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**JUNE EXAMINATION
GRADE 12

2024**

MARKING GUIDELINES

**ECONOMICS

(PAPER 1)**

22 pages

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

- 1.1.1 D – Johannesburg Securities Exchange (JSE) ✓✓
- 1.1.2 A – $Y > GDP$ ✓✓
- 1.1.3 C – longer than 50 ✓✓
- 1.1.4 B – total stock of money ✓✓
- 1.1.5 B – taxation and government spending ✓✓
- 1.1.6 A – depreciated ✓✓
- 1.1.7 C – capital transfer account ✓✓
- 1.1.8 D – protectionism ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G – money paid to a supplier by the state so that goods and services can be sold at a lower price to consumers ✓
- 1.2.2 D – the monetary value at which products are bought and sold ✓
- 1.2.3 E – the period immediately before the upper turning point of the business cycle ✓
- 1.2.4 H – deal the economic and other issues specific to a particular region ✓
- 1.2.5 A – financial aid where the recipient must meet specific requirements outlined in the agreement to receive the funds ✓
- 1.2.6 B – comparison between a country's export and import prices by means of indices ✓
- 1.2.7 F – redistribution of income and wealth ✓
- 1.2.8 C – a penalty imposed on a country by one or more countries ✓ (8 x 1) (8)

MARKING GUIDELINES**ECONOMICS
(PAPER 1)****GR12 0624****1.3 GIVE THE TERM**

1.3.1 Entrepreneurship ✓

1.3.2 System of national accounts ✓

1.3.3 Trendline ✓

1.3.4 Laffer curve ✓

1.3.5 Trade Balance ✓

1.3.6 Protocol/Trade protocol ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

40 PUNTE – 30 MINUTE

2.1 Answer the following questions.

2.1.1 Name any TWO examples of indirect taxes in South Africa.

- Value added tax (VAT) ✓
- Excise duty/Sin taxes ✓
- Fuel levies ✓
- Custom duties ✓

(Accept any other correct relevant response.)

(2 x 1) (2)

2.1.2 How could a decrease in investment spending lead to a recession?

A decrease in investment spending by businesses reduces the total output in the economy, this reduces real GDP, forcing the economy into a recession. ✓✓

(Accept any other correct relevant response.)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify ONE cash injection in the extract above.

- Social wage ✓
- Grant ✓

(1)

2.2.2 Identify the participants in the circular flow who are responsible for supplying factors of production?

Households ✓

(1)

2.2.3 Briefly describe the term *autonomous consumption*.

Autonomous consumption refers to expenses a consumer must pay for, regardless of income. ✓✓

(Accept any other correct relevant response.)

(2)

2.2.4 Why are cash injections important to the South African economy?

- Injections are the introduction of income into the flow, such as additions to investment, government expenditure and exports. ✓✓
- The inflow of money adds to the national income, and consumers and businesses have more money to purchase and manufacture goods and services which can stimulate economic growth.
- Injections are instrumental in preventing recessions and maintaining stable economic growth. ✓✓

(Accept any other correct relevant response.)

(2)

2.2.5 How does an increase in the marginal rate of taxation influence the value of the multiplier?

- An increase in the marginal rate of taxation has a dampening effect on the multiplier in an economy. ✓✓
- This is because higher taxes reduce disposable income, which in turn decreases consumption and overall spending in the economy. ✓✓

(Accept any other correct relevant response.)

(4)

2.3 DATA RESPONSE**2.3.1 What does the abbreviation MTEF stand for?**

Medium Term Expenditure Framework ✓

(1)

2.3.2 Which government department is responsible for preparing the MTEF?

Treasury/Department of Finance ✓

(1)

2.3.3 Briefly describe the term *medium-term budget policy statement*.

A statement that consists of the three-year rolling expenditure and revenue projections of national and provincial government ✓✓

(Accept any other correct relevant response.)

(2)

2.3.4 Use the information in the table above to explain whether South Africa has maintained its budget deficit as a percentage to GDP according to international bench marking in 2023/2024.

South Africa exceeded the international benchmark of 3% deficit. South Africa's budget deficit is estimated to be 4,8%. ✓✓

(Accept any other correct relevant response)

(2)

2.3.5 Calculate the value for A (expenditure as a percentage of GDP). Show all calculations.

$$\text{Expenditure as a percentage of GDP} = \frac{\text{Amount of Expenditure}}{\text{Gross Domestic Product}} \times 100. \checkmark$$

$$\frac{2\,176,8}{6\,805,3} \times 100 \checkmark$$

$$31,99\% \checkmark\checkmark \text{ (Accept } 32\%)$$

(Max 2 marks for answer only. No penalty for omitting %)

(4)

