



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2013

**ECONOMICS
MEMORANDUM**

MARKS: 300

This memorandum consists of 17 pages.

SECTION A (Compulsory)**QUESTION 1 (LO1 – LO4)**

1.1

- | | | | | |
|-----|--------|------|--------------------------------------|---------------|
| LO1 | 1.1.1 | A ✓✓ | short term | |
| | 1.1.2 | C ✓✓ | recovery | |
| | 1.1.3 | B ✓✓ | Auditor-General. | |
| LO2 | 1.1.4 | B ✓✓ | slopes downwards from left to right. | |
| | 1.1.5 | B ✓✓ | merit | |
| | 1.1.6 | C ✓✓ | Cellphone industry | |
| LO3 | 1.1.7 | A ✓✓ | Black Economic Empowerment | |
| | 1.1.8 | A ✓✓ | IDZs | |
| | 1.1.9 | C ✓✓ | World Trade Organisation. | |
| LO4 | 1.1.10 | A ✓✓ | CPI | |
| | 1.1.11 | C ✓✓ | indigenous heritage. | |
| | 1.1.12 | B ✓✓ | Conservation | (12 x 2) (24) |
-
- | | | | | |
|-----|-------|---------------------------|--|--------------|
| 1.2 | 1.2.1 | Financial ✓✓ | | |
| | 1.2.2 | Deregulation ✓✓ | | |
| | 1.2.3 | Social security grants ✓✓ | | |
| | 1.2.4 | SARB ✓✓ | | |
| | 1.2.5 | Oligopoly ✓✓ | | (5 x 2) (10) |
-
- | | | | | |
|-----|-------|------|---|--------------|
| 1.3 | 1.3.1 | H ✓✓ | Shows the relationship between tax rate and tax revenue. | |
| | 1.3.2 | E ✓✓ | To obtain meaningful share or control of a business. | |
| | 1.3.3 | B ✓✓ | To prevent the abuse of economic power e.g. monopoly. | |
| | 1.3.4 | A ✓✓ | These are over consumed in a free market economy. | |
| | 1.3.5 | D ✓✓ | Return of land to those who lost them because of discriminatory laws. | |
| | 1.3.6 | I ✓✓ | Includes air, road, rail and sea transport. | |
| | 1.3.7 | J ✓✓ | Aggregate demand exceeds aggregate supply. | |
| | 1.3.8 | C ✓✓ | Foreign tourists arriving in South Africa. | (8 x 2) (16) |

TOTAL SECTION A: 50**SECTION B (Answer any THREE questions from this section.)****QUESTION 2 (LO1 AS1 – AS4) (50 MARKS – 25 MINUTES)**

- | | | | | |
|-----|-------|--------------------|--|-----|
| 2.1 | 2.1.1 | open ✓✓ | | (2) |
| | 2.1.2 | nationalisation ✓✓ | | (2) |
| | 2.1.3 | main ✓✓ | | (2) |
| | 2.1.4 | depreciation ✓✓ | | (2) |
-
- | | | | | |
|-----|---|----------------------|-------------|-----|
| 2.2 | • | Business cycles ✓✓ | | |
| | • | Kitchin cycles ✓✓ | | |
| | • | Juggler cycles ✓✓ | | |
| | • | Kuznets cycles ✓✓ | | |
| | • | Kondratief cycles ✓✓ | | |
| | | | (Any 3 x 2) | (6) |

2.3 DATA RESPONSE

- 2.3.1 It is the price of one currency in terms of another one. ✓✓ (2)
- 2.3.2 Appreciates/become stronger ✓✓ (2)
- 2.3.3 • Revaluation ✓✓
• Devaluation ✓✓ (2 x 2) (4)
- 2.3.4 South African Reserve Bank/SARB ✓✓ (2)

