



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2014**

**ECONOMICS P1  
MEMORANDUM**

**MARKS: 150**

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This memorandum consists of 15 pages.

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

- |       |      |                              |         |      |
|-------|------|------------------------------|---------|------|
| 1.1.1 | B ✓✓ | United Nations               |         |      |
| 1.1.2 | C ✓✓ | Privatisation                |         |      |
| 1.1.3 | A ✓✓ | Competition                  |         |      |
| 1.1.4 | A ✓✓ | Import of goods and services |         |      |
| 1.1.5 | C ✓✓ | Trade liberalisation         |         |      |
| 1.1.6 | A ✓✓ | Manufacturing industries     |         |      |
| 1.1.7 | C ✓✓ | Human development index      |         |      |
| 1.1.8 | A ✓✓ | Corridors                    | (8 x 2) | (16) |

**1.2 MATCHING ITEMS**

- |       |     |  |         |     |
|-------|-----|--|---------|-----|
| 1.2.1 | E ✓ | Deals with the characteristics of the population, such as size, race, age etc.   |         |     |
| 1.2.2 | B ✓ | Based on historical time series data   |         |     |
| 1.2.3 | H ✓ | Cutting personal taxation  |         |     |
| 1.2.4 | C ✓ | An individual cannot be charged a price on the basis of use  |         |     |
| 1.2.5 | F ✓ | The process of transforming a mineral to a high value product, which either be consumed locally or exported.                           |         |     |
| 1.2.6 | D ✓ | The total of all the money coming into the country from abroad, less all of the money going out of the country during the same period. |         |     |
| 1.2.7 | I ✓ | Penalties imposed on a country such as refusal to trade and disinvestment  |         |     |
| 1.2.8 | G ✓ | Are used to create the framework and the mechanism   | (8 x 1) | (8) |

**1.3 MISSING WORDS**

- |       |   |  |         |     |
|-------|---|--|---------|-----|
| 1.3.1 | Special Drawing Rights ✓                    |  |         |     |
| 1.3.2 | Consumption of fixed capital/Depreciation ✓ |  |         |     |
| 1.3.3 | Capital Gains Tax ✓                         |  |         |     |
| 1.3.4 | Producer Price Index (PPI) ✓                |  |         |     |
| 1.3.5 | Technology ✓                                |  |         |     |
| 1.3.6 | Trade Embargo ✓                             |  | (6 x 1) | (6) |

**TOTAL SECTION A: 30**

**SECTION B** (Answer TWO of the three questions from this section in the ANSWER BOOK.)

**QUESTION 2: MACROECONOMICS**

**2.1 Name TWO trade protocols that South Africa is part of.**

- The Africa Union ✓✓
- The North American Free Trade Agreement ✓✓
- World Trade Organisation ✓✓ (Any 2 x 2) (4)

**2.2 DATA RESPONSE**

2.2.1 Progressive scale/direct tax ✓✓ (2)

2.2.2 30% ✓✓ (2)

2.2.3  $385\,000 - 358\,110 = 26\,890 \times 35\% \div 100 = 9\,411,50$  ✓✓  
 $82\,904 + 9\,411,50 = 92\,315,50$  ✓✓ (4)

2.2.4  $92\,315,50 \div 385\,000 \times 100 = 23,9\%$  or 24% ✓✓ (2)

**2.3 DATA RESPONSE**

2.3.1 South Africa ✓✓ (2)

- 2.3.2
- South Africa is the world's fourth largest source of gold and diamonds ✓✓
  - It is also sitting on more than three quarters of global platinum reserves. ✓✓ (2 x 2) (4)

2.3.3 In New Delhi ✓✓ (2)

- 2.3.4
- Serves as an alternative to the International Monetary Fund. ✓✓
  - Helps member countries to pull resources for infrastructure development. ✓✓
  - It provides loans during financial difficulties. ✓✓
- (Any relevant answer is acceptable.) (Any 1 x 2) (2)