2.4 Briefly explain *non-rivalry* and *non-excludability* as characteristics of public goods.

Non-rivalry

- Non-rivalry means that consumption of a good by one person does not reduce the amount available for others. $\checkmark\checkmark$
- There is no competition amongst people when using these goods. $\checkmark\checkmark$
- For example, all people are protected by the army in the country. \checkmark
- There is no rivalry or competition about who would make more use of national defence. $\checkmark\checkmark$

Non-excludability

- Non-exclusivity implies that no one can be excluded from using the good; it is open for consumption by anyone. $\checkmark\checkmark$
- Once goods are provided to the public, it is difficult or impractical to exclude individuals from benefiting from a good, even if they do not pay for it. $\checkmark\checkmark$
- This results in the "free-rider problem," which means that people benefit from something without paying for it. $\checkmark\checkmark$
- The main concern in the "free-rider problem" is that when certain people are not paying for a good, others will then be reluctant to pay for that good. $\checkmark\checkmark$
- For example, no one can be excluded from using clean air. \checkmark

(Accept any other correct relevant response.)

(4 x 2)

(8)

2.5 Analyse the effect of a change in the *marginal propensity to import* on the value of the multiplier and the South African economy.

Increase in marginal propensity to import

- When marginal propensity to import (mpm) increases, it means that a larger portion of income is spent on importing goods and services from other countries than on buying domestic goods. ✓✓
- The multiplier will decrease because of the reduced amount of money in circulation in the domestic economy. ✓✓
- This can lead to a decrease in domestic demand for locally manufactured goods, potentially lowering production levels and economic growth. ✓✓
- It can increase trade imbalances, as a higher percentage of income is spent on imports. This leads to a trade deficit which potentially affects balance of payments. ✓✓
- A higher mpm can put downward pressure on the exchange rate of the domestic currency'. ✓✓ This can affect import prices, potentially causing inflationary pressure. ✓✓
- Industries that rely heavily on domestic demand may be negatively affected as increased mpm may lead to reduced demand for those industries, leading to decreased sales and potential layoffs. ✓✓
- Increased mpm highlights a country's dependence on the global economy, changes in global economic conditions and exchange rates can have significant impact on the domestic economy when mpm is high. ✓✓
- Whilst some individuals and businesses may benefit from access to cheaper imported goods, other industries may be negatively affected by the reduced domestic demand which might lead to income loss. ✓✓

Decrease in marginal propensity to import:

- A lower marginal propensity to import means a larger portion of additional income will be spent locally. This results in a higher value for the multiplier, as money circulates within the economy. ✓✓
- Businesses would experience an increased demand for their goods and services, leading to higher output, job creation and economic growth. ✓✓
- Increase in domestic demand increases the inflationary pressure, if the economy operates close to full potential. ✓✓

(Accept any other correct relevant response.)

(A maximum of 2 marks will be allocated for mere listing/examples)

(8)
[40]

QUESTION 3: MACROECONOMICS**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO monetary policy instruments.

- Interest rate/Bank rate/Repo rate/Repurchase rate ✓
- Cash reserve ratio/Cash reserve requirements ✓
- Open market operations ✓
- Credit extension ✓
- Moral suasion ✓

(2 x 1) (2)

3.1.2 Why does the value of the Rand fluctuate continuously against foreign currencies?

- South Africa has a free-floating exchange rate policy which means that the value of the currency is determined by ever-changing market forces such as demand and supply. ✓✓✓

(Accept any other correct relevant response.)

(1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 Identify the business cycle period that is illustrated in the cartoon above.**

Downswing/contraction period/recession ✓

(1)

3.2.2 Which school of thought proposes internal forces as reasons for business cycles?

Keynesian/endogenous ✓

(1)

3.2.3 Briefly describe the term *business cycle*.

A business cycle shows successive periods of growth and decline in economic activities. ✓✓

(Accept any other correct relevant response.)

(2)

3.2.4 Why can a lagging economic indicator not be used as a forecasting tool?

A lagging indicator becomes apparent only after the movement in the economy. Therefore, lagging indicators confirm long-term trends, but they can not predict them. ✓✓

(Accept any other correct relevant response.)

(2)

3.2.5 How can technological advancements affect a business cycle?

- Technological advancements could enhance the pace and output of various business activities. This will cause an expansion in the business cycle. ✓✓
 - More efficient production of more and better goods and services will lead to an increase in the economic growth rate and result in an upswing in the business cycle. ✓✓
 - Business can leverage new technologies to streamline operations, reduce costs, and enter new markets, contributing to higher employment and output levels leading to economic growth and an expansion in the business cycle. ✓✓
 - Technological innovations may lead to increased competition and market saturation. ✓✓ As a result, business need to continuously innovate to maintain their competitive edge which will stimulate economic growth and result in an expansion in the business cycle. ✓✓
- (Accept any other correct relevant response.) (2 x 2) (4)

3.3 DATA RESPONSE**3.3.1 Identify South Africa's main export commodity from the information in the table above.**

Platinum group metals ✓ (1)

3.3.2 What are current prices also known as in Economics?

Nominal prices ✓ (1)

3.3.3 Briefly describe the term *balance of payments*.

A systematic record of all transactions between one country and other countries, e.g., between South Africa and all other countries in the world. ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 How will a depreciation of the Rand impact the volume of imports from other countries?

