

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

JUNE 2019

**ECONOMICS P1
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 17 pages.

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

- 1.1.1 C – comparative ✓✓
- 1.1.2 B – demerit ✓✓
- 1.1.3 C– cash reserve requirement ✓✓
- 1.1.4 A – decrease taxes ✓✓
- 1.1.5 A – International Monetary Fund ✓✓
- 1.1.6 D– community ✓✓
- 1.1.7 C – decline in mineral exports ✓✓
- 1.1.8 D – economic union ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E – an increase in the productive capacity of the economy over a specific period of time ✓
- 1.2.2 G– an official in the government department ✓
- 1.2.3 F – uses interest rates to influence the levels of expenditure ✓
- 1.2.4 H – progressive tax scales are used ✓
- 1.2.5 A – obtained when the effects of irregular events and seasons are removed from time series data ✓
- 1.2.6 I – interaction and interfacing of countries with trade as a common element ✓
- 1.2.7 B – exchange rate system where the value of the currency is determined by market forces ✓
- 1.2.8 C – a situation in the economy when leakages are more than injections ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Budget ✓

1.3.2 Revaluation ✓

1.3.3 Prosperity ✓

1.3.4 Subsidy ✓

1.3.5 Special Drawing Rights ✓

1.3.6	Autonomous consumption ✓	(6 x 1)	(6)
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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 2.1.1 Name TWO demand reasons of international trade.

- The size of the population ✓
- The population 's income levels ✓
- An increase in wealth / change in the wealth of the population ✓
- Preferences and tastes ✓
- The difference in consumption pattern ✓ (Any 2 x 1) (2)

2.1.2 Why does the government levy high taxes on demerit goods?

- To discourage the consumer from consuming the product. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Which trade policy is referred to in the above cartoon?

- Free trade ✓ (1)

2.2.2 Name any member country of the Mercusor trade bloc.

- Brazil ✓
- Paraguay ✓
- Uruguay ✓
- Argentina ✓ (1)

2.2.3 Describe the term *free trade*.

- It is when producers and consumers are free to buy goods and services anywhere in the world without the interference of the government. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 Briefly explain innovation as an argument in favour of free trade.

Free trade increases competition.

Innovation stimulates:

- New product development. ✓✓
- Improved production methods in goods and services. ✓✓
(Accept any other correct relevant response) (Any 1x2) (2)

2.2.5 How will protection of natural resources favour local industries?

Protection of natural resources will favour local industries by:

- ensuring that they may continue using natural resources for survival. ✓✓
 - ensuring that they have ability to effectively plan, use and conserve natural resources. ✓✓
 - E.g the South African government has taken steps to protect Rooibos tea as a natural resource ✓
 - safeguarding the indigenous knowledge that allows the hoodia plant to be used for medicinal purposes. ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Name the method used to calculate GVA in the above table.

- Production method / GDP (P) ✓ (1)

2.3.2 Name any activity that falls under the tertiary sector.

- Distribution of goods and services ✓
 - Wholesale and retail trade, catering and accommodation ✓
 - Transport, storage and communication ✓
 - Community, social and personal services ✓
 - Finance, insurance, real estate and business services ✓
- (Accept any other correct relevant response.) (Any 1x1) (1)

2.3.3 Briefly describe the term *GVA at constant prices*.

- GDP where the effect of inflation on the nominal GDP has been taken into account, and the figure has been changed by deflating the index. ✓✓
- (Accept any other relevant correct response.) (2)

2.3.4 Calculate the contribution of the secondary sector (A). Show all calculations.

- $(452\,326 + 125\,377 + 138\,917) \checkmark = 716\,620 \checkmark$
Award 1 (ONE) mark for answer only. (2)

2.3.5 Highlight the importance of national account aggregates.

- They indicate the economic activity within a country. ✓✓
- Measure economic growth from one year to the next. ✓✓
- Determine the standard of living in a country. ✓✓
- Comparing prosperity levels among countries. ✓✓ (2 x 2) (4)

