



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 11**

**NOVEMBER 2016**

**ECONOMICS P1  
MEMORANDUM**

**MARKS: 150**

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This memorandum consists of 13 pages.

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**SECTION A****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 C ✓✓ rent.
- 1.1.2 A ✓✓ gross domestic product.
- 1.1.3 B ✓✓ Motivation
- 1.1.4 A ✓✓ electricity
- 1.1.5 B ✓✓ roads.
- 1.1.6 C ✓✓ IDZ.
- 1.1.7 B ✓✓ Interest rate
- 1.1.8 C ✓✓ Monetary union (8 × 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 B ✓ Payment made for the use of factor of production which is limited in supply
- 1.2.2 D ✓ Are consumed or destroyed in process of being used
- 1.2.3 F ✓ Wealth passed on from one generation to the next
- 1.2.4 A ✓ Services such as transport and communication
- 1.2.5 C ✓ Is a mechanism for tackling the problem of scarcity and choice
- 1.2.6 E ✓ The percentage of people living on an income which is less than the poverty line income
- 1.2.7 H ✓ Refers to what money can buy economic growth and economic development in Southern Africa
- 1.2.8 I ✓ Individuals are free to perform their professions, trade without state intervention (8 × 1) (8)

**1.3 IDENTIFY THE CONCEPT**

- 1.3.1 Intermediate goods/inputs ✓
- 1.3.2 Macroeconomics ✓
- 1.3.3 Imports ✓
- 1.3.4 Social services ✓
- 1.3.5 Economic goods ✓
- 1.3.6 Capital widening ✓ (6 × 1) (6)

**TOTAL SECTION A: 30**

**SECTION B****QUESTION 2: MACROECONOMICS****2.1 List TWO methods of determining the GDP.**

- 2.1.1
- Income method ✓
  - Production method ✓
  - Expenditure method ✓
- (Any 2 × 1) (2)

**2.1.2 Why is it important for government to use the procurement system?**

- To address past discriminatory policies and practices ✓✓
  - To redistribute wealth by channelling funds to businesses belonging to previously disadvantaged groups ✓✓
  - To achieve anti-discrimination objectives in a workplace ✓✓
  - To direct investment funds into underdeveloped and disadvantaged rural communities by means of conventional constructional projects ✓✓
  - To the participation of SMME's in providing goods and services for government procurement ✓✓
  - **(Accept any relevant information)**
- (Any 1 × 2) (2)

**2.2 DATA RESPONSE****2.2.1 Name the industry of the primary sector presented in the above picture.**

Forestry ✓✓ (2)

**2.2.2 Highlight the relationship between primary sector and secondary sector.**

- The primary sector provides raw materials for further processing. ✓✓
  - The secondary industries process or manufacture the raw material into more useful products for use by all of the sectors. ✓✓
  - **(Any relevant information)**
- (Any 1 × 2) (2)

**2.2.3 In your own opinion, explain the cause of selling unfinished furniture.**

- It is caused by low levels of technology and capital. ✓✓
  - **(Any relevant information)**
- (Any 1 × 2) (2)

**2.2.4 Why is the contribution to GDP important in the primary sector?**

- Primary sector decreased in terms of the direct value it added ✓✓
  - The relative decline represents a structural change ✓✓
  - It means a country becomes less dependent on the primary sector and more dependent on the secondary and tertiary sectors ✓✓
  - Industry has a very important role because it provides food to domestic population ✓✓
  - Contributes greatly to employment and exports earnings ✓✓
- (Any 2 × 2) (4)

## 2.3 DATA RESPONSE

### 2.3.1 Explain the term *final consumption expenditure*.

Is the amounts household use to buy goods and services that they need to satisfy their wants.

(2)

### 2.3.2 Provide a letter that normally denotes "Gross capital formation".

Letter I ✓✓

(2)

### 2.3.3 Why is it important for the economy to use GDP?

To measure the performance / growth or contraction of economies ✓✓

(Any relevant information)

(2)

### 2.3.4 Calculate the GDE in the above table labelled (A). Show your calculations.

GDE = 1,8 + 0,7 + 1,5 - 1,2 + 0,7 - 1,3 ✓✓ = 2,2 ✓✓

(2 + 2)

(4)

## 2.4 Explain how the natural resources enrich our lives.

- Land provides space for walking and the enjoyment of natural surroundings. ✓✓
- Provides fish, water and is also a source of recreation and relaxation. ✓✓
- The atmosphere provides space to fly aeroplanes and to communicate electronically. ✓✓
- Also provides fresh oxygen-rich air and clean, clear skies. ✓✓
- It allows jobs to be created in tertiary industry. ✓✓