**2.4 Distinguish between supply and demand-driven business cycles.**

**Supply-driven business cycle**

- The cause of the business cycle lies in the sudden change in macroeconomics supply factors. ✓✓
- These are factors such as natural resources, labour, technology and capital. ✓✓
- In the long-term, changes in the availability and prices of these factors are to be expected. ✓✓

- It is possible to deal with these long-term changes. ✓✓
  - However, if there is a sudden change in one or more of these factors, this might cause a fair amount of instability in the short run. ✓✓
- (Any 2 x 2) (4)

### **Demand-driven business cycle**

- It occurs more frequently than a supply-driven business cycle. ✓✓
  - In a demand-driven business cycle the cause of the business cycle is found in changes in total spending. ✓✓
  - This can be as the result of a change in consumption spending by households, investment spending by firms, government spending or foreign sector spending. ✓✓
  - For example: A typical demand-driven business cycle in South Africa might, for instance, start when the economic growth rates of our main foreign trading partners rise. ✓✓
  - An increase in their economic rates, increases our exports to them and their total spending on our goods then increases. ✓✓
  - This means that an injection into the circular flow has occurred. ✓✓
  - As the demand for our exports increase, domestic firms produce more goods. ✓✓
  - They therefore employ more factors of production and the income of household increases. ✓✓
  - This leads to a rise in consumption spending and a further rise in production and income. ✓✓
  - The multiplier effect is in operation and expansion phase of the business cycle is on its way. ✓✓
- (Any 2 x 2) (4)

### **2.5 Explain why a change in injection has a multiplier effect on the level of production.**

- An injection, such as an increase in exports, investment or government spending increases total spending in the economy. ✓✓
  - This causes an increase in production, which in turn increases income. ✓✓
  - The increase in income then causes an increase in consumption spending by households. ✓✓
  - This increase in spending leads to a further increase in production, which increases income again, and a process of an increase in spending, production and income continues. ✓✓
- (4 x 2) (8)

## **QUESTION 3: ECONOMIC PURSUIT**

### **3.1 Mention TWO kinds of government interventions in industries.**

- Legal ✓✓
  - Import restrictions ✓✓
  - Export promotion ✓✓
  - Grants ✓✓
  - Tax incentives ✓✓
  - Loans ✓✓
- (Any 2 x 2) (4)

### 3.2 DATA RESPONSE

- 3.2.1
- It is a national development finance institution set up to promote economic growth and industrial development. ✓✓
  - It is owned by South African government under the supervision of the Economic Development Ministry. ✓✓
  - It provides finance for industrial development in South Africa and the rest of Africa. ✓✓ (Any 1 x 2) (2)
- 3.2.2
- Assist distressed companies. ✓✓
  - It saves and creates jobs. ✓✓
  - It establishes a jobs fund. ✓✓ (Any 2 x 2) (4)
- 3.2.3 Workers will benefit training as an alternative to retrenchment. ✓✓ (2)
- 3.2.4
- Companies with financial crises. ✓✓
  - Bankrupt companies. ✓✓
  - Businesses in need. ✓✓
- (Any relevant answer is acceptable.)** (Any 1 x 2) (2)

### 3.3 DATA RESPONSE

- 3.3.1 Unemployment ✓✓ (2)
- 3.3.2
- People have taken active steps to look for work. ✓✓
  - People are able and willing to work but cannot find opportunities. ✓✓
- (Any relevant answer is correct)** (Any 1 x 2) (2)
- 3.3.3
- Provides workers with skills ✓✓
  - Encourage the development of small and medium-sized businesses. ✓✓
  - Provide education and training. ✓✓
  - Promotion of local industry. ✓✓
  - Improve technology and buy new machines to increase productivity. ✓✓
  - Government must subsidise businesses. ✓✓
- (Any relevant answer is acceptable.)** (Any 2 x 2) (4)
- 3.3.4 Statistics S.A (2)