- When the Rand depreciates, it means that it becomes weaker in comparison to other currencies. This will make imports more expensive for domestic businesses, thus the volume of imports will decline. ✓✓
 - The higher importing cost as a result of a weaker currency may lead to a decrease in the volume of imports, as consumers may find it less affordable to purchase goods from abroad. ✓✓
- (Accept any other correct relevant response.) (2)

3.3.5 Why are interest rates an important tool to correct a disequilibrium in the balance of payments?

- Central banks use interest rates to correct the disequilibria by increasing interest rates.
 - Higher interest rates make borrowing more expensive, which can discourage domestic consumers and businesses from purchasing imported goods and services. ✓✓
 - This decrease in demand for imports helps to reduce the trade deficit and improve the balance of payments. ✓✓
 - Raising interest rates can make a country's financial assets more attractive to foreign investors./When interest rates are higher, foreign investors may be more inclined to invest in that country, seeking higher returns on their investments. ✓✓
 - Increased foreign investment inflows can help to finance current account deficits, stabilising the balance of payments. ✓✓
- (Accept any other correct relevant response.) (2 x 2) (4)

3.4 Briefly discuss the effect that higher export prices will have on the current account of the balance of payments.

- When export prices rise, the revenue earned from exports increases. ✓✓
- This can result in a larger current account surplus. ✓✓
- Higher export prices will boost the inflow of foreign currency into the economy, improving the balance of payments position. ✓✓
- In the longer term, if export prices increase significantly, it may lead to a decline in the volume or quantity of exports, because importing countries will look for cheaper imports elsewhere in the world. ✓✓
- Higher prices can make domestic goods less competitive in international markets, reducing the demand for exports. ✓✓
- As a result the country's export earnings may decline, leading to a deterioration in the balance of payments. ✓✓
- The impact of higher export prices on the balance of payments will be influenced by various factors, including elasticity of demand, competitiveness of domestic goods, and exchange rate movements. ✓✓
- Changes in export prices can also affect import dynamics, as higher export prices may lead to higher imported input costs, potentially impacting the trade balance. ✓✓

(Accept any other correct relevant response.)

(4 x 2) (8)

3.5 How will poor electricity provision affect education in South Africa?

- Poor electricity provision greatly reduces teaching resources and classroom materials, without electricity, students have limited resources to complete their assignments. ✓✓
- This also results in lack of current information. Teachers are not able to make copies of school assignments or connect to the internet to research activities or materials that are available online. ✓✓
- They also can't access online resources, such as videos and other multimedia sources. As a result teachers are unable to provide their students with the quality of education they deserve. ✓✓
- Students have little time to study and complete their homeworks. ✓✓
- Many children walk long distances to get to school from home, often leaving or returning in the dark. If, as is often the case, their homes do not have an alternative energy source, these students are not able to study at home in the evening. ✓✓

(Accept any other correct relevant response.)

(4 x 2)

(8)

[40]

QUESTION 4: MACROECONOMICS

4.1 Answer the following questions.

4.1.1 Name any TWO types of consumer goods.

- Durable goods ✓
- Non-durable goods ✓
- Semi-durable goods ✓
- Services ✓

(2 x 1)

(2)

4.1.2 How does free trade promote global efficiency?

- Under free trade, resources are allocated more efficiently as markets expand because each country specialises in its most effective production. ✓✓
- Countries can focus on producing goods and services in which they have a comparative advantage, leading to increased productivity and efficiency.
- Free trade allows for a more efficient division of labor, as countries can import goods and services that would be costly or difficult to produce domestically.
- Free trade enables countries to export goods and services on a larger scale, leading to reduced production costs and increased efficiency.
- Free trade fosters competition, which drives innovation and the development of new technologies, leading to increased efficiency and productivity
- Free trade allows resources to be allocated more efficiently, as countries can import goods and services that are scarce or unavailable domestically.

MARKING GUIDELINES

**ECONOMICS
(PAPER 1)**

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- Free trade leads to price efficiency, as prices reflect global supply and demand, guiding resources to their most valuable uses.
- Free trade increases competition, leading to improved product quality, reduced prices, and increased efficiency.

(Accept any other correct relevant response.)

(1 x 2)

(2)

4.2 DATA RESPONSE

4.2.1 Which institution according to the graph is the most optimistic about the estimated economic growth rate for South Africa in 2025?

