



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2019

**ECONOMICS P1
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 19 pages.

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

- 1.1.1 C money ✓✓
- 1.1.2 D Phillips ✓✓
- 1.1.3 A reserve assets ✓✓
- 1.1.4 A money ✓✓
- 1.1.5 B moral suasion ✓✓
- 1.1.6 B Joint Initiative on Priority Skills Acquisition ✓✓
- 1.1.7 D Integrated Manufacturing Strategy ✓✓
- 1.1.8 C formation ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 H $C+G+I+(X-M)$ ✓
- 1.2.2 F obtained when the effects of irregular events and seasons are removed from time series data ✓
- 1.2.3 A complete ban or embargo on certain goods from a certain country ✓
- 1.2.4 I one country can produce goods and services cheaper than another
- 1.2.5 B a passageway allowing access from one area to another ✓
- 1.2.6 C developed a new support programme for clothing and textiles ✓
- 1.2.7 D minister of Finance informs Parliament of any changes that have occurred since February ✓
- 1.2.8 E important social indicator ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 Exogenous/monetarist view ✓
- 1.3.2 Taxes/taxation ✓
- 1.3.3 Transfer payment ✓
- 1.3.4 Urbanisation ✓
- 1.3.5 Repurchase rate/repo rate ✓
- 1.3.6 Land Restitution ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 2.1.1 Name any TWO member countries of BRICS.

- Brazil ✓
- Russia ✓
- China ✓
- South Africa ✓
- India ✓

(Any 2 x 1) (2)

2.1.2 Why is the GDP at market prices normally higher than the GDP at factor cost?

- GDP at market prices takes into account the prices actually paid for buying goods and services which already includes indirect taxes. ✓✓
- Indirect taxes are added to GDP at factor cost to calculate GDP at market price which makes GDP at market prices higher. ✓✓
(Accept any other correct relevant response)

(Any 1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Give an example of a leakage.

- Savings ✓
- Taxes ✓
- Imports ✓

(Any 1 x 1) (1)

2.2.2 What factor influences the size of the multiplier?

- A change in spending (mps) ✓
- A change in consumption (mpc) ✓
(Accept any other correct relevant response)

(Any 1 x 1) (1)

2.2.3 Briefly describe the term *multiplier*

- A small initial increase in spending produces a larger than proportionate increase in aggregate national income. ✓✓
(Accept any other correct relevant response)

(2)

2.2.4 **Explain the effect on national income when injections are more than leakages.**

- Injections that are more than leakages increase demand of goods and services. ✓✓
 - More goods and services will be produced and more income will be generated. ✓✓
 - National income increases. ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

2.2.5 **Suppose the South African government spends R250m on the economy. Calculate the multiplier effect if $mpc = 0,7$. Show all calculations.**

$$\begin{aligned}\alpha &= 1/1 - mpc. \\ &= 1/1 - 0,7 \checkmark \\ &= 1/0,3 \\ &= 3,33 \checkmark \\ \text{Multiplier effect} &= 3,33 \times R250 \text{ m} \checkmark \\ &= R832,5 \text{ m} \checkmark\end{aligned}$$

OR

$$\begin{aligned}\alpha &= 1/mps \\ &= 1/0,3 \checkmark \\ &= 3,33 \checkmark \\ \text{Multiplier effect} &= 3,33 \times R250 \text{ m} \checkmark \\ &= R832,5 \text{ m} \checkmark\end{aligned}$$

NB: (one mark awarded for answer only) (4)

2.3 **DATA RESPONSE**

2.3.1 **Except AfCTA, name any other free trade area in the world.**

- The North American Free Trade Agreement (NAFTA) ✓
 - Southern African Development Community (SADC) ✓
 - European Free Trade Association (EFTA) ✓
 - South Asian Free Trade Area (SAFTA) ✓
- (Accept any other relevant correct response) (1)