### 3.4 Briefly explain the Employment Equity Act and the Broad Based Black Economic Empowerment Act

- This act prohibits discrimination and requires that the workforce reflects the racial and gender profile of the population at large. ✓✓
- Enterprises have to file an employment equity plan with the Department of Labour. ✓✓
- Inspectors from the department visit business sites to ensure compliance. ✓✓ (Any 2 x 2) (4)

### Broad Based Black Economic Empowerment Act

- This act provide a legal basis for the transformation of the South African economy. ✓✓
- It requires redress so that the number of black people who own, manage and control businesses in the country, can increase significantly. ✓✓
- Income inequalities can be decreased substantially. ✓✓ (Any 2 x 2) (4)

### 3.5 Explain the reasons why South Africa supports regional development and integration in Southern Africa.

- To have political and stable neighbours. ✓✓
- To have important export markets and future sources of water and energy supplies. ✓✓
- Integration may be a precondition for support from foreign investors, donors and multilateral institutions. ✓✓
- A robust regional transport system and a solid infrastructure hold the key to attracting investment into the SADC region, thus improving competitiveness and promoting trade. ✓✓ (Any 4 x 2) (8)

**[40]**

## QUESTION 4: MACROECONOMICS AND ECONOMICS PURSUIT

### 4.1 Name any TWO objectives of the public sector.

- Increase economic growth ✓✓
- Creates price stability ✓✓
- Stabilise exchange rate ✓✓
- Create economic equity ✓✓
- Full employment ✓✓ (Any 2 x 2) (4)

### 4.2 DATA RESPONSE

4.2.1 Free floating exchange rate system ✓✓ (2)

4.2.2 Supply has increased from SS to S<sub>1</sub>S<sub>1</sub> ✓✓ (2)

- 4.2.3
- When South Africa exports goods to America/goods are exported. ✓✓
  - Provide services to foreign countries. ✓✓
  - Receiving interest from foreign countries. ✓✓
  - Raising new loans from foreign countries. ✓✓
  - Foreign investment in South Africa. ✓✓
  - Tourists visiting South Africa. ✓✓ (Any 2 x 2) (4)

4.2.4 The South African Bank can manipulate the demand and supply of foreign exchange in order to appreciate or depreciate the exchange rate. ✓✓ (2)

### 4.3 DATA RESPONSE

4.3.1 Gross Domestic Product is the total value of all final goods and services produced within the geographic boundaries of a country over a particular period. ✓✓ (2)

4.3.2 2009 ✓✓ (2)

4.3.3 **Mention ways South African government can improve growth in South Africa.**

- The availability of greater quality and quantity of resources such as exploiting mineral resources and extending commercial agriculture, will increase industrial output and create employment. ✓✓
- Greater productivity of labour, by improving education and skills training ✓✓
- Efficient infrastructure of roads, railways, harbours, power and water. ✓✓
- Greater use of technology, such as information technology in administration and communication. ✓✓
- Investment in new and expanded businesses. ✓✓
- Increasing entrepreneurship, especially establishing more small and medium businesses. ✓✓
- Government must be democratic, efficient and free of corruption. ✓✓ (Any 2 x 2) (4)

4.3.4 South African Reserve Bank ✓✓ (2)

### 4.4 Explain the reasons for North-South divide

- This is because of differences in geography. ✓✓
- The North has a cooler climate, better harbours, navigable rivers, and plants and animals better suited to domestication. ✓✓
- It is because of colonialism and unfair trade practices by the North applied on countries in the South. ✓✓
- It is because of differences in the cultures of the two areas. ✓✓ (Any 4 x 2) (8)

### 4.5 Describe TWO characteristics of export processing zones and explain their aims.

#### Characteristics

- Fenced and controlled industrial areas. ✓✓
- They are near a harbour or airport. ✓✓

#### Aims

- There are no customs regulations or protective measures. ✓✓
  - Goods can be exported directly. ✓✓ (8)
- [40]**