Ecoquant ✓ (1)

4.2.2 Which economic indicator is used to calculate the economic growth rate?

Real GDP/GDP at constant prices ✓ (1)

4.2.3 Briefly describe the term *basic prices*.

- The amount the producer receives from the purchaser per unit of goods or service produced, less the taxes on the products and plus any subsidies on the products. ✓✓
- The basic price is the amount receivable by the producer, exclusive of taxes payable on products and inclusive of subsidies receivable on products. ✓✓
- Basic prices are used when GDP is calculated according to the production method and represents the production costs of firms. ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 What is the relationship between *economic growth* and *employment*?

- When economic activity is low, firms reduce their workforce and unemployment rises and when economic growth increases, unemployment decreases. ✓✓
(Accept any other correct relevant response.) (2)

4.2.5 Why is it necessary for the government to have a forecast of economic trends?

- Forecasts help governments make informed decisions regarding fiscal and monetary policies. ✓✓
- By understanding future economic conditions, governments can identify potential risks and opportunities, enabling them to develop appropriate policies to manage these conditions effectively. ✓✓
- Economic growth forecasts are crucial in determining government revenues and expenditure projections. ✓✓
- Governments rely on these forecasts to set budget priorities, allocate resources, and determine tax regulations. ✓✓
- Economic forecasts enable governments to plan and allocate funds efficiently, supporting economic stability and development. ✓✓

- Forecasting economic growth allows governments to attract investments by providing a picture of future market conditions. ✓✓
 - Economic growth forecasts help governments develop employment strategies for certain industries and sectors, thereby facilitating targeted job creation efforts. ✓✓
 - Governments use economic growth forecasts as benchmarks to assess the success of their policies and interventions. By comparing actual outcomes with projected growth rates, policymakers can identify and address any unforeseen challenges. ✓✓
- (Accept any other correct relevant response.) (2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 Name any founder member of BRICS, besides South Africa.

- Brazil ✓
 - Russia ✓
 - India ✓
 - China ✓
- (1)

4.3.2 Name any other country that was invited to join BRICS in 2023.

- Iran ✓
 - Saudi Arabia ✓
 - UAE ✓
 - Egypt ✓
 - Argentina ✓
 - Ethiopia ✓
- (1)

4.3.3 Briefly describe the term *disinvestment*.

Disinvestment is the withdrawal of capital investment from a company or country. ✓✓
(Accept any other correct relevant response.) (2)

4.3.4 How do trade agreements affect an economy?

- In a free trade agreement, a group of countries agrees to lower their tariffs or other barriers to facilitate more exchanges with their trading partners. ✓✓
 - This allows all countries to benefit from lower prices and access to one another's resources which promotes efficiency, technological progress, and economic growth. ✓✓
 - Consumer benefits include lower prices and increased product variety. ✓✓
- (Accept any other correct relevant response.) (2)

4.3.5 Why does it make sense to trade based on comparative advantage?

- Each country has different resources, skills, and expertise. By specialising in producing goods and services that they can produce more efficiently and at a lower opportunity cost compared to other countries, resources are utilised more efficiently. ✓✓ This leads to increased productivity and economic efficiency. ✓✓
- Through international trade, countries can access a wider range of goods and services that may not be available or affordable domestically. Consumers benefit from a greater variety and better quality of products which enhances their standard of living. ✓✓
- Comparative advantage allows countries to import goods and services at a lower cost than producing them domestically. ✓✓ This can lead to cost savings for businesses and lower prices for consumers, it enables countries to focus their resources on industries where they have a competitive advantage, leading to higher overall productivity and economic growth. ✓✓
- Comparative advantage promotes mutually beneficial trade relationships between countries. ✓✓ Countries can specialise in the production of goods and services where they have an advantage and exchange these with other countries for products they cannot produce as efficiently. ✓✓ This fosters cooperation and interdependence, leading to overall gains for all trading partners. ✓✓

(Accept any other correct relevant response.)

(4 x 2)

(4)

4.4 Briefly explain the different types of exchange rate systems.

- The pegged exchange or fixed exchange rate system is known to as the system where the weaker of the two currencies in question is pegged or tied to the stronger currency. ✓✓
- Fixed exchange rate is determined by the government of the country or the central bank and is not dependent on market forces. ✓✓
- Flexible exchange rate system is also known as the floating exchange rate system as it is dependent on the market forces of supply and demand. ✓✓
- There is no intervention of the central banks or the government in the floating exchange rate system. ✓✓
- To maintain the stability in the currency rate, there is purchasing of foreign exchange by the central bank or government when the rate of foreign currency increases and selling of foreign currency when the rates fall. ✓✓
- Managed floating exchange rate system is the combination of the fixed (managed) and floating exchange rate systems. Under this system the central banks intervene or participate in the purchase or selling of the foreign currencies. ✓✓

(4 x 2)

(8)

(Accept any other correct relevant response.)