(Accept any relevant information)

(Any 4 × 2)

(8)

## 2.5 How important is transport infrastructure in the economy??

- Allows goods produced in one area to be processed in another area and sold all over the country. ✓✓
- Goods can be exported. ✓✓
- The country can be part of the globalised world. ✓✓
- Allows the growth of tourism. ✓✓
- Provides employment ✓✓ and contributes to the GDP. ✓✓

(Accept any relevant explanation)

(Any 4 × 2)

(8)

**[40]**

**QUESTION 3: ECONOMIC PURSUIT**

- 3.1 3.1.1 **Name TWO sources of measuring inequality.**  
 Lorenz curve ✓  
 Gini-coefficient/Gini Index ✓ (2 × 1) (2)

- 3.1.2 **Why is money used as a unit of account?**
- Trade is simplified: ✓✓ Consider the chaos which would result if the price of goods were not expressed in terms of money. ✓✓ By using money as a unit of account all these problems are eliminated and the exchange process is simplified. ✓✓
  - Relative values of goods and services are expressed: ✓✓ If a shirt cost R120 and a pair of shoes R240, these prices indicate that the pair of shoes is twice as expensive as the shirt. ✓✓
- (Accept any relevant information)** (Any 1 × 2) (2)

3.2 **DATA RESPONSE**

- 3.2.1 **Name the curve that represents the *Lorenz curve*.**  
 Curve C ✓✓ (2)

- 3.2.2 **Explain the term *Lorenz curve*.**  
 Is a method of measuring the degree of inequality of income and wealth distribution between households. ✓✓ (2)

- 3.2.3 **What happens when the Lorenz curve is away from the line of equality?**  
 There will be a greater degree of inequality. ✓✓ (2)

- 3.2.4 **Why is income and wealth in a country such as South Africa so unequally distributed?**
- South Africa do not have a saving culture ✓✓ - means that poor and middle income families are unlikely to gain wealth ✓✓ as they are not saving money and investing but rather spending everything they earn. ✓✓
  - Poor families tend to have larger families than wealthy people ✓✓ - they are unlikely to have any money left at the end of the month to save and generate wealth. ✓✓
  - The education system in South Africa is still producing huge numbers of students that do not qualify to study at tertiary institutions ✓✓ - this means that the skill shortage in this country is not being addressed. ✓✓
  - Skilled workers will thus continue to command higher wages than the unskilled workers. ✓✓
  - With these higher wages the skilled workers are able to save and generate wealth. ✓✓
- (Accept any relevant information)** (Any 2 × 2) (4)

### 3.3 DATA RESPONSE

#### 3.3.1 Explain the term Consumer Price Index.

It is the measure that examines the weighted average of prices of a *basket of consumer goods and services and medical care.* ✓✓ (2)

#### 3.3.2 Name the institution that uses CPI to measure headline inflation.

Stats SA ✓✓ (2)

#### 3.3.3 According to the table when is the CPI published?

Monthly ✓✓ (2)

#### 3.3.4 Briefly explain how CPI is calculated.

CPI is calculated by taking price changes for each item in the basket of goods ✓✓ and averaging them, the goods are weighted according to their importance. ✓✓ (2 × 2) (4)

### 3.4 Explain *low life expectancy* and *lack of education* as the characteristics of developing country.

#### ➤ Low life expectancy

- Developing country has a low life expectancy, average 51 years, compared to 75 years for developed countries.
- Means that a smaller portion of a developing country's population is available as an efficient labour force.
- They are fighting an endless battle against diseases, ill health malnutrition. (Any 2 × 2)(4)

#### ➤ Low standard living

- Low living standards are also related to low levels of education.
- The level and effectiveness of education are expressed by the adult literacy rate.
- This is a percentage of people aged 15 years and above who can read, write and speak.
- Literacy rates in developing countries are low compared to those in developed countries.
- Education deficiencies and the apartheid legacy have caused severe skills shortages in South Africa.
- The most important way of escaping poverty for individuals is education.
- An improved education system is necessary to grow the economy as a whole. (Any 2 × 2)(4) (8)

3.5 Briefly explain **the** kinds of economically marginalised groups.

- The marginalised group are people who are excluded from meaningful participation in a society and whose needs are largely not addressed by the authorities. ✓✓
- They include:
  - The poor, people with special needs, minority groups, people with HIV/Aids, woman and children. ✓✓
  - These groups are generally denied jobs, quality education and social services and are usually exploited and discriminated against. ✓✓
  - Their pledge is increasing being highlighted and programmes are slowly being put in place to grant them equal opportunities to participate in the economy. ✓✓

(Accept any relevant explanation)

(4 × 2) (8)  
[40]

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUIT**

4.1 4.1.1 List any **TWO** forces that determine interest rates.

