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GRADE 12

**ECONOMICS P1
MARKING GUIDELINES
NOVEMBER 2023**

MARKS: 150

TIME: 2 hours

These marking guidelines consist of 25 pages.

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

- 1.1.1 A – revaluation ✓✓
- 1.1.2 C – Jugler ✓✓
- 1.1.3 B – Laffer ✓✓
- 1.1.4 A – 0,4 ✓✓
- 1.1.5 D – quota ✓✓
- 1.1.6 B – Accelerated and Shared Growth Initiative for South Africa ✓✓
- 1.1.7 D – National Industrial Policy Framework ✓✓
- 1.1.8 C – urbanisation ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 H – part of household spending that is independent of the level of income ✓
- 1.2.2 G – maintain the view that markets are inherently stable ✓
- 1.2.3 F – the requirement to give an explanation of one's own decisions and actions ✓
- 1.2.4 B – when an organisation or a country is released from its obligation to repay a loan ✓
- 1.2.5 C – cooperation between countries to adopt common monetary and fiscal policies ✓
- 1.2.6 I – the process of adding new assets, such as machinery and equipment, to the existing stock ✓
- 1.2.7 D – focuses on using science and technology to promote industrialisation ✓
- 1.2.8 A – an economic indicator that relates to the cost of living ✓
(8 x 1) (8)

1.3 GIVE THE TERM

1.3.1 Leakages ✓

1.3.2 Composite indicator ✓

1.3.3 Managed floating / Controlled floating ✓

1.3.4 Economic growth ✓

1.3.5 Manufacturing ✓

1.3.6 Prime rate ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO factors of production.

- Labour / Human resources ✓
- Capital ✓
- Land / Natural resources ✓
- Entrepreneurship ✓

(2 x 1) (2)

2.1.2 Why is inflation rate high during the prosperity phase of a business cycle?

- Demand is very high in relation to the supply of goods and services which results in higher prices ✓✓
- The amount of money in circulation is very high which result in too much money chasing few goods ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify the year in which South Africa recorded the highest value of exports.

2021 ✓

(1)

2.2.2 Name the account in the balance of payments (BOP) that records portfolio investments.

Financial account ✓

(1)

2.2.3 Briefly describe the term *trade balance*.

The difference between visible (tangible) exports and visible (tangible) imports / It is calculated as merchandise exports plus net gold exports minus merchandise imports ✓✓

(Accept any other correct relevant response)

(2)

2.2.4 Explain the impact of electricity shortages on export volumes in South Africa.

- Export volumes will decrease as production of goods and services is disrupted during power cuts ✓✓
- Some businesses may decide to disinvest or pull-out of the economy leading to less businesses producing goods and services and export will decrease ✓✓
- Businesses may be forced to install alternative sources of energy leading to higher prices for South African export thereby reducing demand of export market ✓✓

(Accept any other correct relevant response)

(2)

2.2.5 How can the South African Reserve Bank (SARB) reduce balance of payment deficit?

- The SARB may increase the repo rate to discourage consumer spending including on imports which will increase the balance on current account ✓✓
- An increase in the repo rate attracts capital inflow as foreign investors take advantage of higher interest rates in the country which will increase the balance on financial account ✓✓
- The SARB can control foreign exchange by compelling exporters to hand over foreign currency to the reserve bank, which helps to reduce importing ✓✓
- Importers who require foreign exchange need to apply for it from the reserve bank which can discourage importing ✓✓
- Influence depreciation of the rand, by buying foreign exchange in markets, to discourage importing and promote exporting ✓✓
- The SARB may sell government securities on open market to reduce money supply and spending on imports ✓✓
- Increase the cash reserves requirements to reduce credit creation which helps to reduce spending on imports ✓✓
- Negotiate with commercial banks to be stricter when granting credit to discourage spending on imports ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.3 DATA RESPONSE**2.3.1 Identify the method used to calculate gross domestic product (GDP) in the above table.**

Income method / GDP(I)✓ (1)

2.3.2 Give ONE example of taxes on products.

- Value Added Tax / VAT ✓
 - Excise duties E.g. Sin tax, carbon tax, sugar tax, fuel levy ✓
 - Import duties / Custom duties / Import tariffs ✓
- (Accept any other correct relevant response) (1)