4.5 Why do we use three different methods to calculate GDP?

- The calculation of GDP (gross domestic product) is a complex task that involves measuring the value of all goods and services produced within a country's borders over a specific time period. The use of multiple methods ensures accuracy, reliability, and comprehensiveness in measuring economic activity. ✓✓
- To avoid double counting, the production approach calculates GDP by measuring the value at each stage of production within the economy. ✓✓
- The income approach highlights the distribution of income among the factors of production, it helps to understand how income is generated from production; this is useful for assessing economic well-being. ✓✓
- The expenditure approach focuses on the demand-side of the economy, showing how households, businesses, government, and foreign sector spends money – it helps to understand consumption patterns. ✓✓
- Using multiple approaches provides a checks-and-balances system for calculating GDP. ✓✓
- Each method captures different aspects of economic activity, thereby reducing the risk of false or misleading results. ✓✓
- By comparing and cross-checking the results obtained from these methods, economists can ensure the accuracy and reliability of GDP measurements. ✓✓
- Using multiple approaches allows for a more comprehensive view of the economy. ✓✓
- Different economic activities, such as production, income generation, and spending, are interrelated.
- By considering multiple aspects, we can gain a clearer understanding of the overall health and performance of an economy. ✓✓

(Accept any other correct relevant response.)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

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

STRUCTURE OF ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	Max. 2
<p>Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/ Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate A maximum of 8 marks may be allocated for headings/examples.</p> <p>Additional part: Critically discuss/Evaluate/Critically evaluate/Debate/Deduce/Compare/Distinguish/Interpret/How?/Suggest A maximum of 2 marks may be allocated for mere listing of facts.</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MACROECONOMICS

- **Discuss, in detail, the following policies used by government to smooth out business cycles.**
 - Demand-side policies (13)
 - Supply-side policies (13) (26 marks)
- **Analyse the inverse relationship between unemployment and inflation by means of a graph.** (10 marks)

INTRODUCTION

According to the new economic paradigm, it is possible for output rise over extended periods of time without being hampered by supply constraints and inflationary pressures. ✓✓

The new economic paradigm refers to government policies designed to ensure a high rate of economic growth without having supply constraints and price inflation. ✓✓

(Accept any other relevant introduction.)

(Max. 2)

BODY**MAIN PART****Demand-side policies:**

- Demand-side policies are implemented to increase the total spending (aggregate demand) on the output produced by domestic firms to stimulate economic growth. ✓✓
- Traditional monetary and fiscal policies focus on the aggregate demand. ✓✓
- **Monetary policy:** ✓ The central bank can increase the money supply and decrease interest rates to encourage consumers and firms to increase their expenditure. ✓✓
- When the level of economic activity changes, the SARB can use expansionary and contractionary measures to reduce fluctuation of such economic activities. ✓✓
- An expansionary monetary policy is implemented when the economy is in a recession in order to stimulate economic activities. ✓✓
- A contractionary monetary policy is implemented when the economy is in a swing in order to dampen the economy. ✓✓
- **Fiscal policy:** ✓ The government can decrease taxes on households and businesses to encourage them to spend more, increasing aggregate demand. ✓✓
- Government can increase taxes on household and businesses to discourage them to spend, thereby reducing aggregate demand. ✓✓
- Government can also decrease expenditure to decrease output produced by domestic firms. ✓✓
- Government can also increase its own expenditure (G) to increase demand on the output produced by domestic firms. ✓✓
- An increase in demand without a corresponding increase in supply, does not render ideal results, often growth has to be cut due to problems in inflation, balance of payments and shortages of skilled labour. ✓✓ (Max. 13)

Supply-side policies:

- If the government increases aggregate supply together with aggregate demand (without delay), the output of the economy increases without a corresponding increase in price levels. ✓✓

The government can stimulate aggregate supply in the following ways:

Increasing efficiency of inputs ✓

- When the government decreases tax rates, this will be an incentive for businesses to increase supply. ✓✓
- The South African government has tried to improve quality and mobility of human resources through programmes like the SETAs which offer training to workers in specific sectors. ✓✓
- Raise depreciation rate on capital goods to encourage firms to use the latest technology. ✓✓
- The government provides free advisory services e.g. weather forecasts to help improve output. ✓✓