**TOTAL SECTION B: 80**

**SECTION C** (Answer any ONE question from this section.)**QUESTION 5**

**Discuss the necessity for public sector service and problems associated with their delivery.**

**[40]****Introduction**

There are many problems associated with the delivery of public goods and services and it is important to try and understand how these problems can be eliminated for the South African Public Service to become a representative, efficient and democratic instrument in order to play its proper role and the reconciliation, reconstruction and development process. ✓✓

**(Any relevant introduction is acceptable.)**

Max. (1 x 2)

**BODY****The necessity for the public sector****A. To supply necessity goods ✓✓**

- The public sector, for the greater part of communities, supplies necessity goods and services. ✓✓
- Although the public sector mostly supplies services, economists generally just refer to necessity goods. ✓✓
- Necessity goods are further classified into the following:

**(a) Public goods ✓✓**

- Public goods have non-rivalry (the use of a good by one person does not reduce the quantity or quality of goods available to others). ✓✓
- Non-excludability (users who do not pay cannot be excluded) and others not willingly supply by the private sector. ✓✓
- There cannot be a price charged based on use, therefore the private sector will not supply public goods. ✓✓
- These goods are important for the well-being of the community and the public sector then has to supply these goods. ✓✓
- Examples of public goods are defence services, police services, traffic control systems, street lighting and flood control. ✓✓



**(b) Collective goods ✓✓**

- It is possible to exclude free riders from using collective goods by levying fees or tolls (free riders are people who use goods or service without paying). ✓✓
- Example of collective goods are parks, beaches, roads, water supply, public transport and garbage removal. ✓✓
- The public sector provides most collective goods. ✓✓

**(c) Merit goods ✓✓**

- Merit goods have important benefits to their users and the economy. ✓✓
- Market forces do not reflect the full value of merit goods. ✓✓
- The private sector thus undervalues these products and does not provide enough of them. ✓✓
- The government therefore provide merit goods to ensure that everybody has access to these goods, for example the government provides education to ensure that all citizens have the opportunity to receive an education, because education has many important benefits such as fighting poverty and contributing to economic growth. ✓✓
- Merit goods include libraries, research, education and health services. ✓✓
- Demerit goods are harmful for their users and for the community. The government uses taxes and legislation to discourage the consumption and production of demerit goods, for example gambling, alcoholic beverages and tobacco products. ✓✓

**B. Caring of natural resources**

- Our environment includes natural resources such as the air we breathe, the beauty of nature that we enjoy and the oceans full of fish. Natural resources are not owned by anyone, but are used by all. ✓✓
- Negative externalities happen when the execution of a decision by one party leads to unintended costs for a third party, who was not part of the transaction. For example during production factories cause harmful pollution which is a negative externality. Negative externalities have negative effects on natural resources and are not also considered by businesses. For example, air pollution can cause illnesses such as asthma and water pollution can kill aquatic life. ✓✓
- The government has to intervene to protect the natural resources by limiting the creation of negative externalities, through implementing certain laws. ✓✓

**C. Interventions in the economy ✓✓**

Government intervenes in the economy to achieve the following:

- The government must create a social legislative environment and which individuals and businesses can function to their maximum. ✓✓
- The government promotes the effectiveness of the free market and thus intervenes to prevent imperfect competition, such as monopolies. ✓✓
- The government also influences the allocation of resources. ✓✓
- The government must apply suitable economic policies in order to achieve macroeconomic objectives such as economic growth, full employment, economic equity, price stability and exchange rates ability. ✓✓

(Any 10 x 2) (20)  
Maks. (26)

**In addition discuss problems associated with public sector service delivery with special reference to South Africa, and how successful it was.**

**A. Accountability ✓✓**

- Public servants do not always act in the best interest of the public. The public sector is not driven by profit motive and the public cannot choose to go to other providers. This can lead to low productivity and lack of accountability. Another problem is that public corporations are accountable to parliament, rather than to the taxpayers that they serve.
- The South African government supplies free water and electricity, RDP houses, free schooling and free hospitalisation. ✓✓

**B. Efficiency ✓✓**

Anywhere in the world, the public sector is considered more inefficient than the private sector. There are three major reasons for this:

- Bureaucracy and red tape – some officials may be focused on rigidly following procedures to the letter instead of considering individual needs.
- Lack of training – civil servants does not always have access to the proper skills training required for their positions. ✓✓
- Corruption – a lack of proper supervision and lower-than-average wages can make corruption an attractive option for some people. ✓✓
- In South Africa many cases of nepotism and corruption are under investigation.