2.4 DATA RESPONSE

- 2.4.1 Eskom ✓✓ (2)
- 2.4.2 It is used to describe the change in status of an enterprise from a non-profit to a profit-seeking enterprise. ✓✓ (2)
- 2.4.3 • SOEs are bureaucratic, inefficient, and unresponsive to the needs of the people. ✓✓
• It will broaden the tax base. ✓✓
• Private sector is able to adapt more easily to changing economic conditions. ✓✓
• It will give more people a share in the economy. ✓✓
• It will make funds available for necessities like housing, education, health care and assistance to the poor. ✓✓
(Any 2 x 2) (4)
- 2.4.4 The government will have to support loss-making entities at taxpayer's expense. ✓✓ (2)

- 2.5 • Known as producers/manufacturers of goods and services ✓✓
• Buys factors of production from households in the factor market ✓✓
• Use the factors of production to produce goods and services ✓✓
• Sells goods and services in the product market ✓✓ (8)

- 2.6 • Community goods are non-rival goods. ✓✓
• Consumption by one does not exclude the consumption of another. ✓✓
• These are non-excludable. ✓✓
• Means that consumers cannot be charged a price on the basis of use. ✓✓
• They are not offered by the private sector. ✓✓
• E.g. defence, police, flood control, street lighting, etc. ✓✓ (4 x 2) (8)

[50]**QUESTION 3 (LO2 AS1 – AS3) (50 MARKS – 25 MINUTES)**

- 3.1 3.1.1 loss ✓✓ (2)
- 3.1.2 advertising ✓✓ (2)
- 3.1.3 direct ✓✓ (2)
- 3.1.4 collective ✓✓ (2)
- 3.2 • Non-rivalry ✓✓
• Non-excludability ✓✓
• Social benefits outstrip private benefits ✓✓
• Infinite consumption ✓✓
• Non-rejectability ✓✓ (Any 3 x 2) (6)

3.3 DATA RESPONSE

- 3.3.1 Normal profit✓ in perfect competition ✓ (2)
- 3.3.2 The firm will receive economic profit. ✓✓ (2)
- 3.3.3 Where $MR = MC$ ✓✓ (2)
- 3.3.4
- It is the actual expenditure of a business on the purchase or hire of inputs. ✓✓
 - It includes wages, interest, leasing of land and buildings and expenditure on raw materials. ✓✓ (4)

3.4 DATA RESPONSE

- 3.4.1 These are costs and benefits that convert private costs and benefits into social costs and benefits. ✓✓ (2)
- 3.4.2
- Private costs plus external cost are equal to social costs. ✓✓
 - This is the cost of goods and services to those who produce them and to the community as a whole. ✓✓
 - It is also the additional cost of pollution or the cost of treating a sickness caused by the production of a good or service. ✓✓
 - No values are given to these external costs because there is no market price for them. ✓✓ (Any 2 x 2) (4)
- 3.4.3
- Private costs are costs that are incurred by consumers when they buy the goods. ✓✓
 - Private benefits are benefits received by those who buy and sell the goods. ✓✓ (4)

- 3.5
- Oligopolies collude through formal or informal agreement ✓✓
 - When they reach a formal agreement, it is called a cartel. ✓✓
 - This is to limit competition and maintain high profitability. ✓✓
 - There are different forms – overt collusion, tacit collusion, etc. ✓✓
 - A good example of collusion is OPEC. ✓✓ (Any 4 x 2) (8)

- 3.6
- It means the product mix does not reflect consumers taste. ✓✓
 - This is because resources are not allocated in the right proportions. ✓✓
 - The quantities preferred by the consumers are not available. ✓✓
 - It can be improved if producers change products depending on market demand. ✓✓ (4 x 2) (8)

[50]

QUESTION 4 (LO3 AS1 – AS4) (50 MARKS – 25 MINUTES)