Improving market efficiency ✓

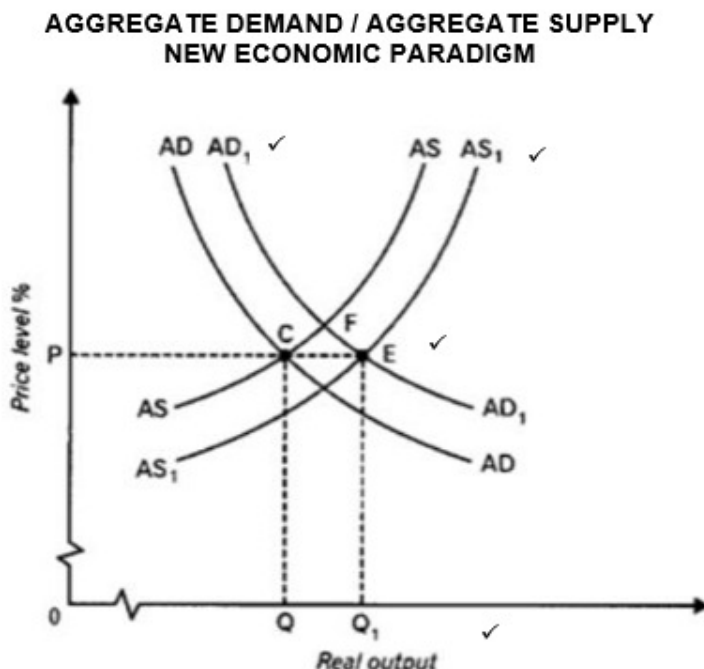
- Competition: Through the Competition Act of 1998 the development of new businesses and the creating of a competitive environment was encouraged. ✓✓
- Deregulation: Reduce government intervention. ✓✓
- Privatisation of state-owned enterprises increases competition in the markets which forces individual firms to be more efficient in their operations. ✓✓

Decrease in production costs: ✓

- This encourages businesses to produce more at the same price. ✓✓
- The government achieves this through the reduction of administration costs (red tape) and inspections. ✓✓
- Providing infrastructure and services e.g. Telecommunications, energy to help the establishment of new businesses. ✓✓

(Max. 13)

Alternatively. If learners have discussed the new economic paradigm with a graph. Mark as follows:

**MARK ALLOCATION**

- | | |
|--|--------|
| 1. AD shifts to AD1: | 1 mark |
| 2. AS shifts to AS1 | 1 mark |
| 3. Indication of equilibrium points C and F: | 1 mark |
| 4. Correct labelling on axe: | 1 mark |

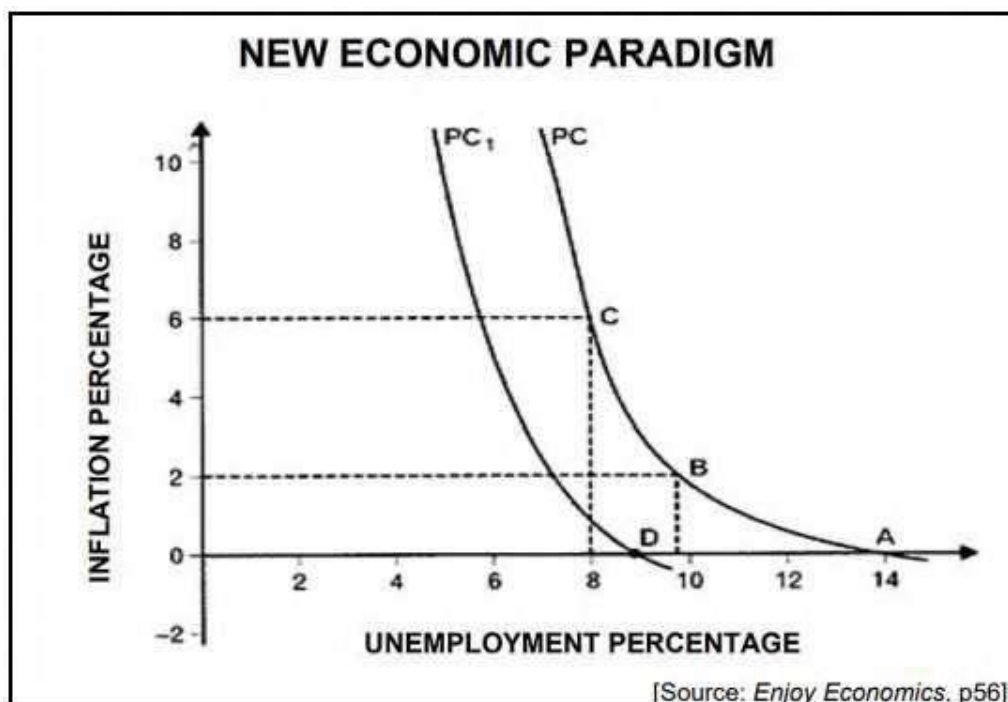
Max mark allocation for graph: 4 marks

Demand-side policies

- It focuses on aggregate demand in the economy. ✓✓
- When households, firms and the government spend more, demand in the economy increases. ✓✓
- This makes the economy grow but can lead to inflation. ✓✓
- Aggregate demand and aggregate supply are in equilibrium at point C, where $AD=AS$ ✓✓
- More output is produced when Q moves to Q1, without any increases in price (P) ✓✓
- Supply is often fixed in the short term which makes aggregate supply to remain constant when aggregate demand increases. ✓✓
- The solution is to implement supply-side measures such as skills development to ensure that supply is more flexible. ✓✓ (Max 10 marks)
- **The learner should be awarded marks if any of the facts under the heading supply-side policies above has been discussed.** (Max 12 marks for supply side policies)

The breakdown is as follows: Max 4 marks for graph; Max 10 max for discussion of graph and max 12 marks for supply-side policies)
(Max 26 marks for discussion for the body)

Alternatively, if learners have used the Phillips curve to discuss the new economic paradigm.



