✓✓
- creating more employment for the people in their neighbourhood ✓✓
- increasing productivity and economic growth ✓✓
- promoting more effective use of resources ✓✓
- focusing on both domestic production and exports ✓✓
(Accept any other correct relevant response) Any (2 x 2) (4)

4.4 **Explain *changes in demand* and *interest rates* as measures to correct the balance of payments disequilibria.**

Changes in demand:

- Long-term policies include export promotion such as government incentives, applied to encourage the production of goods that can be exported and limit imports ✓✓
- Import substitution can be applied where government incentives include producing goods domestically rather than to import them ✓✓
- E.g. European governments pay subsidies to farmers to ensure a productive advantage over developing countries where this practice is not followed ✓✓ (2 x 2)

Interest rates:

- Domestic demand on imports will decrease if interest rates increase ✓✓
- Higher interest rates will attract foreign investment to South Africa which will improve the Balance of Payments ✓✓ (2 x 2)

(A maximum of 4 marks can be allocated for mere listing of facts/examples)

(2 x 4) (8)

4.5 **How does South Africa's regional development policies compare to international benchmarks, in terms of *good governance* and *partnerships*?**

South Africa's performance regarding good governance by:

- managing regional development effectively and free of corruption / enforcing democratic decision-making, transparency, good financial management and control ✓✓

South Africa performed poorly due to:

- mismanagement e.g. SAA or Eskom ✓✓ / poor decision-making e.g. Vrede milkfarm in the Free State ✓✓ (2 x 2)

(Accept any other relevant example explained)

South Africa's performance regarding partnerships is:

- reflecting various effective agreements between central government, local authorities, civil society, special interest groups, NGOs and the private sector ✓✓

South Africa performed well in:

- attempting to promote the advantages of a more even regional development by using the labour, other natural resources and infrastructure in neglected areas through PPPs / South Africa introduced policies to stimulate economic activities in rural and urban areas e.g. IDZ's, SEZ's ✓✓ (2 x 2)

(A maximum of 2 marks can be allocated for mere listing of facts/examples)

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

(8)
[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MACROECONOMICS

- **Discuss import substitution as part of South Africa’s international trade policy under the following:**
 - **Methods (13 Marks)**
 - **Reasons/Advantages (13 Marks) (26 marks)**
- **With the aid of a graph, assess the effect of an increase in mass production on international trade. (10 marks)**

INTRODUCTION

This is when a country introduces policies to encourage the production of imported goods locally where such production required the expansion or establishment of manufacturing industries ✓✓

(Accept any other correct relevant response)

Max (2)

BODY: MAIN PART**METHODS**

- **Tariffs ✓** (also known as custom duties or import duties) are taxes on imported goods ✓✓
 - **Ad valorem ✓**
as the percentage of the value ✓✓ on luxury goods such as cars, jewellery and perfumes ✓
 - **Specific ✓**
which is an amount per unit, mass or size on for example, food, animals and plants ✓✓
 - the effect of imposing a tariff is to raise prices for domestic consumers and in the absence of any retaliation, shift demand from imports to domestically produced products ✓✓
- **Quotas ✓**
 - A quota is a limit on the supply of a good or service ✓✓
 - although quotas can be imposed on exports, quotas on imports are more common e.g. a quota may place a restriction on the import of bicycles, say 10 000 a year or up to R10 000 worth of bicycles ✓✓
 - foreign businesses will experience a reduction in the quantity they can sell but they may benefit from higher prices if demand for their products is inelastic ✓✓
- **Subsidies ✓**
 - (transport costs or employment) to domestic enterprises that export goods may be used as an indirect way of protecting them, for example the subsidies paid to European farmers ✓✓
 - these subsidies may enable relatively high cost domestic enterprises to undercut more efficient foreign enterprises in the domestic market ✓✓
- **Licences ✓**
 - A licence is granted to a business by the government and allows a business to import a certain type of product into a country ✓✓
 - This does create a restriction on competition and could lead to price increases