2.3.3 Briefly describe the term *subsidy on production*.

Financial assistance or support by the government to reduce cost of production or encourage production of certain products or influence remuneration of the factors of production ✓✓
(Accept any other correct relevant response) (2)

2.3.4 Why is it important for a country to prepare national account aggregates?

- To determine the level economic activity by measuring the value of real GDP in a country ✓✓
 - To measure economic growth by comparing real GDP figures for the current period with the previous ✓✓
 - To measure the standard of living by determining the level of real GDP per capita ✓✓
 - To compare the levels of prosperity between countries ✓✓
- (Accept any other correct relevant response) (2)

2.3.5 Calculate the gross value added (GVA) at basic prices (A) in the table above. Show all calculations.

GVA at basic prices (A) = 5 453✓ + 132✓ - 12✓
= **R5 573 bn** ✓
(Accept any other correct relevant methods) (4)

2.4 **Briefly discuss *specialisation* and *mass production* as effects of international trade.**

Specialisation

- Specialisation increases the standard of living, especially when the area of specialisation is in great demand due to a shortage of supply ✓✓
- Angola has oil deposits so it can specialise in oil production while Mozambique has no oil deposits and cannot specialise in oil ✓✓
- Countries that specialize in the production of a specific product will have the most competitive prices (can produce at a lower cost) ✓✓
- China has developed a competitive advantage in the production of textiles and they produce high-quality products at comparatively low prices ✓✓
- Countries that specialise in the production of goods and services that have inelastic demand such as oil, earn large amounts of export revenue ✓✓
- International trade can have a negative impact on some industries and on people in other countries ✓✓
- South African textile producers cannot compete with Chinese producers and have had to close down, causing many workers to lose their jobs ✓✓

(Accept any other correct relevant response)

(2 x 2)

Mass production

- Mass production becomes possible if the foreign demand is added to domestic demand. ✓✓
- Large scale production results in the employment of more domestic factors of production, which improves the standard of living ✓✓
- Mass production promotes economies of scale as the unit cost of production decreases which allows consumers to pay lower prices ✓✓
- When the producers' average cost decreases, it will increase their profitability. ✓✓
- Mass production ensures that producers can maximize their competitive edge on global markets ✓✓
- Mass production may promote dumping which may be regarded as unfair competition to other countries ✓✓
- Mass production may lead to over-exploitation of natural resources threatening environmental sustainability ✓✓

(Accept any other correct relevant response)

(2 x 2)

(8)

(Allocate a maximum of 4 marks for a mere listing of facts/examples)

2.5 **How can business cycles influence the use of fiscal policy in the economy?**

During a downswing, fiscal changes may be influenced as follows:

- The government implements expansionary fiscal policy to stimulate economic activity and avoid high unemployment ✓✓
- Personal income tax rates may be reduced to increase households' disposable income and stimulate consumer spending ✓✓
- Corporate tax may be reduced to increase profit prospects of businesses which will encourage them to produce more goods and services ✓✓
- Indirect taxes such as VAT may be reduced to encourage spending thereby increasing production of good and services ✓✓
- The government may increase its expenditure on infrastructure development which will increase demand for and production of capital goods ✓✓
- The government may increase welfare expenditure such as social grants which will stimulate consumer spending ✓✓
- The government may provide more subsidies and incentives to encourage production of goods and services ✓✓

During an upswing, fiscal changes may be influenced as follows:

- During a prosperity phase the government implements restrictive fiscal policy to dampen the economy and avoid high inflation ✓✓
- Personal income tax rates may increase to reduce households' disposable income thereby reducing excess demand ✓✓
- Increase in indirect taxes such as VAT may increase prices of goods and services which will help to reduce aggregate demand ✓✓
- The government may postpone or cancel some infrastructure development projects which will reduce demand for capital goods ✓✓
- The government may reduce welfare expenditure such as social grants which will reduce excess demand in the economy ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)

(Allocate a maximum of 2 marks for a mere listing of facts/examples)

[40]

QUESTION 3: ECONOMIC PURSUITS**40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Give any TWO examples of basic services provided by the government.**

- Electricity ✓
- Water supply ✓
- Refuse removal ✓
- Sanitation ✓

(Accept any other correct relevant response)

(2 x 1) (2)