MARK ALLOCATION

- | | |
|--|--------|
| 1. PC shifts to PC1: | 1 mark |
| 2. AS shifts to AS1 | 1 mark |
| 3. Shifting of equilibrium points from A to D: | 1 mark |
| 4. Correct labelling on axe: | 1 mark |

Max mark allocation for graph: 4 marks

Unemployment:

- Demand-side policies are effective in stimulating economic growth. ✓✓
- Economic growth can lead to an increase in the demand for labour. ✓✓
- As a result, more people will be employed, and unemployment will increase. ✓✓
- As unemployment decreases inflation is likely to increase. ✓✓

Inflation:

- Aggregate demand increases more quickly than aggregate supply and this causes price increases. ✓✓
- If the supply does not react to the increase in demand, prices will increase.
- This will lead to inflation (a sustained and considerable increase in the general price level) ✓✓
- This relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓

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- The solution is to apply supply-side measures to increase to increase output and employment without increasing inflation. ✓✓
- **The learner should be awarded marks if any of the facts under the heading supply-side policies above has been discussed.** (Max 12 marks for supply side policies)

The breakdown is as follows: Max 4 marks for graph; Max 10 max for discussion of graph and max 12 marks for supply-side policies)

- (Max 26 marks for discussion for the body)

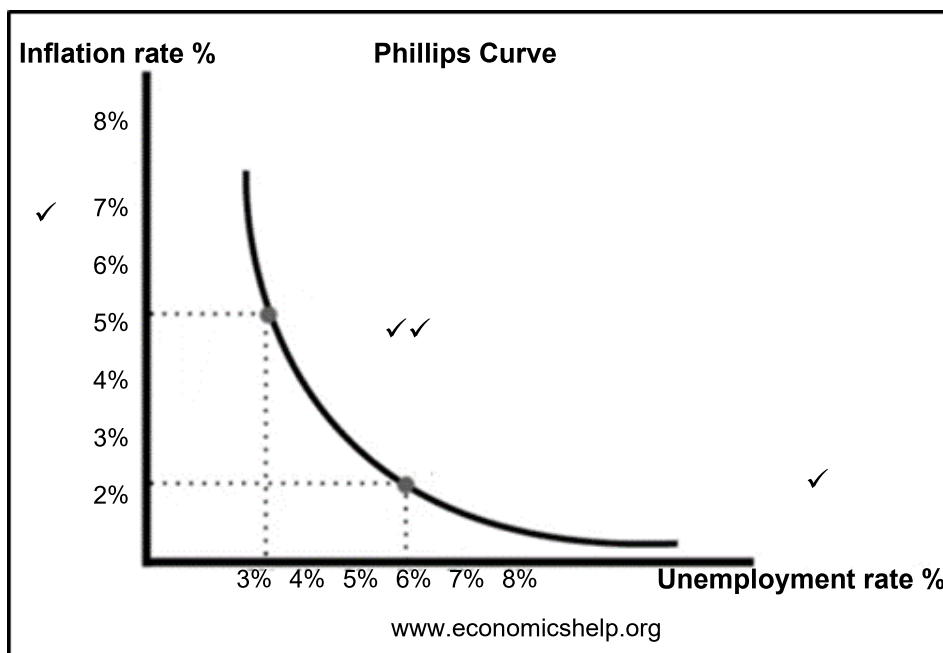
(Accept any other correct and relevant response.)

(Max. 26)

(A maximum of 8 marks should be allocated for headings and examples)

ADDITIONAL PART

- **Analyse the inverse relationship between unemployment and inflation by means of a graph.**



Mark Allocation	
Labelling of axes:	1 mark
Labelling on axes:	1 mark
Shape of curve:	2 marks
	Max. 4 marks

- A Phillips Curve is used to explain the inverse relationship that exists between inflation and unemployment. ✓✓
- During low economic growth, the demand for labour is low and wages are also low.
- Labour supply exceeds demand for labour ✓✓

- When the economy grows, unemployment reduces resulting in an increase in demand for goods and services. ✓✓
- Peoples' income increases which results in higher demand for goods and services. ✓✓
- In addition, the demand for labour increases in which employers offer higher wages to attract workers. ✓✓
- This increase in the demand for goods and services resulting from reduced unemployment causes the inflation rate to increase. ✓✓
- The reduction in unemployment from 6% to 3% results in an increase in inflation from 2% to 5%. ✓✓
- Increased employment levels and higher wages fuel inflation. ✓✓
- When inflation is low, there is often a lower demand for goods and services, leading to reduced production and higher unemployment. ✓✓ (Max 6 marks for explanation)

(Accept any other relevant correct response.)