2.4 Differentiate between *endogenous* and *exogenous* reasons.

Endogenous reasons

- This is often called the Keynesian view. ✓✓
- The level of economic activity constantly and erratically overshoots and undershoots the economy's potential growth. ✓✓
- Markets are inherently unstable. ✓✓
- Price mechanism fails to coordinate supply and demand. ✓✓
- Most important causes of economic fluctuations are:
 - Indirect links. ✓
 - Mismatches ✓
- Governments should intervene in the economic processes in order to smooth the business cycle. ✓✓
- The bold cyclical movements around it are the actual route followed by the economy. ✓✓
- A business cycle is an inherent feature of a market economy. ✓✓

(Any 2 x 2)

Exogenous reasons

- Also referred to as Monetarists. ✓✓
- If imbalances develop, the market forces will always bring the market back to equilibrium. ✓✓
- Markets are inherently stable. ✓✓
- Most important causes of economic fluctuations are:
 - Inappropriate government policies. ✓✓
 - Governments should not interfere in the markets. ✓✓.
- External reasons for business cycles are :
 - Weather conditions ✓
 - Shocks ✓
 - Structural changes ✓
 - Technological changes ✓

(Any 2 x 2) (8)

(Accept response in tabular form)

2.5 How will corruption impact negatively on the efficiency of the government?

Corruption will impact negatively on the efficiency of the government by:

- affecting service delivery due to lack of funds and projects remain unfinished. ✓✓
 - hampering the smooth running of the country. ✓✓
 - poverty and other socio-economic problems are a direct result of corruption. ✓✓
 - leading to different expensive commissions that yield nothing. ✓✓
 - resurfacing of an atmosphere of political instability. ✓✓
 - financial mismanagement which blocks services to be rendered to deserving citizens. ✓✓
 - corruption will cause less profits. ✓✓
 - misallocation of resources to different departments. ✓✓
- (Accept any other correct relevant response.)

(8)

[40]

QUESTION 3: MACROECONOMICS**3.1 3.1.1 Give TWO examples of leakages.**

- Imports (M) ✓
- Savings (S) ✓
- Taxes (taxation) (T) ✓ (Any 2 x 1) (2)

3.1.2 What effect will ad valorem tariffs have on luxury items?

- It will increase the price of luxury goods ✓✓ because the tax is added to the price of the good, this will make the quantity demanded to decrease. ✓✓
(Accept any other correct relevant response.) (Any 1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 How long does a Juglar cycle last?**

- 7–11 years ✓ (1)

3.2.2 What is the slope of the trendline in the diagram above?

- Positive slope ✓ (1)

3.2.3 Describe the term *composite indicator*.

- It is a summary of the various indicator groups into a single number to benchmark a country's economic performance. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 Explain briefly the government's aim with business cycle policies.

- It is to achieve the best possible growth rates for the country. ✓✓
(Accept any other correct relevant response.) (2)

3.2.5 How can the length be used in forecasting of business cycles?

- Longer cycles show strength which will indicate that the next cycle will also be strong. ✓✓
- With a length of 11 years, it can be predicted that 11 years will pass between successive peaks or troughs for the economy. ✓✓
- Because the length remains constant, it can be assumed when forecasting that the next cycle will be of similar length. ✓✓
(Accept any other correct relevant response.) (Any 2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Which body regulates the supply of electricity in South Africa?

- National Energy Regulator of South Africa (NERSA) ✓ (1)

3.3.2 Name ONE problem that the power utility has been faced with for years.

- Corruption ✓
 - Financial problems / bankruptcy ✓
- (Accept any other correct relevant response) (Any 1x1) (1)

3.3.3 Describe the term *parastatal*.

- They are businesses with limited liability operating with the intention to make profits. ✓✓
- (Accept any other correct relevant response.) (2)

3.3.4 Briefly explain ineffectiveness as a characteristic of public sector failure

- Refers to the public sector being inadequate and unable to bring about the desired effects into the economy. ✓✓
 - When policies of the public sector do not accomplish their intended purpose. ✓✓
 - Incompetence in using monetary and fiscal policy, land use policy, industrial policy and commercial policy. ✓✓
 - Missing targets, e.g regarding inflation, growth and employment. ✓✓
- (Accept any other correct relevant response) (Any 1x2) (2)

3.3.5 How can the South African government address the lack of accountability?

The South African government can address the lack of accountability by:

- appointing individuals who are competent. ✓✓
 - avoiding corruption and nepotism. ✓✓
 - concentrating on efficiency when appointing officials. ✓✓
 - placing individuals according to their qualifications. ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)

3.4 Discuss goal bound and demand biased as features of the fiscal policy.**Goal bound**

- Central government by means of the budgetary process of consultation and persuasion determines economic and social goals (objectives) for the country. ✓✓
- The budget is used to realise these economic and social goals. ✓✓
- The provincial and local governments merely execute the approved budget. ✓✓ (Any 2 x 2) (4)

Demand biased

- Fiscal policy is the main policy instrument used in demand-side policies. ✓✓
- The government improves infrastructure to support fiscal policy. ✓✓
- However elements of fiscal policy are also used to realise supply-side objectives, ✓✓
- e.g. when the government uses taxation as an incentive, allows rapid depreciation of assets and subsidises human resource development. ✓✓ (Any 2 x 2) (8)

3.5 How can open market transactions be used to smooth out business cycles?

Open market transaction can be used to smooth out business cycles by:

- Reducing or increasing the supply of money by buying or selling government securities and treasury bills in the open market to control money supply. ✓✓
 - Selling government bonds to banks and other financial institutions. ✓✓
 - Debiting the bank's account with the value of the sale and the bank's balance with the Reserve Bank to reduce its ability to offer credit. ✓✓
 - Crediting the bank's account with the amount of the purchase thus leaving the bank with enough money to lend borrowers. ✓✓
 - Using the policy during recession as a strategy of stimulating the economy. ✓✓
- (Accept any other relevant correct answer.) (8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 4.1.1 Name TWO arguments in favour of privatisation.**

- Greater efficiency ✓
- Greater competition ✓
- More choices and higher standard of living ✓
- Increase in tax revenue ✓ (Any 2 x 1) (2)

4.1.2 How will the SARB correct an overvalued rand?

- Indirect intervention ✓
 - if the rand is overvalued, an increase in interest rates invites an inflow of investments, which creates a surplus on the BOP. ✓✓

OR

- Direct intervention ✓
 - if the rand is overvalued, the SARB can buy foreign currency, using its gold foreign reserves to increase the demand for the foreign currency. ✓✓ (Any 1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Why is gold listed as a separate item on the current account?**

- Main earner of foreign exchange. ✓
- Historical importance ✓ (Any 1 x 1) (1)

4.2.2 What trend is shown by the current account from 2016 to 2018?

- Decreasing/declining ✓ (1)

4.2.3 Briefly describe the term *trade balance*. (2)

- Value of exports minus the value of imports. ✓✓/ It is a difference between income received for exports and payments made from imports. ✓✓ (Any 1 x 2) (2)

4.2.4 Explain the purpose of the current account.

- The current account indicates the flow of monies into the country and out of the country relating to goods and services/ primary income/ current transfers during the period of a year. ✓✓
- It is also an indication whether a country is living within its means (surplus or deficit). ✓✓ (Accept any other correct relevant response.) (Any 1x2) (2)

4.2.5 **How can the government use our currency to improve the trade balance?**

The government can use our currency to improve the trade balance by:

- devaluing the rand. ✓✓
 - making our goods cheaper to foreign countries ✓✓
 - promoting exports. ✓✓
- (Accept any other relevant response.) (Any 2 x 2) (4)

4.3 4.3.1 **Name ONE example of an indirect tax.**

- VAT ✓
 - Fuel levy ✓
 - Sugar tax ✓
 - Excise duties/sin tax ✓
 - Import duties/custom duties ✓
- (Any 1 x 1) (1)

4.3.2 **What is the meaning of *personal income tax relief*?**

- Measures taken by government to reduce the tax burden on taxpayers. ✓
- (1)

4.3.3 **What impact will an increase in the VAT rate have on the standard of living of the poor?**

- standard of living of the poor will decrease, ✓✓
 - an increase in VAT will increase the price of goods and services. ✓✓
 - The poor will not be able to afford all goods and services with the limited income. ✓✓
- (Accept any other correct relevant response.) (Any 1x2) (2)

4.3.4 **Briefly describe the project the government will engage in with the revenue collected.**