- 4.1 4.1.1 SARB ✓✓ (2)
 4.1.2 northern ✓✓ (2)
 4.1.3 normal ✓✓ (2)
 4.1.4 GDP ✓✓ (2)
- 4.2 • Duty free incentives ✓✓
 • Small and Medium Enterprise Development Programme (SMEDP) ✓✓
 • Skills Support Programme (SSP) ✓✓
 • Black Business Supplier Programme (BBSP) ✓✓
 • Critical Infrastructure Programme (CIP) ✓✓
 • Foreign Investment Grant (FIG) ✓✓ (Any 3 x 2) (6)
- 4.3 **DATA RESPONSE**
- 4.3.1 • GEAR ✓✓
 • RDP ✓✓
 • AsgiSA ✓✓ (Any 2 x 2) (4)
- 4.3.2 • Incentives to work and produce ✓✓
 • Human and physical capital formation ✓✓
 • Satisfying international benchmarks ✓✓ (Any 2 x 2) (4)
- 4.3.3 Growth Employment And Redistribution ✓✓ (2)
- 4.4 **DATA RESPONSE**
- 4.4.1 SETAs (Sector Education and Training Authority) ✓✓ (2)
 4.4.2 Lack of skills and training ✓✓ (2)
 4.4.3 • Transport ✓✓
 • Communication ✓✓
 • Energy ✓✓ (Any 2 x 2) (4)
- 4.4.4 • skills development ✓✓
 • education and training ✓✓ (Any 1 x 2) (2)
- 4.5 • Incentives ✓✓
 ○ It will encourage manufacturers to increase their export volumes. ✓✓
 ○ Include market information, research with regard to new markets, concessions on transport charges, export credit and guarantees, etc. ✓✓
 • Subsidies ✓✓
 ○ This is in the form of cash payments to exporters. ✓✓
 ○ Includes cash payments like refunds on import tariffs, general tax rebates, tax concessions, employment subsidies, assistance in financing exports. ✓✓ 2 x (Any 2 + 2) (8)
- 4.6 • A higher rate of literacy, knowledge and skills among the population can be achieved through education. ✓✓
 • Can be achieved by means of effective education and training. ✓✓
 • It improves productivity, national wealth, higher standard of living, etc. ✓✓
 • It receives the largest percentage of total expenditure in RSA. ✓✓
 • Standard of living and the level of education are closely related. ✓✓ (Any 4 x 2) (8)

QUESTION 5 (LO4 AS1 – 3) (50 MARKS – 25 MINUTES)

- 5.1 5.1.1 labour ✓✓ (2)
 5.1.2 cost-push ✓✓ (2)
 5.1.3 ecotourism ✓✓ (2)
 5.1.4 renewable ✓✓ (2)
- 5.2 • There should be a purpose for the visit. ✓✓
 • No remuneration should be earned ✓✓
 • The minimum stay should be on night and the maximum should be less than one year. ✓✓
 • The travelling distance should be more than 160 km. ✓✓ (Any 3 x 2) (6)
- 5.3 **DATA RESPONSE**
- 5.3.1 It excludes items from the CPI basket that have highly volatile prices and items with prices that are affected by government intervention. ✓✓ (2)
 5.3.2 Semi-durable goods ✓✓ (2)
 5.3.3 • It is caused by an increase in the price of administered goods and services. ✓✓
 • These are the prices of goods and services that are set or controlled by the government. ✓✓ (4)
 5.3.4 Goods that can be used only once/goods that are consumed during use, e.g. food stuffs ✓✓ (2)
- 5.4 **DATA RESPONSE**
- 5.4.1 • It is the introduction of chemical, physical or biological materials into fresh water sources ✓✓
 • It degrades the quality of water and negatively affects the organisms that live in it and people who use them. ✓✓ (4)
 5.4.2 Oil spill ✓✓ (2)
 5.4.3 • **Preservation** is the maintenance and protection of the environment and its resources in their present condition. ✓✓
 • **Conservation** is the sustainable management and use of natural resources. ✓✓ (4)
- 5.5 • It brings development to the poor in rural areas. ✓✓
 • Many of the prime tourism attractions are located in the rural areas. ✓✓
 • It allows rural people to share the benefits of tourism development. ✓✓
 • It allows people continue a rural family existence. ✓✓ (4 x 2) (8)