**C. Assessing needs and correct planning ✓✓**

- In the private sector goods and services are supplied in response to effective demand. For example, houses are built according to the price that people are willing to pay for them. The number and the types of houses supplied will depend on the equilibrium price determined in the market. ✓✓
- In the public sector, goods and services are provided according to the needs of citizens. For example, authorities regard housing as a social responsibility and supply it according to people's needs. ✓✓
- Public enterprises do not operate under market conditions, so they do not have a mechanism to communicate the needs of the consumers to civil servants. ✓✓
- This creates a problem that can lead to an under-supply of public goods, or inefficient forecasting of future needs.
- In South Africa households living in formal houses increased from 5,5 million to 11 million or by 89,9%. ✓✓ Households with access to electricity increased from 58%–83%. ✓✓

**D. Correct pricing**

- It is not always possible to charge the correct market-related price for public goods and services because many people would be unable to afford these, but should not be excluded from their benefits. ✓✓
- Many South Africans benefited by social grants and subsidies. ✓✓
- South African government supplies free schooling, and free hospitalisation ✓✓

**(If only listed 5 – max. 5 marks – any 5 x 1)****(Any 5 x 2) (10)****Conclusion**

- Public sector provision of goods and services is very important in South Africa in order to try and improve the quality of life of many citizens, as well as to increase economic efficiency and development. ✓✓ (Max. 1 x 2)

**(Any appropriated conclusion can be credited.) [40]**

**QUESTION 6**

**Discuss the different economic growth in development strategies in South Africa since 1994. In addition briefly explain how South Africa fiscal policy since 1994 has aided development.**

**[40]****Introduction**

Different growth and development strategies have been implemented in South Africa since 1994, each aimed at addressing particular needs at the time of introduction. ✓✓

Max. (1 x 2)

**(Any relevant introduction is acceptable.)** (2)

**BODY****A. The Reconstruction and Development Programme (RDP) ✓✓**

- The RDP was an integrated, coherent socio-economic policy framework that was implemented directly after our first democratic elections in 1994. ✓✓
- To achieve the development goals of the RDP, South Africa needed a sustained growth rate above 6%. ✓✓
- It aimed to mobilise all our people and our country's resources towards finally abolishing apartheid and building a democratic, non-racial and non-sexist future. ✓✓
- The RDP was based on six principles:
  1. An integrated and sustainable programme ✓
  2. A people-driven process focusing on the needs of the population ✓
  3. Peace and security for all, aimed at a non-violent society that respects all human rights ✓
  4. Nation-building, focusing on the needs of all members of society ✓
  5. Linking reconstruction and development ✓
  6. Democratisation of South Africa in all aspects, including decision-making processes on all levels. ✓
- The RDP consisted of many proposals, strategies and policy programmes. All of these could, however, be grouped into five major policy programmes that were linked to one another. ✓✓
- The five key programmes were:
  1. Meeting basic needs ✓
  2. Developing our human resource ✓
  3. Building the economy ✓
  4. Democratising the state and society ✓
  5. Implementing the RDP ✓

**B. The Growth, Employment and Redistribution Programme (GEAR)**

- The GEAR built upon the strategic vision set out in the RDP. ✓✓
- It reaffirmed the importance of all the objectives of the RDP, but it recognised the implementation and macroeconomic problems that the government had been experiencing in implementing the RDP. ✓✓
- GEAR placed much more emphasis on disciplined economic policy, while still recognising that there were very serious needs that had to be addressed. ✓✓