✓✓

- **Voluntary export restraints** ✓
 - This could lead to price increases on non-essential imported goods, but protect the local industries ✓✓
- **Exchange controls** ✓
 - A government or a free trade area, may seek to reduce imports by limiting the amount of foreign exchange made available to those wishing to import goods and services or to invest or travel abroad ✓✓
 - Exchange controls require that all foreign exchange earnings by residents need to be handed over to the central bank ✓✓
 - those who need to make foreign payments then have to apply to the central bank that rations them ✓✓
- **Physical control** ✓
 - This usually takes the form of a complete ban or an embargo on the imports of certain goods ✓✓
 - An embargo is a ban on the export or import of a product and or a ban on trade with a particular country e.g. a country may ban the export of arms to a country with poor human rights record ✓✓
 - It may also ban imports, say drugs, and is likely to break off trading relations with a country during a military conflict ✓✓
- **Diverting trade** ✓
 - Some measures are aimed at making it difficult to import goods from abroad:
- **Import deposits** ✓
 - Government may require importers to deposit a given sum of money before they can import products ✓✓
 - Time-consuming customs procedures discourage importing ✓✓
 - Quality standards- Government may set domestic quality standards, which foreign enterprises seeking to export to the country may find difficult to meet ✓✓

Max (13)

REASONS

Developing countries are tempted to pursue import substitution policies for two reasons in diversification and trade

- **Diversification** ✓
 - Developing countries often find import substitution the easiest way to diversify their economies ✓✓
 - It is argued that their industrial base of their economies needs to be strengthened and expanded and this will make them less dependent on foreign countries and give them more control over their economies ✓✓
 - A natural starting point is import substitution because there is certainty that a domestic market exists for their products ✓✓
 - Manufacturers often establish themselves when they are not really able to compete with imports more when the infant industry argument is used to justify protection measures ✓✓
 - Such industries may the potential of comparative advantage and when given protection, may be able to benefit from larger scales of production and become internationally competitive ✓✓
 - They may eventually become more independent of protection and be able to export and expand their scale of operation further ✓✓

- **Trade** ✓
 - Developing countries depend on their natural resources as a basis for economic growth and development ✓✓
 - In many instances, their exports consist of primary goods such as minerals and agricultural produce ✓✓
 - The demand for such goods, particularly agricultural foods from foreign countries, is fairly fixed and inflexible ✓✓
 - meaning that such goods have a low income and price elasticity of demand which means that even substantial changes in prices and income have no significant effect on the demand for them ✓✓
 - this makes them unsuitable as a basis for economic growth ✓✓