- 5.6
- The environment is a common resource ✓✓
 - Most services do not have a price. ✓✓
 - There is no economic incentive to economise on their use. ✓✓
 - Externalities ✓✓
 - The cost of pollution on the environment is borne by others. ✓✓
 - Because no one owns the environment. ✓✓
 - Lack of knowledge ✓✓
 - People cause damage to the environment without realising it. ✓✓
 - In many instances, people do not have the knowledge to do things in an environmentally friendly way. ✓✓
 - Carelessness ✓✓
 - People are generally prepared to continue with various harmful practices. ✓✓
 - They leave it to future generations to worry about the consequences. ✓✓

Any 2 x(2 + 2) (8)
[50]

QUESTION 6 (LO1 AND LO2) (50 MARKS – 25 MINUTES)

- 6.1
- | | | |
|-------|-------------|-----|
| 6.1.1 | variable ✓✓ | (2) |
| 6.1.2 | trough ✓✓ | (2) |
| 6.1.3 | makers ✓✓ | (2) |
| 6.1.4 | consume ✓✓ | (2) |

- 6.2
- Investment ✓✓
 - Government expenditure ✓✓
 - Export income ✓✓
- (3 x 2) (6)

6.3 DATA RESPONSE

- 6.3.1
- Decline in the economic growth in RSA's trading partners. ✓✓
 - Domestic supply constraints. ✓✓
 - Appreciation of the external value of the rand ✓✓
 - Contraction in export proceeds. ✓✓
 - Increase in the value of merchandise imports. ✓✓ (Any 2 x 2) (4)
- 6.3.2
- Euro area ✓✓
 - United Kingdom ✓✓
 - China ✓✓ (Any 1 x 2) (2)
- 6.3.3
- Merchandise ✓✓
 - Net gold exports ✓✓
 - Services ✓✓
 - Income ✓✓
 - Current transfers ✓✓ (Any 2 x 2) (4)

6.4 DATA RESPONSE

- 6.4.1 Long-term equilibrium of a monopoly/monopolistic competition ✓✓ (2)
 6.4.2 Economic profit ✓✓ (2)
 6.4.3 A = AC/Average Cost Curve ✓✓
 B = MC/Marginal Cost curve ✓✓ (4)
 6.4.4 It is the increase in total revenue by selling an additional unit. ✓✓ (2)

- 6.5
- It means that goods and services are not provided in the desired quantity or quality. ✓✓
 - Public goods are efficiently provided only if pareto efficiency is achieved. ✓✓
 - Bureaucracy ✓✓ – following official rules and procedures may cause inefficiency. ✓✓
 - Incompetence ✓✓ – lack of skill, improper qualifications, lack of training, experience, etc. can lead to inefficiency. ✓✓
 - Corruption ✓✓ – the exploitation of a person's position for private gain such as taking bribes, nepotism, fraud, etc. can also lead to inefficiency. ✓✓ (Any 4 x 2) (8)

- 6.6
- It is where total revenue is exactly equal to total costs. ✓✓
 - It appears that the entrepreneur is not making any profit. ✓✓
 - But total costs include normal profit. ✓✓
 - It is the amount the entrepreneur pays him-/herself. ✓✓
 - Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the business. ✓✓ (Any 4 x 2) (8)
- [50]**

TOTAL SECTION B: 150

SECTION C (Answer any TWO questions from this section.)

MARK ALLOCATION FOR ESSAY RESPONSES	
STRUCTURE OF THE ESSAY	Mark Allocation
Introduction	Max 3
Body	
• Main part: For example discuss/explain/detailed essay/analyse/evaluate	Max 30
• Additional part: For example draw a graph or diagram/refer/indicate	Max 10
Conclusion	Max 2
Interpretation	Max 5
TOTAL	50

QUESTION 7 (LO1 AS1)**ESSAY RESPONSE**

Fully explain the following business cycle indicators used in forecasting – Leading, Lagging, Co-incident, Length and Amplitude.

In addition draw a fully labelled “business cycle”.