**C. The Accelerated and Shared Growth Initiative for South Africa Programme (AsgiSA) ✓✓**

- AsgiSA resulted from government's commitment to half unemployment and poverty by 2014.
- The Joint Initiative on Priority Skills Acquisition (Jipsa) was also established to address the scarce and critical skills needed to meet AsgiSA's objectives.
- Asgisa identified six important factors that prevented South Africa from achieving the desired growth rate:
  1. The relative instability of the currency ✓✓
  2. The cost, efficiency and capacity of the national logistics system ✓✓
  3. Shortages of suitably skilled labour, and spatial distortions of apartheid affecting low-skilled labour costs. ✓✓
  4. Barriers to entry, limits to competition and limited new investment opportunities. ✓✓
  5. The regulatory environment and the burden on small and medium enterprises. ✓✓
  6. Deficiencies in state organisation, capacity in leadership ✓✓
- AsgiSA was not intended to be a government programme, but rather a national initiative supported by all the key groups in the economy, namely business, labour, entrepreneurs and government and semi-government departments and institutions. ✓✓

### D. The New Growth Path (NGP) ✓✓

- The current growth plan, NGP was released in November 2011. This plan is designed to serve as a framework for economic policy and to be the driver of the country's job strategy. ✓✓

The NGP proposes certain strategies to ensure adequate demand:

- Deepening – the domestic and regional by growing employment, increasing income and taking other steps to improve equity and income distribution. ✓✓
- Widening – the market for South African goods and services through a stronger focus on exports to the region and other rapidly growing economies. ✓✓

On a macroeconomic level the NGP entails an accommodating monetary policy, combined with stricter fiscal policy to limit inflationary pressure and enhance competitiveness. Government spending will be prioritised with the objective of long-term sustainable employment opportunities. ✓✓

The microeconomic measures to control inflationary pressure include the following:

- A competitive policy to supervise monopoly pricing on products and services. ✓✓
- A review of administered prices to ensure that they do not increase above inflation without good reasons. ✓✓
- Interventions in the case of rapidly rising prizes of essential products and services, such as private health care and basic food items ✓✓

**The microeconomic package involves 10 programmes to control inflationary pressures, limit inefficiencies and ensure more proactive strategies to support an inclusive economy:**

1. Active industrial policy ✓
2. Rural development policy ✓
3. Competition policy ✓
4. Stepping up education and skills development ✓
5. Enterprise development: promoting small business and entrepreneurship, eliminating unnecessary red tape. ✓
6. Broad-based black economic empowerment (BBBEE) ✓
7. Labour policies ✓
8. Technology policy ✓
9. Developmental trade policies ✓
10. Policies for African development. ✓

(Any 10 x 2) (20)  
Max. (26)

**In addition explain how South Africa fiscal policy since 1994 has aided development**

- Levels of taxation has been reduced for low income earners. ✓✓
- The rate of VAT has not been increased, which has been good for the welfare of low income earners. ✓✓
- The fuel levy was introduced, which has had a negative effect on prizes of transport and also on most other goods and services. ✓✓
- The provinces and municipalities receive grants from the national government to provide services. ✓✓
- Huge strides have been made in providing improved services, especially for poor people. ✓✓
- However, in 2012 there were still large numbers of people living in shacks and without some of these basic services. ✓✓

**(If only listed 5 – max. 5 marks – any 5 x 1)**

**(Any 5 x 2) (10)**

**Conclusion**

The different growth and development strategies that have been implemented in South Africa since 1994 have all contributed to making our country more prosperous and addressing problems created by inequalities of the past. However, problems such as a low level of education, unemployment and unequal distribution of income persist. The current NGP is a comprehensive policy that is focused on addressing all of these problems. ✓✓

**(Max 1 x 2)**

**(Any relevant conclusion is acceptable) [40]**

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