- Savings ✓
- Spending ✓
- Borrowing ✓
- Investment ✓
- Exchange rates ✓

(Any 2 × 1) (2)

4.1.2 Explain the term **real wage**.

Refers to the purchasing power of the money earned – the goods and services bought with the money earned. ✓✓

(Any relevant explanation)

(Any 1 × 2) (2)

4.2 **DATA RESPONSE**

4.2.1 What factor of production is represented in the above extract?

Natural resource/Land ✓✓

(2)

4.2.2 Who is **the current** the Minister of Water and Sanitation?

Ms Nomvula Makonyane ✓✓ (accept a change if cabinet is reshuffled)

(2)

4.2.3 What was the aim of the 2016 Water Week?

To emphasize the importance of water, ✓ the scarcity of this resource ✓ and the need to manage the resource in a sustainable way. ✓

(2)

4.2.4 How is the South African economy affected by drought?

- Drought leaves many households without access to water. ✓✓
- Causing devastation to crop producers and livestock farmers. ✓✓

(2 × 2) (4)

### 4.3 DATA RESPONSE

#### 4.3.1 Explain the term *foreign trade*.

Is when countries exchange the goods and services across international borders ✓✓

(2)

#### 4.3.2 Where is the country's trade with other countries recorded?

Balance of payment/BOP ✓✓

(2)

#### 4.3.3 What does the balances shows on the current account?

It shows whether the countries are living within or beyond their means when they show respectively surplus or deficit. ✓✓

(Any relevant information)

(2)

#### 4.3.4 How do most countries balance the *deficit* on the balance of payments?

- By capital grants (donations) ✓✓
- Foreign direct investment (FDI) (fixed investment)
- Other capital inflows (portfolio investment) ✓✓
- Long term borrowing ✓✓

(Any 2 × 2) (4)

### 4.4 Briefly explain improving efficiency and creating new wealth as importance of an entrepreneur.

#### ➤ Improving efficiency

- Entrepreneurs with new ideas and technology use resources efficiently ✓✓
- Efficiency increase profitability which leads to more competition ✓✓
- They are important for guiding and combining the other factors of production. ✓✓
- They do not waste resources and are efficient. ✓✓

(Any 2 × 2)(4)

#### ➤ Creating new wealth

- Entrepreneurs entering a market for the first time do so with their and their family's meagre savings and the money that they borrow. ✓✓
- They create new wealth ✓✓

(2 × 2)(4) (8)

### 4.5 How is income redistributed in SA?

- A country's income distribution shows how the total income is distributed among its population. ✓✓
- This may be even or uneven. ✓✓
- If there is unequal distribution of income, small number of people will be rich and the majority will be poor. ✓✓
- Not everyone receive the same income ✓✓ Spending patterns will also differ the poor will have limited choices, ✓✓ while the rich would be privileged to have a large range of goods and services at their disposal ✓✓

(Any relevant information)

(Any 4 × 2) (8)

**[40]****TOTAL SECTION B: 80**



## SECTION C

### MARK ALLOCATION FOR ESSAY RESPONSES

[illegible]

**QUESTION 5: MACROECONOMICS**

*South Africa has made a choice of a mixed economic system merging the advantages of both market and centrally planned economic systems into one.*

- Briefly discuss the advantages of mixed economy. (26 marks)
- Why is the South African economy considered a mixed economy? (10 marks)

**INTRODUCTION**

Mixed economy is a method to organise the economy to produce goods and services. ✓✓

(Any relevant introduction accepted)

**Max 2** (2)

**BODY****MAIN PART**

- **The private sector** ✓
  - Private ownership, the profit motive and competition are the forces that ensure the production of a great variety of goods and services. ✓✓
  - Exports create employment and contribute to economic growth. ✓✓
  - Imports supplement domestic variety and choice ✓✓
  - These are the advantages of the private sector inherited from the market system. ✓✓
- **The public sector** ✓
  - Protection, education, health care, social benefits and opportunities for the poor are provided. ✓✓
  - The public sector also includes economic issues such as the handling of market failure, ✓✓ provision of adequate infrastructure and creation of solid economic framework. ✓✓
- **Optimum mix** ✓
  - The optimum will would ensure an optimum standards of living for all citizens. ✓✓
  - Government allows sufficient room for the private sector to pursue its market objectives. ✓✓
  - The private sector should appreciate that the public sector needs the resources and room to pursue its social and economic objectives. ✓✓
- **The environment and human rights** ✓
  - Mixed economies have better environment and human rights records than either centrally planned or market economies. ✓✓