2.3.2 **Which trade protocol is behind the establishment of a single market in Africa?**

- African Union (AU) ✓ (1)

2.3.3 **Briefly describe the term *free trade area*.**

- Free trade area is where restrictions such as tariffs and quotas have been removed. ✓✓
- (Accept any other relevant correct response) (2)

2.3.4 Briefly explain the role of the World Trade Organisation as part of globalisation.

The role of WTO is to:

- Oversee the implementation and administering of trade agreements. ✓✓
- Identify non-compliance with trade agreements. ✓✓
- Resolve trade disputes. ✓✓

(Accept any other relevant correct response)

(Any 1 x 2) (2)

2.3.5 How can Africa benefit from being a single market?

Africa can benefit through:

- A boost in intra-African trade. ✓✓
- An opportunity for African countries to increase the share of industrial goods in production and exports ✓✓
- Substantial opportunities for industrialisation and employment. ✓✓

(Accept any other relevant correct response)

(Any 2 x 2) (4)

2.4 Discuss the *length* and *amplitude* of a business cycle.

LENGTH

- This is the time that it takes for a business cycle to move through one complete cycle. ✓✓
- It is measured from peak to peak/trough to trough. ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If business cycles have a longer length, we consider the economy to be strong. ✓✓
- If business cycles have a shorter length, we consider the economy to be weak ✓✓

(Any 2 x 2)

AMPLITUDE

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line. ✓✓
- It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude the more extreme the changes that may occur. ✓✓

(Any 2 x 2) (8)

2.5 Evaluate the effects of a currency depreciation in an economy.**Positives**

Currency depreciation:

- Can be used as an expansionary monetary policy to counter cyclical measures to stimulate demand, profits, output and jobs when an economy is in recession. ✓✓
- Brings an improvement in the balance trade through higher export sales. ✓✓
- Provides a competitive boost to an economy through increasing the value of profits and income for a country's businesses with investments overseas. ✓✓
- Leads to a positive multiplier within the circular flow of income and spending. ✓✓

Negatives

Currency depreciation:

- Makes it harder for the government to finance a budget deficit if foreign investors lose confidence. ✓✓
 - Increases the cost of imports e.g. rising prices for essential foodstuffs, raw materials, which affects long-run productive potential of an economy. ✓✓
 - Makes it hard to pay for a trade deficit that is owed to overseas creditors. ✓✓
- (Accept any other correct relevant response)

(8)
[40]

QUESTION 3: ECONOMIC PURSUITS

3.1 3.1.1 **Name TWO demand side approach policies to growth and development.**

- Monetary policy ✓
 - Fiscal policy ✓
- (2)

3.1.2 **How can interest rates be used by the South African Reserve Bank to stimulate production of goods and services?**

- Decreasing interest rates increases consumer spending. ✓✓
 - Production is stimulated as businesses and firms make large equipment purchases due to low cost of borrowing. ✓✓
 - More goods and services will be produced in the long run to meet the increase in demand on goods and services. ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Name ONE example of a country of the North divide.**

- Canada ✓
 - France ✓
 - Italy ✓
 - Germany ✓
 - Japan ✓
 - Russia ✓
 - United Kingdom ✓
 - United States ✓
 - Australia ✓
 - New Zealand ✓
- (Any 1 x 1) (1)

3.2.2 **Provide a characteristic of the group of countries represented by 'South'**

- Low standard of living ✓
 - Lack of adequate infrastructure ✓
 - Low life expectancy ✓
 - Lack of education ✓
- (Accept any other correct relevant response) (Any 1 x 1) (1)

3.2.3 **Briefly describe the term *globalisation*.**

The worldwide interaction of economies with trade as an important element. ✓✓
(Accept any other correct relevant response) (2)

3.2.4 Briefly explain trade as a challenge of globalisation.

Trade is a challenge of globalisation as:

- Rich countries continue to subsidise production of their agricultural goods, making it difficult for developing countries to compete. ✓✓
- They do this while insisting that developing countries must remove their tariffs on manufactured goods. ✓✓
- Most of the world's poor countries have very little foreign trade and blame globalisation for that. ✓✓

(Accept any other correct relevant response) (Any 1 x 2) (2)

3.2.5 How do countries in the North contribute to the destruction of the environment?

They contribute to the destruction of the environment by:

- Causing pollution through mass production of goods and services. ✓✓
- Causing climate change by being involved in high levels of industrial activities. ✓✓
- Exhausting natural resources due to over industrialisation. ✓✓
- Deforestation due to over industrialisation. ✓✓

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

3.3 DATA RESPONSE**3.3.1 Name ONE category of the secondary sector.**

- Manufacturing ✓
- Food processing ✓
- Oil refining ✓
- Energy production ✓

(Accept any other correct relevant response) (Any 1 x 1) (1)

3.3.2 What was the trend in the primary sector between 2017 and 2018?

It is declining ✓ (1)

3.3.3 Briefly describe the term *Gross Domestic Product*

- Gross Domestic product is the value of all final goods and services produced within the borders of a country over a specific period. ✓✓

(Accept any other correct relevant response) (2)

3.3.4 Explain the use of per capita GDP figures.

- They are used to compare the standard of living of different countries. ✓✓

(Accept any other relevant correct response) (2)

3.3.5 How does the real growth of 0,8% negatively affect the economy?

A low real growth of 0,8% is lower than the anticipated growth rate. It affects the economy negatively by:

- Reducing employment opportunities as firms are unable to hire more workers. ✓✓
- Decreasing demand of goods and services as consumer's spending decreases. ✓✓
- Reducing investment confidence. ✓✓

(Accept any other correct relevant response)

(Any 2 x 2) (4)

3.4 Briefly discuss cost of doing business as a supply-side approach in promoting growth and development in South Africa.

Transport costs ✓

- Transport options are air, road, rail and sea transport. ✓✓
- Government controls air and rail transport in South Africa. ✓✓
- A substantial proportion of cargo and passenger transport is moved by road. ✓✓
- Only a reliable rail service that is cheaper than road transport will turn this around. ✓✓

Communication costs ✓

- Communication options are in cable, signal and mail. ✓✓
- Government controls cable (land or fixed lines) and mail communication services. ✓✓
- Cable communication services in South Africa is one of the most expensive in the world but reasonably efficient. ✓✓
- High costs make IT services for businesses and individuals expensive and inhibits global competitiveness. ✓✓

Energy costs ✓

- Electricity and liquid fuels are the main sources of energy in South Africa. ✓✓
- Eskom is the only supplier (monopoly) ✓✓
- Government regulates the prices for petrol and paraffin ✓✓
- The prices for imported crude oil are linked to international market prices, which are high ✓✓
- High liquid energy prices undermine the efficiency of the economy ✓✓ (8)

3.5 How do international organisations such as the World Bank and United Nations standardise the indicators of member countries?

WORLD BANK

- The World Bank Group of Institutions provide definitions for a range of economic and social indicators. ✓✓
- In partnership with International Organisation for Standardisation (ISO), the World Bank provides standards which give world class specifications for products, services and systems. ✓✓

UNITED NATIONS

- Developed the best-known manual of economic indicators, the System of National Accounts (SNA). ✓✓
- It focuses on production, income and expenditure and how to avoid double counting. ✓✓
- It compiles data in the SARB Quarterly Bulletin in terms of the SNA specifications. ✓✓

(Accept any other correct relevant response)

(8)
[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 4.1.1 Name TWO types of business cycles.**

- Kitchen cycles ✓
- Jugler cycles ✓
- Kuznets cycles ✓
- Kondratieff cycles ✓

(Any 2 x 1) (2)

4.1.2 How can SMMEs contribute to economic growth?

SMMEs can contribute to economic growth by:

- Increasing production processes. ✓✓
- Creating employment opportunities for structurally unemployed people. ✓✓
- Increasing competition. ✓✓
- Increasing opportunities for exports. ✓✓
- Increasing entrepreneurial skills that will lead to higher production and investment. ✓✓

(Accept any other correct relevant response) (Any 1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Identify the demand curve that indicates a decrease in the demand for dollars?**D₂D₂ ✓ (1)**4.2.2 What type of exchange rate system is currently used in South Africa?**

Free floating exchange rate system/ flexible exchange rate system ✓ (1)

4.2.3 Briefly describe the term *devaluation*.

Devaluation refers to the deliberate decrease in the value of the currency in terms of another currency as a result of central bank intervention. ✓✓

(Accept any other correct relevant response) (2)

4.2.4 Explain ONE factor that can influence the demand for the dollar.

- Importing goods increases demand of foreign goods, therefore payment needs to be made in a foreign currency. ✓✓
- Payment for services from foreign countries needs to be made in foreign currency. ✓✓
- Buying shares or assets in another country increases the demand. ✓✓
- Tourists spending money overseas. ✓✓
- Repayment of debt borrowed from foreign countries. ✓✓

(Accept any other correct relevant response) (Any 1 x 2) (2)

4.2.5 What is the effect on the rand when there is a decrease in the demand for dollars?

A decrease in the demand of dollars will:

- US\$ – Depreciates ✓
- The Rand appreciates ✓ Reason: The demand for rand increases from DD to D₁D₁ and the equilibrium point from e to f. ✓✓ The price will be fixed at R10 which is higher than R8. ✓✓
(Accept any other correct relevant response) (Any 2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 In which year is the NDP aiming to eliminate poverty?

2030 ✓ (1)

4.3.2 Name ONE way how the government can reduce the poverty of the vulnerable groups in South Africa.

- Providing social grants ✓
- Improving quality of education ✓
- Offering skills training ✓
(Accept any other correct relevant response) (Any 1 x 1) (1)

4.3.3 Briefly describe the term *economic development*.

- It implies an increase in the capacity of the population to produce more goods and services ✓✓
- The process by which the standard of living improves. ✓✓
(Accept any other correct relevant response) (Any 1 x 2) (2)

4.3.4 What negative effect can the NDP have on taxpayers?

For implementation of the NDP the state will:

- Need more revenue, therefore more and higher taxation will be needed. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

4.3.5 How will the South African economy benefit from the implementation of the NDP?

The South African economy will benefit from NDP implementation by:

- Reducing youth unemployment/ providing young people with broader opportunities. ✓✓
- Increasing the competitive capacity of the economy. ✓✓
- Improving the standard of living of the people. ✓✓
- Increasing industrialisation. ✓✓

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

4.4 Briefly discuss the demographic social indicators.

Population growth ✓

- Measuring population growth is important for delivering social services. ✓✓
- Identifying the size of the tax base. ✓✓
- South Africa's population numbered 58 million in 2019. ✓✓

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

Life expectancy ✓

- Estimated at 61 for males and 67 for females in South Africa. ✓✓
- Expresses the number of years a newborn infant will live if prevailing patterns of mortality remained the same. ✓✓
- Used by the government and assurance companies. ✓✓
- The government uses it to determine the range of social services. ✓✓
- Assurance companies use it to determine their premiums. ✓✓

(Any 2 x 2) (8)

4.5 How will an increase in export prices and import prices affect the South African economy?

An increase in export prices will:

- Result in terms of trade improving. ✓✓
- Increase economic welfare because more revenue is earned with the same expenditure. ✓✓
- However, over the long-term result in a decrease in sales volume depending on the price elasticity of demand. ✓✓
- Result in welfare loss eventually. ✓✓

An increase in import prices will:

- Result in terms of trade deteriorating. ✓✓
- Decrease welfare because more resources were used to produce more units to finance the higher cost of imports. ✓✓

(Accept any other correct relevant response)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

QUESTION 5: MACROECONOMICS

Discuss in detail how the following factors contribute to poor public sector provisioning:

- Lack of accountability (10)
- Inefficiency (8)
- Difficulty in assessing needs (8)

Suggest solutions on how efficiency of state-owned enterprises can be improved.