INTRODUCTION

- An economic indicator suggests how the economy is performing or is likely to perform. ✓✓✓
- Basic forecasting is done by studying the changes in the numerical values of indicators. ✓✓✓
- (Accept any appropriate introduction.) (Any 1 x 3) (3)

BODY**A. Leading economic indicators**

- These indicators will change before the economy changes ✓✓
- They peak before the aggregate economic activity reaches the peak. ✓✓
- They reach trough before the economic activity reaches trough. ✓✓
- They are important because they give advance warning of changes in aggregate economic activity. ✓✓
- E.g. Number of new vehicles sold ✓✓ (Any ONE example) (Any 4 x 2) (8)

B. Co-incident economic indicators

- They indicate the actual state of the economy. ✓✓
- They move at the same time as the economy moves. ✓✓
- Co-incident indicators coincide with the turning points. ✓✓
- If co-incident economic indicators are improving, it means the economy is improving and vice versa. ✓✓
- E.g. Real GDP. ✓✓ (Any ONE example) (Any 4 x 2) (8)

C. Lagging economic indicators

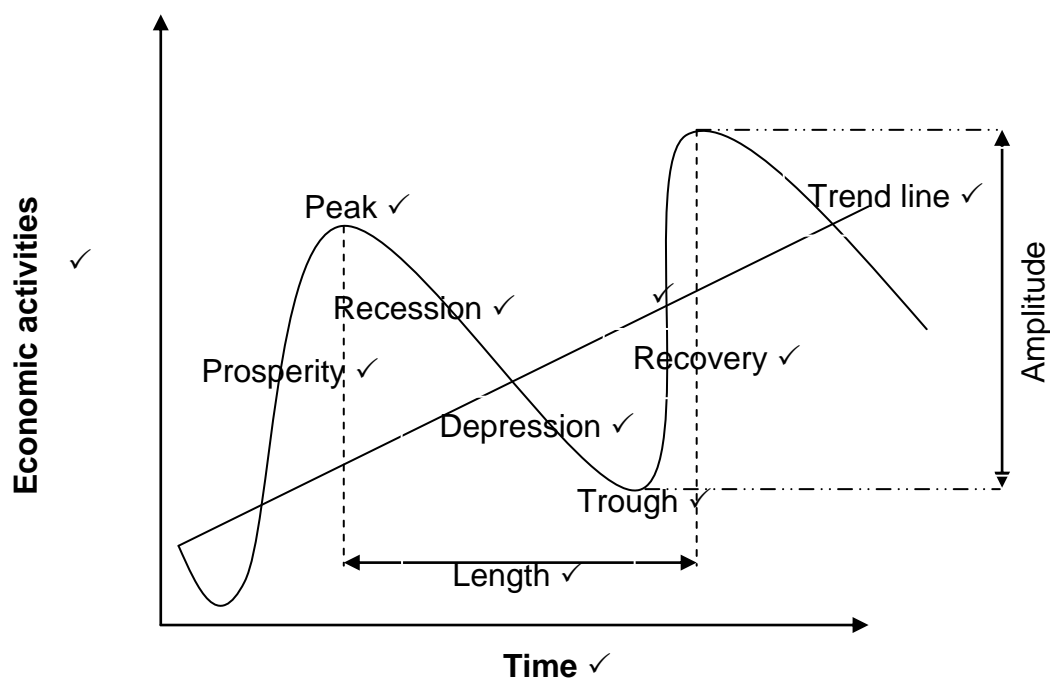
- They do not change direction until after the business cycle has changed direction. ✓✓
- It confirms the behaviour of co-incident indicators. ✓✓
- If they do not confirm an upswing or downswing, they are weak or likely to end at an early stage. ✓✓
- E.g. number of commercial vehicles sold. ✓✓ (Any ONE example) (Any 3 x 2) (6)

D. Length

- It is the time taken to complete one cycle. ✓✓
- It is the time between two successive peaks or troughs. ✓✓
- Longer cycles show the strength of the economy. ✓✓ (Any 2 x 2) (4)

E. Amplitude

- It is the difference between the total output between peak and trough. ✓✓
- Measured by the distance between the peak and the trough. ✓✓
- Large amplitude indicates strong underlying forces and can lead to longer cycles. ✓✓ (Any 2 x 2) (4)



max (10)

CONCLUSION

Even though we try to predict the future of the economy with all the available techniques, accurate prediction of the future of the economy is beyond us. ✓✓

(Any appropriate conclusion can be credited) (2)

Use the following assessment grid together 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 missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45 marks)

(5)

[50]

QUESTION 8 (LO2 AS1)**ESSAY RESPONSE**

Write a detailed essay on the characteristics of perfect competition.