3.1.2 How can the Integrated Manufacturing Strategy (IMS) promote industrialisation in South Africa?

- IMS focuses on improving the competitiveness of manufacturing businesses by improving infrastructural services such as energy, communication and transport ✓✓
- The strategy aims to improve cross-cutting issues by examining a range of factors such as technology, innovation and human resources ✓✓
- Access to finance is improved through the provision of funding for the development of industries ✓✓
- IMS involves the up-skilling of human resources through skills development programmes to improve labour productivity and the quality of goods and services ✓✓

(Accept any other correct relevant response)

(2 x 1) (2)

3.2 DATA RESPONSE**3.2.1 Identify a redress policy that aims to eliminate unfair discrimination in South African workplaces.**

Employment Equity Act ✓

(1)

3.2.2 Give ONE measure used to improve efficiency of markets.

- Deregulation ✓
- Competition ✓

(Accept any other correct relevant response)

(1)

3.2.3 Briefly describe the term *economic development*.

The improvement in the standard of living for a country's population over a period of time ✓✓

(Accept any other correct relevant response)

(2)

3.2.4 How can the government use taxation to promote business efficiency?

- Reduce corporate income tax to increase the profit prospects of businesses which will encourage them to invest in more efficient production techniques ✓✓
- The government may provide tax exemptions to newly establish businesses which will reduce their operational costs, helping them to expand and become more competitive ✓✓

(Accept any other correct relevant response)

(2)

3.2.5 Explain the challenges in the implementation of Broad Based Black Economic Empowerment (BBBEE).

- Some black-owned businesses do not have enough capital to implement big projects limiting their ability to secure contracts especially from the government ✓✓
- Corruption in form of bribes and nepotism results in few people benefiting from Black Economic Empowerment ✓✓
- Some companies that are not BEE compliant have been benefiting from black economic empowerment programmes because of fronting ✓✓
- Most black people do not have money to buy shares which is limiting ownership of big companies by black people ✓✓
- Many black people do not have skills and experience to occupy senior management positions in big companies ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 DATA RESPONSE**3.3.1 Identify ONE benefit of foreign direct investments to the economy.**

- Job creation ✓
- Economic growth ✓

(1)

3.3.2 Name the financial incentive provided by the government to attract new foreign investments in South Africa.

Foreign Investments Grant (FIG)/Foreign investment incentive ✓

(1)

3.3.3 Briefly describe the term *industrial development*

The implementation of policies to promote establishment of new industries and expansion of existing industries ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 Why is the manufacturing sector important to the economy?

- The manufacturing sector is labour-intensive which helps the economy to create many job opportunities and reduce unemployment ✓✓
- Processes raw-materials into finished goods that can be exported at higher prices and generate more income for the economy ✓✓
- Manufacturing attracts more foreign direct investments which help to expand the tax base for the government and contribute to the GDP ✓✓
- The sector contributes to economic growth which enables consumers to have a variety of goods and services that will satisfy human need ✓✓

(Accept any other correct relevant response)

(2)

3.3.5 Explain the factors that may influence the success of industrial development zones (IDZs) in South Africa negatively.

- Political, industrial and social instability such as industrial actions and community protests may create a negative sentiment towards South Africa thereby reducing investors' confidence ✓✓
- Electricity shortages disrupt production through the nation-wide power cuts (load shedding) which may discourage potential investments in Industrial Development Zones ✓✓
- Depreciation of the rand may increase the cost of importing production inputs such as oil and semi-finished materials thereby discouraging new investments. ✓✓
- High inflation rate may reduce demand for South African exports which may discourage production of exports in Industrial Development Zones ✓✓
- Lack of skilled labour may discourage investors as it will lead to low productivity, poor quality product and high average cost of production ✓✓
- Downgrading of the South African government's credit rating may create a negative sentiment thereby discouraging potential investments
- External factors such as increasing commodity prices and disruption in shipping routes can impact on the demand of goods produced in IDZs ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.4 **Briefly discuss the *terms of trade* and the *exchange rate* as economic indicators related to foreign trade.**

Terms of trade:

- Term of trade (ToT) measures the ratio of export price index to import price index ✓✓
- Changes in the terms of trade serve as an indicator of changes that may cause spill over effects on the Balance of Payments and the value of local currency ✓✓
- An improvement in the terms of trade is caused by a decrease in import prices and an increase in export prices ✓✓
- The economy will spend less for the same amount of imports if the terms of trade increase ✓✓
- A deterioration in the terms of trade is caused by an increase in import prices and a decrease in export prices ✓✓
- A greater volume of exports may need to be produced to maintain export earning, if the terms of trade decline ✓✓