INTRODUCTION

- The public sector consists of the central government responsible for national matters, provincial government responsible for regional matters and local government responsible for street lighting. ✓✓
(Accept any other correct relevant introduction) (2)

MAIN PART

Lack of Accountability

- Accountability means to give an explanation for one's decisions, actions and expenditures. ✓✓
- The people require the state to use the taxes for the purpose for which they are raised and not to abuse the powers it was granted. ✓✓
- People employed by the state do not always serve the interests of the public. ✓✓
- They seek to maximise their salaries, status and power and are not required to produce a profit and loss statement. ✓✓
- They are budget driven. ✓✓
- The state tries to overcome this problem by making civil servants accountable to the public. ✓✓

In South Africa, accountability is underpinned by:

- *Ministerial responsibilities*: ministers are spokespersons for their departments. ✓✓
- The Director General of each department is accountable for the activities of the Department ✓✓
- *Portfolio Committees*: monitor individual departments and make recommendations to Parliament ✓✓
- *Treasury control*: the national treasury is responsible for expenditure control ✓✓
- The Treasury committee, chaired by the Minister of Finance, evaluates all requests for additional funding throughout the year ✓✓
- *The Auditor-General* reports on each government department ✓✓
- The AG reports on the standard of financial management and points out fraudulent and unauthorised spending ✓✓ (Max 10)

Inefficiency

- Accountability does not guarantee efficiency. ✓✓
- Public goods must be efficiently provided (Pareto efficiency where the welfare of the community is at its maximum and it is therefore impossible to increase the welfare of one individual without making another worse off) ✓✓

Three major reasons for inefficiency:

- **Bureaucracy:** ✓ (official rules and procedures) ✓✓
- Officials may focus on correct procedures and rules and are indifferent to the quantity (e.g. the number of patients attended to) ✓✓ and quality of the service (e.g. explaining the use of the medicine) ✓✓
- Some may be insensitive to the needs of their clients ✓✓
- **Incompetence:** ✓ i.e. lack of skill or ability to do a task properly ✓✓
- This may be due to improper qualifications, lack of training, experience and an attitude of apathy. ✓✓
- **Corruption:** ✓ i.e. exploiting of a person's position for personal gain ✓✓
- Taking bribes, committing fraud, nepotism, behaving dishonestly and committing discrimination. ✓✓ (Max. 8)

Difficulty in assessing needs

- In the private sector, the forces of demand and supply dictate prices ✓✓
- The market prices act as signals to the producers, communicating the needs of consumers and the quantity demanded ✓✓
- State-owned enterprises do not operate according to the forces of demand and supply ✓✓
- It therefore becomes difficult for state-owned enterprises to assess the needs of consumers and they are prone to under-or over-supplying public goods ✓✓
- People's needs are endless, so the government is unable to provide for everyone ✓✓
- Serious structural weaknesses in the economy also cause the government to undersupply in response to the needs that it identifies ✓✓
- Political agendas are more important than the needs that the government identifies ✓✓ (Max. 8)

ADDITIONAL PART

Suggest solutions on how efficiency of state-owned enterprises can be improved.