Make use of a PPC (graph) to indicate the following points.

Inefficient productivity (A)

Efficient productivity (B)

Impossible productivity (C)

INTRODUCTION

- A perfect competitive market is a market structure with a large number of participants who are price-takers. ✓✓✓
- It is a market condition where none of the participants can influence the market. ✓✓✓
- (Any appropriate introduction can be credited.) (Any 1 x 3) (3)

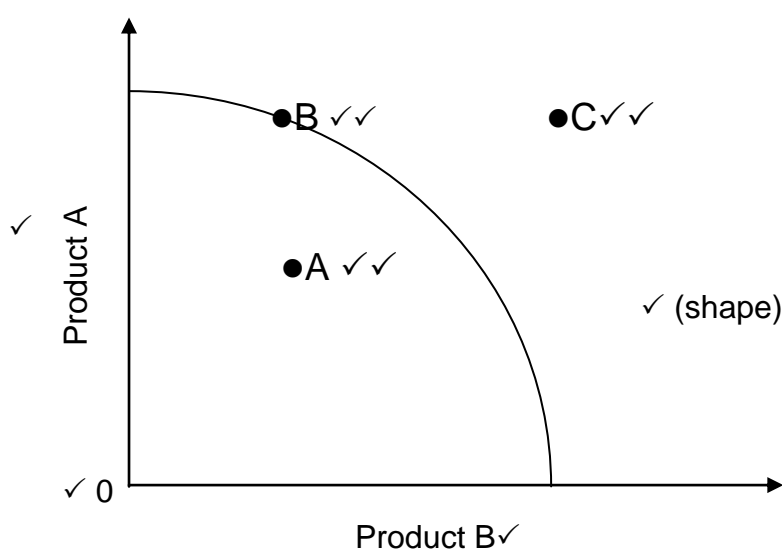
BODY

- Large number of buyers ✓✓
 - The number of buyers in the market is so large that an individual buyer is insignificant to influence the market conditions. ✓✓
 - There are so many buyers in the market that a single buyer cannot influence market price. ✓✓
- Large number of sellers ✓✓
 - The number of sellers in the market is so large that an individual seller cannot influence the market price. ✓✓
 - Sellers in the perfect competitive market are price takers. ✓✓
- Products are homogenous ✓✓
 - Products sold in this market are homogenous. ✓✓
 - Products are identical in quality and appearance. ✓✓
 - It makes no difference to a buyer from where he buys the product. ✓✓
- Freedom of entry and exit ✓✓
 - The market is fully accessible as there is complete freedom of entry and exit. ✓✓
 - Participants are free to enter and leave the market. ✓✓
 - There are no restrictions with regard to entry or exit. ✓✓
- Factors of productions are completely mobile ✓✓
 - All factors of productions can move freely between markets. ✓✓
- Perfect information ✓✓
 - All participants have full knowledge of all the market conditions. ✓✓
 - If one seller decides to raise the price, sellers will leave him for other sellers. ✓✓
 - The business charging higher prices will not be able to sell its products. ✓✓
- No collusion ✓✓
 - There is no collusion between sellers. ✓✓
 - Each seller acts independently of the others. ✓✓
- No government intervention ✓✓
 - No government intervention that could affect buyers/sellers. ✓✓

- Unregulated markets ✓✓
 - There is no government intervention that could affect the participants. ✓✓
 - No preferential treatment ✓✓
 - There is no discrimination and nobody is treated differently. ✓✓
 - Efficient transport and communication ✓✓
 - There is efficient transport and communication to and from the market. ✓✓
- (Any 15 x 2) (30)

CONCLUSION

- There are only very few examples of a perfectly competitive market in the real world. ✓✓
 - E.g. JSE, South African maize market are examples ✓✓
- (Any 1 x 2) (2)



Use the following assessment grid together 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 missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45 marks)

(5)
[50]

QUESTION 9 (LO3 AS3)**ESSAY RESPONSE**

Write a detailed essay on the methods of import substitution.