(Accept any other correct relevant response)

(2 x 2)

Exchange rate:

- Exchange rate measures to the value of a country's currency in terms of another currency ✓✓
- Most countries have numerous exchange rates, which means that the rand may depreciate against the US dollar but appreciate against the Chinese yuan ✓✓
- Changes in an exchange rate affect the prices for imports and export earnings ✓✓
- Depreciation of the rand against the dollar will result in US goods and services becoming more expensive for South Africa ✓✓
- Appreciation of the rand against the US dollar will make South Africa export to the US more expensive thereby reducing demand ✓✓

(Accept any other correct relevant response)

(2 x 2)

(8)

(Allocate a maximum of 4 marks for a mere listing of facts/examples)

3.5 Analyse the impact of low economic growth on the South African economy.

Low economic growth has the following impact on the South African economy: -

- South Africa's unemployment rate will increase due to the decrease in production of goods and services ✓✓
- Households' income levels will decrease resulting in low consumer spending and savings ✓✓
- The economy will fail to attract direct investments which contributes to less employment opportunities ✓✓
- Export earnings will decrease contributing to the depreciation of local currency and decrease in trade balance ✓✓
- Tax revenue for the government will decrease which reduces the capacity of the government to implement public projects such as infrastructure development ✓✓
- Many people lose their jobs which increases the fiscal burden for the government in terms of welfare expenditure such as social grants ✓✓
- State debt will increase as the government borrow more funds from international organisations and other governments to finance its expenditure ✓✓
- Low public finances will limit the ability of the government to increase its investment in socio-economic services delivery such as electricity and water supply ✓✓
- Inflation rate may increase due to the decrease in supply of goods and services ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)

(Allocate a maximum of 2 marks for a mere listing of facts/examples)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**40 MARKS – 30 MINUTES****4.1 Answer the following questions.****4.1.1 Name any TWO characteristics of countries in the South.**

- Low standard of living/high poverty levels ✓
- Low per capita income ✓
- High rate of unemployment ✓
- Low life expectancy ✓
- Low literacy level/poor education ✓
- Low economic growth/low production levels ✓
- Deficient infrastructure ✓
- High population growth and dependency burden ✓
- High dependency on primary sector ✓

(Accept any other correct relevant response)

(2 x 1)

(2)

4.1.2 How can an increase in the population's income levels influence the demand for imports?

Increase in the population's income level leads to an increase in demand for imported goods and services especially when domestic supply is insufficient / Increase in the population's income level allows local consumers to afford luxury products that are normally imported from developed countries ✓✓

(Accept any other correct relevant response)

(1 x 2)

(2)

4.2 DATA RESPONSE**4.2.1 Identify the original equilibrium point in the above graph.**

e ✓

(1)

4.2.2 Name ONE instrument of the monetary policy

- Interest rate/repo rate ✓
- Cash reserve requirements ✓
- Open market transactions ✓
- Moral suasion ✓
- Exchange rate policy ✓

(1)

4.2.3 Briefly describe the term *business cycles*.

Successive periods of increasing and decreasing economic activity/Recurrent patterns of economic expansion and contraction in a country ✓✓

(Accept any other correct relevant response)

(2)

4.2.4 How can competition stimulate aggregate supply?

- Competition allows the establishment of new businesses in different industry which will increase the production of goods and services, stimulating aggregate supply ✓✓
- Competition encourages existing business to use more efficient production methods which will increase productivity, stimulating aggregate supply ✓✓

(Accept any other correct relevant response)

(2)

4.2.5 Explain the effect of demand-side and supply-side policies on the general price level and real output, with reference to the graph above.

