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GRADE 12

ECONOMICS P1
MARKING GUIDELINES
NOVEMBER 2024

MARKS: 150

These marking guidelines consist of 21 pages.



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

- 1.1.1 D - money ✓✓
- 1.1.2 C - leading ✓✓
- 1.1.3 B - 3% ✓✓
- 1.1.4 C - terms of trade ✓✓
- 1.1.5 A - protectionism ✓✓
- 1.1.6 D - per capita GDP ✓✓
- 1.1.7 A - good governance ✓✓
- 1.1.8 B - life expectancy ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 F - amount paid to the resources used to produce goods and services ✓
- 1.2.2 G - method used to smooth-out short-term fluctuations in time series data ✓
- 1.2.3 A - a three-year rolling expenditure and revenue projections for the government ✓
- 1.2.4 B - a form of credit granted by the International Monetary Fund to countries that experience balance of payments deficit ✓
- 1.2.5 I - voluntary measures taken not to trade with a certain country ✓
- 1.2.6 C - aims to eliminate poverty and reduce inequality by 2030 ✓
- 1.2.7 E - attract infrastructure and investments in neglected and underdeveloped areas ✓
- 1.2.8 H - the process of movement of people from rural areas to cities and towns ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Real flow ✓
- 1.3.2 Phillips curve ✓
- 1.3.3 Nationalisation ✓
- 1.3.4 Direct subsidies ✓
- 1.3.5 Labour-intensive ✓
- 1.3.6 Consumer price index ✓ (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 methods used to calculate gross domestic product (GDP).**

- Production / GDP(P) / Gross value added ✓
- Income / GDP(I) ✓
- Expenditure / GDP(E) ✓ (2 x 1) (2)

2.1.2 **How can competition stimulate aggregate supply in the economy?**

- Competition may improve production efficiency resulting in more goods and services being produced in the economy. ✓✓
- Businesses may become more innovative, use new production techniques with higher productivity, and increase aggregate supply. ✓✓
- More businesses may be established which helps to increase the total output in the economy ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE.**

2.2.1 **Identify ONE reason for public sector failure from the above extract**

Management failure / lack of skills ✓ (1)

2.2.2 **Name the level of the government that is responsible for providing services such refuse removal.**

Local government / Municipalities / Local authorities ✓ (1)

2.2.3 **Briefly describe the term *accountability***

The duty of an individual or organisation to explain their decisions, actions, expenditure and accept responsibility for their behaviour. ✓✓
(Accept any other correct relevant response) (2)

2.2.4 **Explain the effect of public sector failure on the allocation of resources.**

- Resources will not be optimally allocated which leads to some valuable resources being wasted. ✓✓
- Allocation of funds to failed projects and inefficient government departments results in wasteful use of tax-payers' money. ✓✓
(Accept any other correct relevant response) (2)



2.2.5 Why is it necessary for the government to impose taxes on demerit goods?

- To make demerit goods more expensive in order to discourage consumers from buying them. ✓✓
- To recover the external costs that are caused by demerit goods to human beings and the environment. ✓✓
- To raise revenue that can be used to finance the provision of public goods ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.3 DATA RESPONSE

2.3.1 Identify the value of marginal propensity to consume (mpc) from the graph above.

0,5 ✓

(1)

2.3.2 Name any ONE participant in a two-sector economy.

- Households / Consumers ✓
- Businesses / Producers / Firms ✓

(1)

2.3.3 Briefly describe the term *autonomous consumption*.

The level of consumer spending that is independent of the level of income ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 Explain the relationship between marginal propensity to save (mps) and the value of the multiplier (K).

- There is an inverse or a negative relationship between marginal propensity to save (MPS) and the multiplier ✓✓
- The bigger the MPS, the smaller the value of the multiplier / The smaller the MPS, the bigger the value of the multiplier ✓✓

(Accept any other correct relevant response)

(2)



2.3.5 Use the information in the above graph to calculate the change in national income (ΔY). Show all calculations.

Method 1

$$\begin{aligned}\Delta Y &= \Delta J \times K \\ &= (30 - 20) \times (1/1 - 0,5) \checkmark \\ &= 10 \checkmark \times 2 \checkmark \\ &= \underline{20} \checkmark\end{aligned}$$