- Infrastructure development (roads, communication etc.) ✓✓
 - Housing for the poor ✓✓
 - Health facilities and fighting incurable diseases ✓✓
 - Subsidies for growing industries ✓✓
 - Funding higher education ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

4.3.5 How do reduced tax rates contribute to an increased government revenue?

Reduced tax rates contribute to an increased government revenue by:

- Encouraging firms to increase their investment which often leads to an increase in revenue from company taxes. ✓✓
- Motivating people to work harder which will result in increased output. ✓✓ The more people are willing to work, the more tax revenue will be earned by the government. ✓✓
- Reducing tax evasion and avoidance which often happens when tax payers feel the tax rate pressure. ✓✓

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

4.4 Briefly explain the measures that can be applied to reduce the deficit on the balance of payments.

- An increase in tax reduces disposable income which decreases demand in imports. ✓✓
- Higher interest rates help to decrease spending on imports. ✓✓
- Exchange control allows central banks to ration foreign exchange. ✓✓
- Borrowing money from the IMF. ✓✓
- An increase in import tariffs and controls, although SA complies with WTO policies to decrease its import controls. ✓✓
- Substituting imports will reduce imports of goods because goods will be produced locally. ✓✓
- Changes in exchange rates, ie depreciation/ devaluation makes imports expensive and exports cheaper for foreign countries. ✓✓

(Accept any other correct relevant responses)

(Allocate a maximum of 4 marks for the listing of facts or examples)

(Any 4 x 2) (8)

4.5 Why is the promotion of employment and prevention of dumping important to protect developing countries against overseas competition?

Promotion of employment is important to protect developing countries against overseas competition by :

- restricting foreign goods entering the country ✓✓
- employing more people as domestic businesses may increase production. ✓✓
- enabling businesses to enter the market. ✓✓

Prevention of dumping is important to protect developing countries against overseas competition by :

- allowing local producers to be able to compete. ✓✓
- ensuring competitive prices. ✓✓

(Accept any other correct relevant response.)

(8)
[40]

SECTION C**QUESTION 5: MACROECONOMICS**

- Discuss the role of the various markets in the circular flow without the use of a diagram. (26 marks)
- How does an increase in injections affect the level of equilibrium in national income? (10 marks)

INTRODUCTION

- Markets coordinate economic activities and in the process prices are determined for goods and services. ✓✓
(Accept any other correct relevant response.)

MAIN PART**Factor market ✓**

- Households are the owners of factors production. ✓✓
- They sell the factors of production on the factor markets ✓✓ and are paid rent for land, wages for labour, interest for capital and profit for entrepreneur. ✓✓
- The factor market also includes the labour, property and financial markets. ✓✓

Financial markets ✓

- These markets are NOT directly involved in the production of goods and services, they are a link between households, firms and other participants. ✓✓
- E.g. insurance companies, banks etc. ✓
- The financial market serves those who wish to save and those who wish to borrow. ✓✓

Money market ✓

- It is where short term loans and very short term funds are saved and borrowed by consumers and business enterprises. ✓✓
- Banks operate in the money market. ✓✓
- The SARB is a key institution in the money market. ✓✓
- Bank debentures, treasury bills, government bonds are traded. ✓✓

Capital market ✓

- In the capital market long term funds are borrowed and saved by consumers and business enterprises. ✓✓
- JSE is the key institution in this market. ✓✓
- Shares are traded and mortgage bonds. ✓✓

Foreign exchange market ✓

- In the RSA these transactions take place in our banks. ✓✓
- Businesses buy foreign currency to pay for imported goods and services. ✓✓
- The SA rand is traded freely in these markets. ✓✓
- E.g when a person buys a travellers cheque to travel abroad. ✓
- The most important foreign exchange markets are in London, New York and Tokyo. ✓✓

Goods/product market ✓

- These are markets for consumer goods and services ✓✓ – goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants and needs. ✓
- Buying and selling of goods that are produced in markets. ✓✓
- E.g durable consumer goods - furniture ✓
- Semi-durable consumer goods - tyres ✓
- Non-durable consumer goods - beverages ✓
- Services are intangible items such as hairdressing, insurance ✓✓
- Capital goods market is for trading of buildings and machinery. ✓✓

(Max. 26)