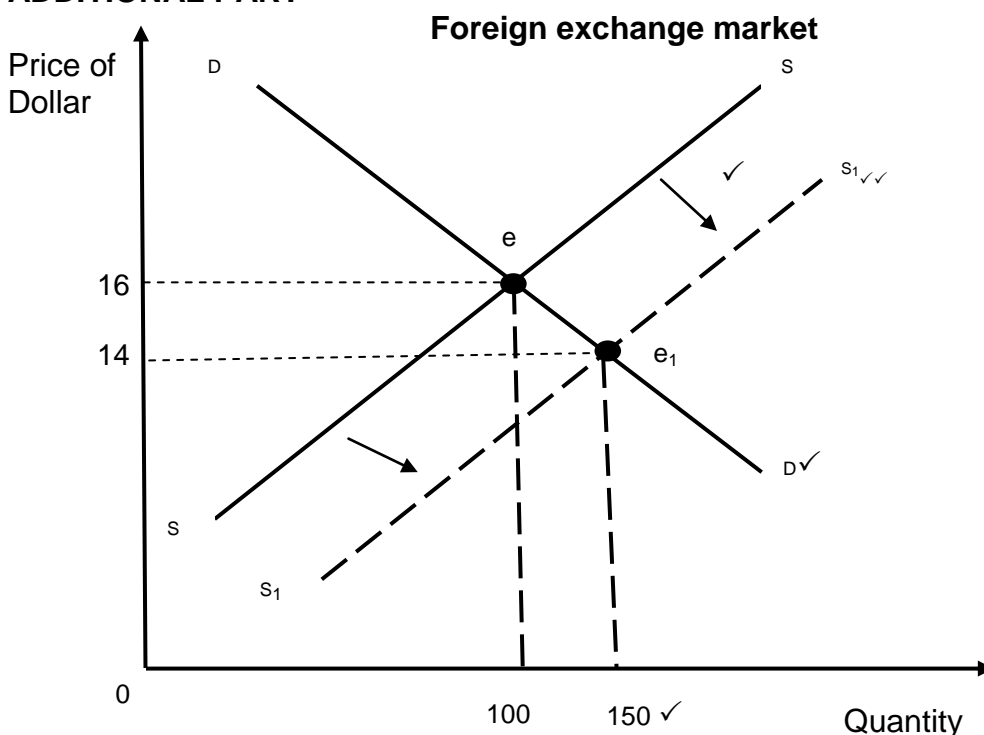
ADVANTAGES

- **Increased employment** ✓
 - Local workers, rather than foreign workers are employed to produce the goods that substitute foreign goods ✓✓
 - Increased employment, in turn stimulates the economy and the GDP increases ✓✓
- **More choices** ✓
 - Because goods are no longer imported but locally produced, the foreign exchange that becomes available can be used for other imports, thereby increasing the choices made available to consumers ✓✓
- **Diversification** ✓
 - The domestic economy becomes more diversified by producing a greater variety of goods locally and is less vulnerable to foreign actions and conditions, such as price increases of foreign goods and financial turbulences in the foreign markets ✓✓

Max (13)

(A maximum of 8 marks can be allocated for mere listing of facts/examples)

ADDITIONAL PART



MARK ALLOCATION

- | | |
|--|-----------|
| 1. Correct drawing of curves | = 1 mark |
| 2. Correct labling of curves | = 1 mark |
| 3. Indicate change in supply curve | = 1 mark |
| 4. Correct drawing and change in supply curve | = 1 mark |
| 5. Change in quantity regarding change in supply curve | = 2 marks |
| TOTAL = 6 MARKS | |

Impact of the increase of mass production on international trade:

- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign markets ✓✓ shifting the supply to the right from S to S₁ ✓✓ (this explanation could also be given without reference to a graph)
- An increase in exports will lead to an inflow of foreign exchange which will push the supply curve to the right ✓✓
- This will lead to an appreciation in the value of the rand ✓✓
- Create more employment that will lead to an increased demand for foreign goods that might facilitate international trade ✓✓ and lead to an access to a greater variety of goods and services ✓✓
- Most manufactured products require large-scale production in order to be affordable and profitable ✓✓
(Accept any other correct relevant response) Max (10)

CONCLUSION

Import substitution as an inward-looking strategy can best help in the restrictions of imports in order to allow domestic enterprises the opportunity to grow their businesses and supply similar products that will grow the economy better ✓✓ **[40]**
Max (2)
(Accept any other correct relevant higher order response)

QUESTION 6: ECONOMIC PURSUITS

- **Discuss the supply-side approach in promoting growth and development in South Africa by including:**
 - **Efficiency (13 marks)**
 - **Cost of doing business (13 marks) (26 marks)**
- **How effective was the Reconstruction and Development Programme (RDP) in addressing the imbalances of the past in South Africa? (10 marks)**

INTRODUCTION

Supply-side policies focus on supply and its microeconomic components such as competition and potential output to supply goods and services ✓✓

(Answer any other correct relevant response)

Max (2)

MAIN PART**1. The efficiency and effectiveness of markets****Efficient**

- If a business achieves its aims of profitability and growth, the business is effective ✓✓
- Similarly, industries and markets are also effective when they achieve their aims ✓✓
- In South Africa, the government imposes aims on the markets through law which they are obliged to pursue and if they meet those objectives, they are efficient ✓✓

Effectiveness

- Government demands that markets operate in a manner that ensures that more black people are absorbed into the mainstream economy because they were previously excluded ✓✓
- Two Acts were promulgated among others to enforce a preference for black workers and the business of black people ✓✓

The **Employment Equity Act** ✓ This Act prohibits discrimination and requires that the workforce reflects the racial and gender profile of the population ✓✓

- Businesses have to file an employment equity plan with the Department of Labour and inspectors from the department visit the business sites to ensure compliance ✓✓

Broad Based Black Economic Empowerment ✓

- This act provides the legal basis for the transformation of the South African economy ✓✓
- This requires the redress so that the number of black people who own / manage and control businesses in the country ✓✓ can increase significantly and income inequalities can be decreased substantially ✓✓
- Efficiency – Pareto efficiency means that given the constraints of the effectiveness parameters, it is not possible to change the allocation of resources in such a way that someone is made better off without making someone else worse off ✓✓
- It includes productive and allocative efficiency ✓✓
 - **Competition** ✓ This was increased in the following manner in the markets: By establishing new businesses and recruiting of FDI ✓✓ and the reduction of import restrictions ✓✓ which increased competition from abroad ✓✓
 - In addition, a competition regulatory network was established to enforce competition practices amongst domestic businesses (the Competition Act (1998), Competition Tribunal, and Competition Appeals Court) ✓✓ and in spite of this, the Global Competitive Index shows that South Africa's competitiveness is slipping ✓✓