- Implementation of demand-side policies to stimulate economic growth will shift the demand curve from AD to AD₁ while aggregate supply remains the same. ✓✓
- A new equilibrium will be formed at point e₁, where higher output Q₁ is produced and the general price level will increase from P to P₁ ✓✓
- Implementation of supply side policies to complement higher aggregate demand, will shift the aggregate supply curve from AS to AS₁ ✓✓
- A new equilibrium will be formed at point e₂, where higher output Q₂ is produced at a lower general price level P ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

4.3 DATA RESPONSE**4.3.1 Identify the population percentage of female in the age group 30 to 34 years.**

4,7% ✓

(1)

4.3.2 Give an economic term that refers to the population age group 15 to 65 years.

Economically Active Population (EAP) / Labour force / Workforce ✓

(1)

4.3.3 Briefly describe the term *life expectancy*.

The number of years a new born is expected to live ✓✓

(Accept any other correct relevant response)

(2)

4.3.4 Explain the impact of malnutrition on child mortality rate.

Malnutrition may increase child mortality rate due to increased health risks amongst the children ✓✓

(Accept any other correct relevant response)

(2)

4.3.5 Why is the population size important to businesses and/or the government?

- Population size helps the government to plan on its infrastructure projects such water, energy, and road construction. ✓✓
- The government may use the population size to determine the funds needed to provide social programmes. ✓✓
- Businesses may use population figures to check the availability of labour for production purposes. ✓✓
- The size of population may help businesses to determine the size of their markets. ✓✓

(Accept any other correct relevant response)

(4)

4.4 Discuss spatial development initiatives (SDIs) as South Africa's endeavours (efforts) in regional development.

- Spatial development initiative can be defined as a link between important economic hubs and regions in a country. ✓✓
- SDIs promote sustainable industrial development in areas where poverty and unemployment are at their highest. ✓✓
- The intention of the government was to grow the SDIs mostly through private sector investments through the granting of incentives. ✓✓
- SDIs promote the establishment of Public Private Partnership (PPP) to increase the economic potential of underdeveloped areas ✓✓
- In a PPP a private business may provide the capital to build the factory, to buy raw materials and employ labour, while the government provides capital for the infrastructure ✓✓ e.g. roads and water ✓
- The SDI involves an interdepartmental investment strategy that the Department of Trade, Industry and Competition (DTIC) and the Department of Transport (DOT) lead ✓✓
- SDIs focus on high-level support in areas where socio-economic conditions require concentrated government assistance and inherent economic potential exists ✓✓
- SDIs attract private sector and foreign direct investments and maximize collaboration between various types of investments ✓✓
- Financial incentives to promote SDIs include duty-free incentives, Small and Medium Enterprise Development, Skills support programme, Critical infrastructure programme and Foreign investment grants ✓✓
- The government develops physical infrastructure such as roads and harbours, and finance them with loans and private sector investments ✓✓

- Economic activity in underdeveloped areas is stimulated thereby promoting economic growth and development ✓✓ (8)
 - Spatial development initiatives (SDIs) ensure rapid planning and development ✓✓
 - SDIs restructure the effects of the Apartheid economy through the development of previously underdeveloped areas ✓✓
 - Examples of SDIs in South Africa include KwaZulu-Natal SDI, Wild Coast SDI, Fish River SDI, Platinum SDI, Phalaborwa SDI, Gauteng Special Economic Zone, Lubombo SDI, Richards Bay Initiative ✓
- (Accept any other correct relevant response) (4 x 2)
- (Allocate a maximum of 4 marks for a mere listing of facts/examples)**

4.5 Analyse the relationship between the financial sector and other participants in the circular flow model.

- Financial sector includes banks and other institutions that provide borrowing and lending services to the other participants on the circular flow model ✓✓
- Financial institutions act as intermediaries between the households who want to save money and businesses that want to borrow money to finance their investments. ✓✓
- Commercial banks accept deposits of money from households as savings and pay interests on the savings. ✓✓
- The financial sector lends money in form of loans to producers that need to expand their operations ✓✓ for example buy more land and buildings or machinery and equipment ✓
- Households may borrow money from financial institutions to purchase goods and services such as houses and vehicles ✓✓
- The financial sector makes profit from the difference between the interest rate paid to depositors and that which is charged to borrowers ✓✓
- Financial institutions may act as stock brokers by assisting households who may need to invest their surplus funds ✓✓ for example buying shares at the Johannesburg Securities Exchange (JSE) ✓
- Commercial banks facilitate the exchange of different currencies which allows other participants to make payments for their imports ✓✓
- Financial markets coordinate the demand for and supply of foreign exchange to determine different exchange rates ✓✓
- Government institutions such as state-owned businesses and local municipalities may save or invest their surplus fund with the financial institutions ✓✓
- The government may borrow funds from different financial institution to cover the spending needs ✓✓
- Financial institution such as commercial banks and insurance companies pay tax to the government from the income that they generate ✓✓