(If only listed Max. 6 marks)

**Max 26** (26)

**ADDITIONAL PART**

**Explain why the South African economy is considered a mixed economy.**

- South Africa has a mixed economy because the government plays a role in providing collective goods and services ✓✓ and in regulating the market, while the other economic activities are driven by decisions of buyers and sellers. ✓✓
- The outcomes of this mix are that resources are allocated on the decisions by both private sector and the government. ✓✓
- The functioning of the economy is left to the market mechanism of the private sector, while the government controls the economy indirectly through fiscal and monetary policies and laws. ✓✓
- If the government were to nationalise mines, farms, banks and other institutions, the economic system ✓✓ would change to one or other form of centrally planned economy with the characteristics, advantages and disadvantages of such system. ✓✓

**(Any relevant information accepted)**

**(Any 5 × 2) (10)**

**CONCLUSION**

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body
- An opinion or valued judgement on the facts discussed/
- Additional support information to strengthen the discussion/
- A contradictory viewpoint with motivation

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

**QUESTION 6: ECONOMIC PURSUIT**

*In South Africa many smaller banks have gone out of business in the past few years. These failures can be attributed to typical risks of banking together with mismanagement.*

- Discuss the various reasons for their failure related to bank risks. (26 marks)
- How do depositors and shareholders suffer when banks fail? (10 marks)

**INTRODUCTION**

A bank failure occurs when a bank is unable to meet its obligations to its depositors or other creditors because it has become insolvent to meets its liabilities. **Max 2** (2)

**BODY****MAIN PART**

- **Credit risk ✓**
  - One of the core functions of banks is to lend money in the forms of loans. ✓✓
  - Credit risk emerges from the concern that loans might not be repaid by clients, ✓✓ but the bank still has to able to repay deposits of their clients. ✓✓
- **Liquidity risk ✓**
  - Banks borrow over short term and lend over long term. ✓✓
  - If a large deposit holder withdraws a sizeable amount, and the bank has to scramble to find accommodation, ✓✓ rumours of a liquidity squeeze will immediately encourage other depositors to cash in as well. ✓✓
  - A run will then start, which is very difficult to halt. ✓✓
- **Interest rates risk ✓**
  - High interest rate fluctuations can cause problems for banks if they are not appropriately prepared. ✓✓
  - High interest rates affect a bank's deposit rates and the lending rates that clients have to carry. ✓✓
  - This could decrease the bank's profile. ✓✓
- **Investment risk ✓**
  - Banks invest money in shares, property. ✓✓
  - Should the asset of the market suddenly lose value, gains would slow and losses could be made. ✓✓
  - These would then have to be subsidised from the profile. ✓✓

➤ **Capital risk ✓**

- Banks have to maintain capital and undistributed profit reserves to an amount that is more than 10% of their total liabilities. ✓✓
- If a bank's capital ratio approaches this margin, some shareholders may sell their shares. ✓✓
- This is because it means that the bank will have to issue new shares. ✓✓
- Such shares will share in profits and that will dilute the earnings of the existing shareholders. ✓✓
- Depositors also start feeling uneasy. ✓✓

**(If only listed Max. 5 marks)****Max 26 (26)****ADDITIONAL PART****Explain how the depositors and shareholders suffer when banks fail.****Depositors:**

When a bank fails, e.g. because of run on it, the bank will stop repaying deposits when it runs out of cash ✓✓ and also has no more assets to make use of the Reserve Bank's repurchasing facility. ✓✓ The SARB may appoint a curator to sell the assets and pay the proceeds to the locked-in depositors. ✓✓ They may or may not get all of their deposit money back. ✓✓

**Shareholders:**

Shareholders are last in the line to get something out of a bank failure. ✓✓ Their dividends disappear even before the bank fails. ✓✓ However, at the first sign of problems the board of directors will try to sell the bank as a going concern. ✓✓

**(Any relevant information)****Max 10 (10)****CONCLUSION**

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body/
- An opinion or valued judgement on the facts discussed/
- Additional support information to strengthen the discussion/
- A contradictory viewpoint with motivation. ✓✓

**(Any relevant conclusion is acceptable)****(Max 1 × 2) (2)  
[40]**

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