- **Deregulation** ✓ Private sector power imbalances that inhibit the free operation of markets have been revised and some were even abolished in the mid-1990s ✓✓
- **Privatisation** ✓ Efficiency is improved in terms of quality of services delivered and products delivered ✓✓
- Government maintains its' commitment to improve the ease of doing business in South Africa ✓✓
- **Exchange control** measures were occasionally relaxed but not abandoned by 2012 ✓✓
- In spite of this, the ease of *Doing Business Index* shows South Africa is slipping every year ✓✓

Business efficiency

Some measures serve as incentives to increase the effort and efficiency and greater profitability ✓✓

- **Taxes** ✓
 - The country's corporate income tax is at 28% and small businesses pay a lower rate as long as their income is less than R350 000 over year while the micro-enterprises the turnover is R750 000 ✓✓
 - Individual income tax starts at 18% and increase on sliding scale to 40% ✓✓
 - The effects of bracket creeping on personal income tax has been attended to in almost every budget with the adjustments in of income brackets ✓✓
- **Capital formation** ✓
 - The depreciation of capital goods used by businesses is designed to encourage investment e.g. the purchasing of new machinery may be depreciated over four years, 40% in the first year and computers and electronic equipment over three years ✓✓
 - Government , through the DTI and the IDC, also provides capital and loans to SMMEs and bigger businesses ✓✓
 - These serve as incentives to promote efficiency ✓✓
- **Human resources / transformation of education** ✓
 - Education receives proportionally the bigger slice of the budget expenditure ✓✓
 - Sectoral Education and Training Authorities (SETAs) have to facilitate post-school, work-related training and all these measures are aimed at fostering efficiency ✓✓
- **Free advisory services** ✓
 - Examples include the development of export markets, managing and running SMMEs, agricultural production, weather forecasts, and preventing and curing animal diseases ✓✓

(Max 13)

2. Cost of doing business

In South Africa government controls most **physical infrastructure** components ✓✓

The availability, reliability and cost of infrastructure services play an important role in the **financial viability and profitability** of businesses ✓✓

- **Transport costs** ✓
 - Transport options in the form of air, road, rail and sea transport ✓✓
 - Government controls air and rail transport in South Africa ✓✓
 - A substantial promotion of cargo and passenger transport is moved by road ✓✓

- Only a reliable rail service that is cheaper than road transport will turn this around ✓✓
- Transport costs within South Africa and between South Africa and its exports destinations are expensive due to the long distances involved ✓✓
- Government has committed to improving the efficiency and reliability of its rail transport services and to making it more affordable ✓✓
- **Communication costs** ✓
 - Communications options are cable, signal and mail ✓✓
 - Government controls cable (land and fixed) and mail communication services ✓✓
 - Cable communication in South Africa is the most expensive in the world but reasonably efficient ✓✓
 - The high cost make IT services for businesses and individuals expensive and inhibits global competitiveness ✓✓
- **Energy costs** ✓
 - The two main forms of energy in South Africa are electricity and liquid fuels ✓✓
 - Eskom is a monopoly electricity supplier ✓✓
 - In recent years its rates escalated substantially and at times it has been unable to meet the demand for electricity and this undermines the efficiency in the economy ✓✓
 - Government announced substantial investments in new electricity capacity recently ✓✓
 - Government regulates petrol and paraffin prices ✓✓
 - prices of imported crude oil are linked to international market prices which are high ✓✓
 - High liquid energy prices undermine the efficiency of the economy ✓✓

(A maximum of 8 marks can be allocated for mere listing of facts/examples)

(Accept any other correct relevant response)

(Max 13)

ADDITIONAL PART

The RDP was effective in that it:

- was a labour-intensive public works programme ✓✓
- assisted in the reduction of poverty by providing more employment ✓✓
- it was a socio-economic policy framework that went through as a golden thread in every government plan ✓✓
- assisted in the development of human resources that the economy needs most for development ✓✓
- assisted in the increase of infrastructure development ✓✓
- promoted the implementation of land reform ✓✓
- helped in the provisioning of houses, water electricity and primary health care ✓✓

(Also accept the negative point of view)

(Accept any other correct relevant response)

Max (10)

CONCLUSION

The supply-side policy approach can be used to encourage quality and quantity use of factors of production to the best of the economy ✓✓

Max (2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C:
GRAND TOTAL

40
150