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

(Allocate a maximum of 2 marks for a mere listing of facts/examples) (8) [40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5: MACROECONOMICS**40 MARKS – 40 MINUTES**

- **Discuss in detail the main objectives of the public sector in the economy.** (26 marks)
- **Evaluate the impact of privatisation of state-owned enterprises (parastatals) on the South African economy.** (10 marks)

INTRODUCTION

Public sector is the part of the economy that is made up of all entities that are owned and controlled by the government / Macroeconomic objectives are the goals or targets that the public sector wants to achieve for the whole economy ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY: MAIN PART**1. ECONOMIC GROWTH ✓**

- Economic growth is the increase in the production of goods and services by the economy / Economic growth is the increase in the capacity of the economy to produce more goods and services ✓✓
- It is measured in terms of an increase in the real gross domestic product (GDP) ✓✓
- Economic development occurs when the economic growth rate is higher than the population growth rate ✓✓
- High economic growth rate means there will be fewer people who are dependent on the state to satisfy their basic needs / For economic development to occur, economic growth rate should exceed the population growth rate ✓✓
- The state tries to ensure that there is continuous economic growth because it leads to an improvement in the standard of living ✓✓
- In South Africa, economic growth has been extremely low due to factors such as natural disasters, power cuts and lack of investments ✓✓

2. FULL EMPLOYMENT ✓

- The objective of the governments is to ensure that all persons who are willing to work and looking for work, should be able to find work or create work for themselves ✓✓
- Informal sector activities must be promoted because they have the potential to increase employment ✓✓
- GEAR was implemented to create a positive climate that was conducive to employment creation by the private sector ✓✓
- The government accelerates employment creation through direct employment schemes, targeted subsidies and expansionary macroeconomic policies ✓✓
- Labour-intensive activities in the agricultural and light manufacturing sectors are also used to create employment ✓✓
- The state also support knowledge-intensive and capital-intensive sectors to remain competitive ✓✓
- In South Africa, unemployment rate increased over the past few years due to the effects Covid-19 pandemic ✓✓

3. EXCHANGE RATE STABILITY/BALANCE OF PAYMENTS EQUILIBRIUM✓

- Exchange rate stability occurs when the exchange rate remains stable so as to reduce uncertainty in foreign trade ✓✓
- Depreciation and appreciation of a currency create uncertainties for investors, producers and traders ✓✓
- Volatile exchange rate causes the price of imports and exports to be erratic which could cause Balance of Payments disequilibria ✓✓
- Exchange rate stability helps to control the inflation rate and achieve higher economic growth ✓✓
- Government uses its monetary and fiscal policies to ensure that the exchange rate remains relatively stable for as long as possible ✓✓
- The South African Reserve Bank replaced the managed floating exchange system with a free-floating exchange rate system to reduce currency speculation in the market ✓✓
- In South Africa, the rand has been depreciating due to factors such as less exports and the negative sentiment surrounding the economy ✓✓

4. PRICE STABILITY ✓

- Price stability occurs when the general price of goods and services remains relatively constant over time ✓✓
- When prices are stable and inflation is low, markets can function optimally and the government can promote economic growth and development more effectively ✓✓
- In South Africa relative price stability means that the inflation rate remains within the inflation target of 3–6% ✓✓
- Interest Rates, based on the Repo Rate are the main instruments used to achieve price stability. ✓✓
- If inflation exceeds the upper limit of the range, the Reserve Bank must consider increasing the interest rate to cool down the heated economy ✓✓
- A stable budget deficit also has a stabilising effect on price stability ✓✓
- Inflation targeting helps to create a greater degree of transparency in monetary policy ✓✓
- In South Africa, inflation rate is high due to factors such as increasing fuel and foods price. ✓✓

5. **ECONOMIC EQUITY / EQUAL DISTRIBUTION OF INCOME / ECONOMIC JUSTICE ✓**

- Economic equity exists when the resources of a country are fairly distributed amongst the population ✓✓
- A redistribution of income and wealth is essential in market economies ✓✓
- The government must intervene because there are sections of society that earn a large amount of money while others earn very little ✓✓
- South Africa uses a progressive income tax system where higher income earners pay higher tax rates than lower income earners ✓✓
- Taxes on profits, wealth and expenditure can be used to finance free social services for the poor households ✓✓
- Free basic education, free basic healthcare, basic economic services and cash grants to the poor and other vulnerable people, will enhance economic equity ✓✓
- The government also tries to compensate for the human rights abuses of the past by implementing redress policies such as employment equity and black economic empowerment ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 8 marks for a mere listing of facts/examples)