Method 2

$$\begin{aligned}\Delta Y &= Y_1 - Y \\ &= (30/0,5) - (20/0,5) \checkmark \\ &= 60 \checkmark - 40 \checkmark \\ &= \underline{20} \checkmark\end{aligned}$$

Method 3

$$\begin{aligned}K &= 1/1 - \text{mpc} \\ &= 1/1 - 0,5 \\ &= 2 \checkmark \\ K &= \Delta Y / \Delta J \\ 2 &= \Delta Y / 30 - 20 \checkmark \\ 2 &= \Delta Y / 10 \checkmark \\ \Delta Y &= \underline{20} \checkmark\end{aligned}$$

Method 4

$$\begin{aligned}Y &= E \\ Y &= 20 + 0,5Y \\ Y - 0,5Y &= 20 \\ Y(1 - 0,5) &= 20 \\ 0,5Y &= 20 \\ Y &= 40 \checkmark \\ Y &= E \\ Y &= 30 + 0,5Y \\ Y - 0,5Y &= 30 \\ Y(1 - 0,5) &= 30 \\ 0,5Y &= 30 \\ Y_1 &= 60 \checkmark \\ \text{Therefore: } \Delta Y &= Y_1 - Y \\ &= 60 - 40 \checkmark \\ &= \underline{20} \checkmark\end{aligned}$$

(4)

2.4 Discuss the exogenous (monetarists) explanations of business cycle.

- Monetarists believed that markets are inherently stable. ✓✓
- Any fluctuations in economic activity are caused by external factors. ✓✓
- The growth path of the economy is determined by supply of factors of production. ✓✓
- The market forces of demand and supply will always bring the market back to equilibrium when imbalances develop. ✓✓
- Monetarists suggest that the government should not intervene in market operations because its intervention leads to deviation from the potential growth path. ✓✓
- Structural changes that affect production, employment, investments, government expenditure, taxes, imports and exports may lead to the expansion of business cycles. ✓✓
- Random socio-economic shocks, such as sudden increase in fuel prices may affect business confidence and consumers' confidence. ✓✓
- Natural disasters, such as droughts and floods may negatively affect agriculture, forestry and tourism, reducing the level of economic activity. ✓✓

(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing of facts)

(A maximum of 2 marks may be allocated for mere listing of examples of exogenous factors or a maximum of 4 marks for the explanation of the examples)

(4 x 2)

(8)



2.5 How can the macroeconomic objective of price stability positively influence the South African economy?

- Price stability ensures that prices remain relatively stable which encourages consumer spending and stimulates economic growth. ✓✓
- Stable prices promote job creation and reduce unemployment rate in the economy through more foreign direct investments. ✓✓
- Savings may be encouraged which ensures availability of loanable funds for private investments. ✓✓
- Interest rates may remain stable and encourage spending on durable goods, such as taking mortgage bonds to purchase houses. ✓✓
- Price stability maintains the purchasing power of money, since the real incomes of households are better preserved. ✓✓
- Stable prices help to maintain demand for South African exports on global markets, thereby ensuring exchange rate stability. ✓✓
- Extreme fluctuations on business cycles may be avoided which promotes more sustainable economic growth. ✓✓
- Price stability helps to keep inflation expectations low which reduces wage demands by workers and maintain industrial peace. ✓✓
- Price stability helps consumers and businesses to plan and make informed decisions concerning saving, spending and investments. ✓✓
- The credit rating of South Africa may improve which could lead to increased investments in the country. ✓✓

(Accept any other correct relevant response)

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

(4 x 2)

(8)

[40]



QUESTION 3: ECONOMIC PURSUITS**40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Name any TWO countries that are part of the Southern African Development Community (SADC).**

- Angola ✓
- Botswana ✓
- Comoros ✓
- Democratic Republic of Congo (DRC) ✓
- Eswatini / Swaziland ✓
- Lesotho ✓
- Madagascar ✓
- Malawi ✓
- Mauritius ✓
- Mozambique ✓
- Namibia ✓
- Seychelles ✓
- South Africa ✓
- United Republic of Tanzania ✓
- Zambia ✓
- Zimbabwe ✓

(2 x 1) (2)

3.1.2 How can Broad-Based Black Economic Empowerment (BBBEE) help to promote industrial development?

- An increase in the number of black people who own businesses may lead to the expansion of existing industries. ✓✓
- Skills development may encourage black people to establish new businesses. ✓✓
- Preferential procurement and enterprise development may promote the establishment of black-owned businesses which may lead to expansion of industries. ✓✓