Also refer to the arguments in favour of free trade.

INTRODUCTION

- Import substitution occurs when a country introduces policies to encourage the local production of imported goods and services. ✓✓✓
- It is when goods that were previously imported are replaced with locally manufactured goods. ✓✓✓
- (Accept any appropriate introduction.) (Any 1 x 3) (3)

BODY**METHODS OF IMPORT SUBSTITUTION**

- Tariffs ✓✓
 - It is also known as customs duties ✓✓
 - These are taxes imposed on imported goods. ✓✓
 - *Ad valorem* taxes ✓✓ are levied as a percentage of the value of imported goods. ✓✓
 - *Specific* tariffs ✓✓ are levied on goods per unit, mass or size. ✓✓
 - Tariffs will increase the price of imported goods and discourage local consumption. ✓✓
 - It also leads to an increased consumption of locally manufactured goods. ✓✓
- Quotas ✓✓
 - This is to limit the importation of goods. ✓✓
 - It is to reduce the supply of imported goods in the local market. ✓✓
 - Limited supply will increase the price of imported goods. ✓✓
- Subsidies ✓✓
 - Subsidies to domestic enterprises may be used as an indirect way of protecting them. ✓✓
 - It will help domestic producers to lower their costs and prices. ✓✓
 - It also helps domestic producers to undercut foreign enterprises in the domestic market. ✓✓
- Exchange controls ✓✓
 - It is to reduce imports by limiting the amount of foreign exchange available to importers. ✓✓
 - It will decrease the supply of imported goods and leads to increased demand for local goods. ✓✓
- Physical control ✓✓
 - Usually in the form of a complete ban on the import of certain goods ✓✓

- Diverting Trade ✓✓
 - Various methods are used to make it difficult for importing goods from abroad. ✓✓
 - *Import deposits* ✓✓ – government may require importers to deposit a certain sum of money before they can import goods. ✓✓
 - *Time consuming customs procedures* ✓✓ – to discourage importing. ✓✓
 - *High quality standards* ✓✓ – are set by government which foreign producers may find it difficult to meet. ✓✓
- (Any 15 x 2) (30)

ARGUMENTS IN FAVOUR OF FREE TRADE

- Specialisation ✓✓
 - The theory of comparative advantage shows that output can be increased using specialisation ✓✓
 - World trade and consumption can be maximised if countries specialise in what they can best produce. ✓✓
 - Economies of scale ✓✓
 - It allows economies of scale to be maximised and unit costs to be reduced. ✓✓
 - Economies of scale lead to comparative advantage. ✓✓
 - Choice ✓✓
 - It allows consumers the choice of goods and service. ✓✓
 - Consumer's welfare can be improved because of the choice of goods available to them. ✓✓
 - Innovation ✓✓
 - It leads to competition which provides incentive to innovate. ✓✓
 - Innovation leads to the production of new goods and services. ✓✓
 - It can also reduce costs and improve the quality and reliability of goods. ✓✓
- (Any 5 x 2) (10)

CONCLUSION

Even though many people are sceptical of import substitution, it has many positive effects on the economy. ✓✓

(Any appropriate conclusion can be credited.)

(2)

Use the following assessment grid together 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 missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45 marks)

(5)

[50]

QUESTION 10 (LO4 AS1)**ESSAY RESPONSE**

Analyse the causes of cost-push inflation.

In addition indicate any five consequences of inflation.