(Max. 26)

ADDITIONAL PART

Privatisation of State-owned enterprises (parastatals) may impact positively on the South African economy as follows: -

- Efficiency in service delivery will improve as privately owned businesses will provide better quality services due to the profit motive ✓✓
- The government may raise extra income from the sales of public assets which will help to finance strategic public projects such as infrastructure development ✓✓
- The tax base will expand which will allow the government to raise more tax revenue to address other socio-economic issues ✓✓
- Fiscal burden in term of financial bail-outs will be decreased which will help to reduce public debt. ✓✓
- The government's financial position will improve due to decrease in administrative and other operational costs such as wages and salaries ✓✓
- Developmental objectives such as economic empowerment may be promoted due to an increase in the number of individuals who own factors of production ✓✓
- Privatisation may attract foreign direct investments which will create capital inflow thereby improving the Balance of Payments ✓✓

(Accept any other correct relevant response)

Privatisation of State-owned enterprises (parastatals) may impact negatively on the South African economy as follows: -

- Goods and services will become more expensive due to the profit motive and lack of public interest in the private sector ✓✓
- Consumers may pay higher prices for essential services which may increase the cost of living ✓✓
- Other businesses may incur higher cost of production as pay more for key input services which may contribute to cost-push inflation ✓✓
- Privatisation may increase unemployment by shifting to less labour-intensive production ✓✓
- Privatisation of State-owned enterprises such as Eskom may lead to the creation of monopolies that may exploit consumers ✓✓

(Accept any other correct relevant response)

(Max. 10)

(Allocate a maximum of 2 marks for a mere listing of facts/examples)

CONCLUSION

It is very important that the state improves its functioning from time to time to avoid economic instabilities so as to bring about desired development. ✓✓

(Accept any other relevant higher order conclusion.)

(Max. 2)

[40]

QUESTION 6: ECONOMIC PURSUITS**40 MARKS – 40 MINUTES**

- Discuss in detail export promotion as South Africa's international trade policy. (26 marks)
- How can South Africa benefit from being part of the various trade protocols such as Southern African Development Community (SADC)? (10 marks)

INTRODUCTION

Export promotion involves providing incentives to encourage local businesses to produce goods for export / When the government pays incentives to encourage production of goods and services that can be exported ✓✓

(Accept any other correct relevant introduction)

(Max. 2)**MAIN PART****Methods of export promotion****(a) Export incentives ✓**

- The purpose of export incentives is to encourage exports by giving financial assistance to exporting companies ✓✓
- Financial assistance to exporting businesses enables them to compete effectively in international markets so that they can export larger volumes ✓✓
- The government may supply information on export markets, research on new markets, offer concessions on transport charges, export credit, etc. in order to stimulate exports ✓✓

(b) Export subsidies ✓**Direct subsidies ✓**

- Direct subsidies result in government expenditure because they provide direct financial support to domestic exporters ✓✓
- Direct subsidies are cash payments such as cash grants to export exhibitions and market research and subsidies for training and employing personnel ✓✓
- The purpose of direct subsidies is to reduce the cost of production and increase competitiveness in the exporting markets ✓✓

Indirect subsidies ✓

- Indirect subsidies occur when the government does not earn certain types of income ✓✓ e.g. tax ✓
- The government often refunds companies certain taxes to promote exports ✓✓
- Indirect subsidies may include refunds on import tariffs and general tax rebates on profits earned from exports or on capital invested to produce export goods ✓✓

(c) Trade neutrality ✓

- The government may provide subsidies that are equivalent to import duties paid by exporters when importing production inputs ✓✓
- Trade neutrality can be achieved through trade liberalization ✓✓

(d) Export processing zones (EPZs) ✓

- An Export Processing Zone (EPZ) is a free trade enclave within a protected economy and is usually located near a harbour or airport ✓✓
- Manufacturers are located in an EPZ to produce for export purposes, making use of imported inputs that are obtained free of all customs duty ✓✓
- Developing countries offer attractive incentives to attract foreign investors to their EPZs ✓✓