Efficiency of state-owned enterprises (SOEs) can be improved by:

- Having proper and clear guidelines to fight corruption ✓✓
 - Forming Private Public Partnerships to enable a faster, more efficient delivery of goods and service. ✓✓
 - Setting clear costing and development mandates with financial implications clearly set out. ✓✓
 - Developing a framework for the appointment and remuneration of members to the Board of State-owned companies. ✓✓
 - Ensuring efficient management. ✓✓
 - Focusing on scarce resources for highest financial impact, ✓✓ e.g. encouraging a competitive work culture by hiring and retaining talented individuals through competitive compensation packages. ✓✓
- (Accept any other correct relevant response)

(10)

Conclusion

Efficient public sector provisioning in South Africa is key for a higher growth rate, higher employment rate and a better standard of living of all ✓✓

(Accept any higher order relevant conclusion)

(2)
[40]

QUESTION 6: ECONOMIC PURSUITS

Discuss in detail the appropriateness of South Africa's regional development policies in terms of international benchmark criteria. (26)

How successful has the SA government been in meeting the aims of regional development? (10)

INTRODUCTION

Regional development is the promotion of economic development in areas where poverty, unemployment and income inequality are high. ✓✓
(Accept any correct relevant introduction)

MAIN PART

- **Competitiveness** ✓
 - Industries established as a result of regional policies should be competitive. ✓✓
 - Industries should not need on-going financial aid from the state ✓✓
 - They should be self-sufficient in the long run and not depend on the state ✓✓
- **Sustainability** ✓
 - The capacity of a region has to support its own development. ✓✓
 - The natural resources and human resources should be harnessed. ✓✓
 - Employment and sustainable development should be achieved. ✓✓
 - Development should be a long-term approach rather than profit making. ✓✓
- **Good governance** ✓
 - Development strategies to be managed effectively and free of corruption. ✓✓
 - Principles of accountability and transparency should be applied. ✓✓
 - Projects to be correctly programmed monitored and evaluated. ✓✓
 - Efficient financial control to be exercised. ✓✓
- **Partnership** ✓
 - Regional development should be the responsibility of different stake holders. ✓✓
 - Partnership to be built between government, civil society, special interest group and private sector. ✓✓
- **Provision of resources** ✓
 - Sufficient resources should be provided in resource poor areas, such as the development of infrastructure. ✓✓
 - Provision of infrastructure to be a priority ✓✓

- **Free market orientation** ✓
 - Government intervention in markets should be kept to a minimum so that the forces of supply and demand and profit motive can allow for efficient allocation of resource. ✓✓
 - Markets to be allowed to function independently. ✓✓
- **Integration** ✓
 - An integrated approach should be followed, ensuring that benefits in one part of a region spill over to other industries and areas. ✓✓
- **Investing of social capital** ✓
 - Government need to improve the quality of education and health care in a Region. ✓✓
 - Government must build more schools in different regions. ✓✓ (Max. 26)

ADDITIONAL PART

South Africa has been successful in achieving regional development aims because:

- There has been an existence of vibrant economic activities in different regions. ✓✓
- An estimated 80% of the country's GDP is produced in various industrial areas. ✓✓ e.g. Johannesburg-Pretoria-Tshwane, Durban-Pinetown, Port Elizabeth-Coega-Uitenhage, Maputo development corridor, Richards Bay (Metals), Phalaborwa SDI ✓
- The department of Trade and Industry has formed a partnership with private sector through the Spatial Development Initiative, ✓✓ that shows that the government together with other stakeholders is committed to improving development. ✓✓

South Africa has been unsuccessful in achieving regional development aims because:

- There has been a lack of accountability in most public enterprises. ✓✓
 - Mismanagement of funds puts the state under pressure to bail out these enterprises when they cannot make profit. ✓✓
 - The quality of service in hospitals and clinics has not improved in various regions. ✓✓
 - The country has not been able to attract significant flows of investment ✓✓
 - There have been shortages of infrastructure in most regions ✓✓
- (Accept any other correct relevant response) (Max. 10)

CONCLUSION

The long-term success of achieving economic development lies in the way the industrial policies are implemented. ✓✓

(Accept any other relevant higher order conclusion)

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

TOTAL SECTION C: 40

GRAND TOTAL: 150