(A maximum of 2 marks will be allocated for a mere listing of facts.)

(Max. 10)

CONCLUSION

The trade-off is more applicable in the short term. In the long term economic factors and policies can also influence the relationship between inflation and unemployment. ✓✓

(Accept any other correct relevant higher order conclusion.)

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

QUESTION 6: ECONOMIC PURSUITS

- **Discuss, in detail, the measures in support of protectionism under the following subheadings:**
 - Industrial development (8)
 - Stable wage rate and high standards of living (8)
 - Employment (6)
 - Developing strategic industries (4) (26 marks)
- **Evaluate the usefulness of subsidies as a way of protecting local industries from international competition.** (10 marks)

INTRODUCTION

Protectionism refers to an international trade policy used by the government to discourage imports, to protect domestic industries from international competition. ✓✓
(Accept any other relevant introduction.) (Max. 2)

BODY**MAIN PART****Industrial development:**

- The government uses tariffs and import restrictions to help protect and develop infant industries from external competition. ✓✓
- New industries find it almost impossible to compete with long established firms in developed countries. ✓✓
- This is usually because the production in developing countries is usually on a small scale with high cost of borrowing and inexperienced workers which makes them produce at a higher average cost. ✓✓
- Developing countries then get a chance to establish the manufacturing industries instead of only processing primary products, thus promoting a more diversified economy. ✓✓
- Import restrictions may be imposed on a range of products to ensure that a number of domestic industries develop. ✓✓ (Max. 8)

Stable wage rate and high standard of living:

- Implementing labour laws and policies that ensure stable wage rates can help protect domestic industries from wage competition with low-wage countries. ✓✓
- This helps to maintain standards of living for local workers. ✓✓
- Protectionism measures can aim to preserve or enhance the living standards of the domestic population by safeguarding jobs and industries. ✓✓
- This can include protecting certain sectors, like manufacturing, that provide well-paying jobs. ✓✓ (Max. 8)

Employment:

- Protectionism often focuses on preserving jobs within the country, by protecting industries from foreign competition, governments can help maintain employment levels and reduce the risk of job losses. ✓✓
- Increased employment and training of workers in manufacturing skills is a benefit resulting from increased industrial development. ✓✓
- Continued protectionism means that workers have jobs that are more secure as industries always have markets for their output. ✓✓ (Max. 6)

Developing strategic industries:

- Protectionism allows governments to invest in and protect industries that are deemed crucial for national security or economic stability. ✓✓
- This includes among others, industries related to defense, energy, and technology sectors. ✓
- Developing countries need to develop these industries to become self-sufficient. ✓✓ (Max. 4)

(Accept any other correct relevant response.)

(A maximum of 8 marks for headings and examples.)

(Max. 26)

ADDITIONAL PART

Evaluate the usefulness of subsidies as a way of protecting local industries from international competition.

Arguments in support

- Subsidies can help protect jobs in domestic industries, preventing mass unemployment that may result from foreign competition. ✓✓
- Subsidies can help local industries by reducing their production costs, making them more competitive on the global market. ✓✓
- Governments often use subsidies to support industries deemed strategically important for national security or economic stability. ✓✓
- Subsidies can encourage research and development, fostering innovation within local industries. ✓✓
- When government subsidies are implemented on the supplier side, producers can produce more goods and services. This increases the overall supply, which increases the quantity demanded and lowers the overall price of domestic producers. ✓✓

Arguments against:

- Subsidies can distort market dynamics, potentially leading to inefficient resource allocation and overproduction in protected industries. ✓✓
- Subsidies can trigger international trade disputes if they are perceived as unfair trade practices by other countries. ✓✓

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- Subsidies can become a burden on public finances, diverting funds from other essential services. ✓✓
- Protected industries may have less incentive to improve efficiency and innovation if they rely heavily on subsidies. ✓✓
- Subsidies may keep prices artificially high for consumers, reducing their purchasing power. ✓✓

(Accept any other relevant correct response.)

(A maximum of 2 marks will be allocated for a mere listing of facts.)

(Max. 10)

CONCLUSION

It is worth noting that while protectionism can provide short-term benefits for domestic industries, it may lead to inefficiencies, higher consumer prices and trade tensions in the long run. ✓✓

(Accept any relevant higher order conclusion.)

(Max. 2) **[40]****TOTAL SECTION C: 40****TOTAL: 150**