Reasons/Advantages of export promotion

- There are no limitations to the size and scale since the world market is much bigger than domestic market ✓✓
- Production is based on cost and efficiency considerations and is organised along the lines of comparative advantage ✓✓
- There is increased domestic production through the expansion of export production which will lead to lower domestic prices ✓✓
- Exchange rates would be realistic and there is no need for exchange control and quantitative restriction ✓✓
- Value can be added to the natural resources of the country by processing them into finished products with higher value ✓✓
- Export promotion creates more employment opportunities for the South African labour force ✓✓
- Increase in exports may help to reduce Balance of Payment deficit ✓✓
- Export promotion enlarges the production capacity of the country and promote industrial development ✓✓
- Performance of manufacturing and service industries and international competitiveness of South African producers will improve ✓✓
- Export promotion ensures efficient use of resources through improved innovation and competition ✓✓

Disadvantages of export promotion

- The real cost of production may not be reflected in the prices of the products as subsidies and incentives may reduce the total cost of production ✓✓
- There may be lack of competition because of incentives and subsidies allowing exporting businesses to charge very low prices, forcing competitors who could create sustainable businesses out of the market ✓✓
- Overseas countries may retaliate with tariffs and quotas when similar goods are sold domestically below their real cost of production ✓✓
- Developed countries often maintain high levels of effective protection for their labour-intensive industries in which developing countries already have comparative advantage ✓✓
- Withdrawal of incentives by the government may lead to the closure of affected companies ✓✓
- Export promotion may be regarded as dumping by other countries and they may retaliate with increased tariffs and quotas ✓✓

- Export promotion may also be against the provisions of the World Trade Organisation, when goods are exported at prices below the real cost of production due to subsidies ✓✓

(Accept any other correct relevant response)

(Max. 26)

(Allocate a maximum of 8 marks for a mere listing of facts/examples)

ADDITIONAL PART

South Africa (SA) can benefit from various trade protocols such as Southern African Development Community (SADC) as follows:

- In terms of the SADC protocol, some 97% of imports from SADC qualified for duty-free access to South Africa which allows local consumers to import goods from SADC countries at lower prices ✓✓
- The South African rand is accepted as a legal tender in most the Multilateral Monetary Area (MMA) countries such as Swaziland, Lesotho and Namibia which makes it easier for local consumers to make payments in these countries ✓✓
- The European Union (EU) free trade arrangement with South Africa entails the freeing of tariffs of 95% of the EU imports from South Africa which enables SA producers to export goods to European countries without trade restrictions ✓✓
- South Africa can import more efficient production techniques from European countries without restrictions ✓✓ E.g. advanced machinery and equipment ✓
- South Africa is in a better position to attract direct investments from the BRICS and European countries, expanding the tax base for the government ✓✓
- Direct investments from developed countries would create more job opportunities in South Africa, stimulating economic growth ✓✓
- International relation between South Africa and other countries may improve, with South Africa standing a better chance to occupy key positions in international organisations such as IMF and the World Bank ✓✓
- South Africa signed a Preferential Trade Agreement (PTA) with Mercusor which improved its trade relationships with countries such as Brazil, Argentina and Uruguay ✓✓
- The BRICS alliance helps South Africa to benefit from the mutual trade investment opportunities between the members of the consortium ✓✓
- The association with BRICS helps South Africa to achieve inclusive economic growth in order to eradicate poverty ✓✓
- Trade between South Africa and the United States improved significantly because of the African Growth and Opportunities Act (AGOA) that allows no import duties on certain SA exports to USA ✓✓
- South African products will become more competitive on global market as the removal of tariffs will make them more affordable ✓✓
- Export volumes will increase as demand for South African exports will increase, improving the trade balance ✓✓
- South African manufacturers will import production inputs such crude oil, vehicle parts, machinery and equipment at a lower cost, stimulating domestic production ✓✓

(Accept any other correct relevant response)

(Max. 26)

(Allocate a maximum of 2 marks for a mere listing of facts/examples)

CONCLUSION

Export promotion may help the economy to achieve a significant export-led economic growth through mass production ✓✓

(Accept any other relevant higher order conclusion.)

(Max. 2) [40]

TOTAL SECTION C: 40
GRAND TOTAL: 150