INTRODUCTION

- It occurs where the interaction of demand and supply is disturbed by cost factors. ✓✓✓
- It is an increase in the cost price of a product that leads to an increase in the selling price of a product. ✓✓✓ (Any 1 x 3) (3)

BODY**CAUSES OF COST PUSH INFLATION**

- Higher demand for wages/Wages ✓✓
 - Workers often demand higher wages than their productivity. ✓✓
 - Employers are usually forced by trade unions to pay higher wages. ✓✓
 - Employers recover the higher cost on labour by increasing the prices of goods and services. ✓✓
 - It is the most important single cost-item. ✓✓
- Vicious circle of wages ✓✓
 - Higher prices of goods lead to a vicious circle of higher prices and demand for higher wages. ✓✓
 - Workers demand higher wages because of higher cost of living. ✓✓
- Drop in productivity/Productivity ✓✓
 - There is a drop in productivity while employment and wages remain high. ✓✓
 - Gradually production will decrease and prices will increase. ✓✓
 - Cost per unit output will rise if productivity decreases and remuneration remains unchanged. ✓✓
- Sudden strikes and stayaways ✓✓
 - This will reduce production output and causes a drop in supply. ✓✓
 - Decrease in supply will push prices up. ✓✓
- Direct taxation ✓✓
 - Producers will try to adjust their incomes when government increases direct taxation. ✓✓
 - Producers will increase their prices to compensate for the higher taxes. ✓✓
- Increase in the price of imported goods ✓✓
 - Producers will increase prices according to the increased costs. ✓✓
 - Because of higher production costs, producers will adjust their prices. ✓✓
- Increase in the price of administered goods ✓✓
 - When these prices go up, trade unions demand higher wages. ✓✓
 - Producers will add the increase in prices of administered goods on their products as well. ✓✓
 - E.g. increase in the price of petrol, postage, electricity, water, etc. ✓✓
- Indirect taxation ✓✓
 - Increase in indirect taxation also increases cost of production. ✓✓
 - E.g. Increase in VAT, customs and excise duties ✓✓

- Higher profit margins/Profit margins ✓✓
 - Some price increases are intended to increase the profit margins of businesses. ✓✓
 - Shrinkage ✓✓
 - Shoplifting and losses caused by employees will also increase cost of production. ✓✓
 - These amounts are also added to the price of products. ✓✓
 - As more money is spent on security, prices of consumer goods will increase. ✓✓
 - High prices of agricultural goods ✓✓
 - This is because of the high cost of inputs such as diesel and fertilisers. ✓✓
 - Higher input cost leads to higher food prices. ✓✓
 - Interest rates ✓✓
 - High rate of interest is a cost item for many businesses. ✓✓
 - Interest is also included in the price goods. ✓✓
 - Key-inputs ✓✓
 - Production costs increase with an increase in the prices of the key-inputs, e.g. oil. ✓✓
 - Exchange Rate depreciation ✓✓
 - If the rand depreciates, all import goods become more expensive. ✓✓
 - Natural disasters ✓✓
 - Droughts, floods, etc. causes the production costs and prices to increase. ✓✓
- (Any 15 x 2) (30)

CONSEQUENCES OF INFLATION

- An increase in the price leads to a decrease in the purchasing power of money. ✓✓
 - It causes a redistribution of income and wealth. ✓✓
 - It reduces the real value of savings. ✓✓
 - It affects export earnings and affects balance of payments negatively. ✓✓
 - Decreasing exports and increasing imports result in the depreciation of the currency. ✓✓
 - It also leads to a redistribution of income from taxpayers to the government because of an increase in the average tax rate. ✓✓
 - It also leads to wage bargaining which often leads to industrial and social unrest. ✓✓
- (Any 5 x 2) (10)

CONCLUSION

- There are many causes of inflation and they all have a close relationship with the functioning of the market system.
- When the market system does not function properly, inflation is the price we pay. ✓✓
- (Any appropriate conclusion can be credited.) (Any 1 x 2) (2)

Use the following assessment grid together 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 missed important aspects of topic. (1 – 15 marks)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30 marks)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45 marks)

(5)
[50]

TOTAL SECTION C: 100
GRAND TOTAL: 300