ADDITIONAL PART**How does an increase in injections affect the level of equilibrium in national income?**

- Increase in injections (in the form of government expenditure, investment and export earnings ✓) will lead to an increase in the equilibrium level of national income. ✓✓
- Increased injection leads to increased investment, increased demand and increased employment ✓✓ and this process continues, ✓
- This is known as the Keynesian Multiplier. ✓✓
- The multiplier effect refers to an initial spending which gives rise to an even greater increase in national income. ✓✓
- A change in the autonomous component of aggregate demand will lead to a change in the equilibrium output. ✓✓
- In other words, the change in output will be even larger than the initial change in aggregate demand resulting from further increase in injections. ✓✓

(Max 10)

(Accept any correct relevant response.)

(10)

CONCLUSION

- Markets are critically important institutions in our economic system, because they regulate supply and demand and safeguard stable prices and confidence amongst business people. ✓✓
(Accept any other relevant higher order conclusion.)

(2)
[40]

QUESTION 6: ECONOMIC PURSUITS

- **Discuss import substitution as part of South Africa's international trade policy under the following headings:**
 - **Reasons**
 - **Advantages**
 - **Disadvantages** (26 marks)
- **How successful have South African policies been to redress income inequality?** (10 marks)

INTRODUCTION

- Import substitution is the replacement by domestic production of goods that were previously imported. ✓✓
(Accept any correct relevant response.)

-

BODY: MAIN PART**Reasons**

Trade ✓

- Developing countries depend on their natural resources as a basis for economic growth and development. ✓✓
- The demand for such goods, e.g. agricultural products is fairly fixed and inflexible. ✓✓
- Such goods have a low income and price elasticity of demand, which means that substantial changes in prices and income level have no effect on the demand for them. ✓✓

Diversification ✓

- When goods and services that were previously imported are produced locally, domestic manufacturing grows and the economy becomes less reliant on foreign countries. ✓✓
- Developing countries often find import substitution an easy way to diversify their economies. ✓✓
- A natural starting point is import substitution because there is certainty that a domestic market exists for their products. ✓✓
- The argument of infant industries is used to justify protection measures. ✓✓
- Such industries may have the potential of comparative advantage and when given protection, may be able to benefit from larger scales of production and become internationally competitive. ✓✓

Balance of payment problems ✓

- If the deficit on the BOP is too high, a reduction in imports can assist to rectify this. ✓✓

Advantages

- Increased employment: more local workers will be employed. ✓✓
- This will stimulate the economy and the GDP increases. ✓✓
- More choices: Available foreign exchange can be used for other imports, thus increasing choices. ✓✓
- Because goods are no longer imported but locally produced, they will be bought by domestic consumers. ✓✓
- Diversification: the domestic economy become more diversified by producing a greater variety of goods locally and is less vulnerable to foreign actions and conditions, ✓✓ e.g price increases of foreign goods ✓ and financial turbulences in the foreign markets. ✓

Disadvantages

- Costly and uneconomical projects are established ✓✓ e.g. Moss gas ✓
- Technology borrowed from abroad may be unsuitable for local production. ✓✓
- Where comparative advantage exists, competitiveness of certain sectors may decrease. ✓✓
- Import substitution leads to demand for protection ✓ and this demand comes from industries that provide inputs to local industries. ✓
- There is inefficient local production because local producers are shielded from foreign competition. ✓✓
- Capital and entrepreneurial talent is drawn away from comparative advantage. ✓✓

(Max. 26)

ADDITIONAL PART**How successful have South African policies been to redress income inequality?**

- South Africa uses a progressive income tax system. ✓✓
- Those earning higher incomes are taxed at higher rates, and this money is used to finance social development. ✓✓
- The poor benefit more than the rich. ✓✓
- The government also applies wealth taxes, ✓✓
- Properties are taxed according to their market values. ✓✓
- Low cost housing is exempted from these duties. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Social security payments are given to the vulnerable groups, ✓✓
- E.g. old age pensions and unemployment insurance. ✓
- Limited quantities of free electricity and water are also provided. ✓✓

(Accept any other correct relevant response)

(Accept any negative responses.)

(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 later. ✓✓

(Accept any other relevant higher order conclusion)

(Max. 2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