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

3.2 DATA RESPONSE**3.2.1 Identify the industrial development strategy that aims to improve the competitiveness of the manufacturing sector.**

Integrated Manufacturing Strategy (IMS) ✓ (1)

3.2.2 Name the government department that is responsible for promoting industrial development.

Department of Trade, Industry and Competition (DTIC) ✓ (1)

3.2.3 Briefly describe the term *duty-free incentives*.

Initiatives taken by the government to allow local businesses to import production inputs without paying customs duties. ✓✓

(Accept any other correct relevant response) (2)



3.2.4 Explain the importance of corridors in promoting regional development.

- Allows mining, agriculture and manufacturing industries to have access from one area to another. ✓✓
 - Promotes efficient urbanisation through establishment of new towns in underdeveloped regions. ✓✓
 - Corridors make regions more attractive to both domestic and foreign investors, fostering economic growth. ✓✓
- (Accept any other correct relevant response)

(2)

3.2.5 How can South African businesses benefit from the National Research and Development Strategy (NRDS)?

- Promotes innovation which allows businesses to use new production techniques that are more efficient and minimise their average cost of production. ✓✓
 - New production techniques with higher productivity may help businesses to produce more output and satisfy higher demand from customers. ✓✓
 - Businesses may produce better quality products and gain a competitive advantage, especially on global markets. ✓✓
 - Lower cost of production and higher output due to innovation may increase the profitability of South African businesses. ✓✓
- (Accept any other correct relevant response)

(2 x 2)

(4)

3.3 DATA RESPONSE

3.3.1 Identify the percentage change in South Africa's labour productivity in the fourth quarter of 2022.

-8% ✓

(1)

3.3.2 State ONE other economic indicator that relates to productivity.

Remuneration per worker ✓

(Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *economic indicator*.

Statistical data that is used to measure the performance of the economy. ✓✓

(Accept any other correct relevant response)

(2)



3.3.4 Why is access to healthcare services important to the labour force?

- Access to healthcare services helps to improve the mental and physical ability of workers which increases the productivity of the labour force. ✓✓
- Access to affordable health care helps to minimise medical costs and contain the workers' cost of living. ✓✓
- Access to good health care can make an area more attractive to potential workers and retain the skilled labour force. ✓✓
(Accept any other correct relevant response)

(2)

3.3.5 How can a decrease in labour productivity impact on the economy?

- A decrease in labour productivity may increase the average cost of production which may lead to an increase in cost-push inflation. ✓✓
- Production output may decrease which may slow down economic growth and increase unemployment. ✓✓
- Decrease in productivity may result in less export volumes which leads to Balance of Payments deficit. ✓✓
- Workers may lose their jobs which leads to a decrease in demand for goods and services in the economy ✓✓
- As workers lose their jobs due to low productivity, unemployment may increase in the economy. ✓✓
(Accept any other correct relevant response)

(4)

3.4 Discuss the advantages of import substitution to the South African economy.

- Tariffs and quotas encourage local employment as more workers get jobs in industries that produce previously imported goods. ✓✓
- Expansion of domestic industries to meet the demand for goods that were previously imported may promote economic development. ✓✓
- Reduced imports have a positive effect on the balance of payment as it reduces the current account/trade deficit. ✓✓
- A wide variety of goods is produced which expands the industrial base. ✓✓
- The increase in tax base for the state will lead to more tax revenue. ✓✓
- Tariffs and quotas are easy and effective import control measures which ensure that domestic production is compromised. ✓✓
- The country will be less vulnerable to foreign actions and conditions, such as price increases, because goods are produced locally. ✓✓
- The available foreign exchange can be used to import other goods and services thereby increasing consumers' choice. ✓✓
- It promotes diversification of the economy by producing a wider range of goods and services locally. ✓✓
- Reducing dependence on imports may improve the balance of payments and this can contribute to a more stable economic environment. ✓✓
(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

(4 x 2)

(8)



3.5 Analyse the challenges faced by South Africa in promoting industrial development through the various policies.

- Skills shortages and mismatches hinder the growth of industries which require specialised knowledge and expertise, affecting their competitiveness on a global scale. ✓✓
- Inadequate and unreliable infrastructure, including transportation, energy, and water supply leads to increased production costs and supply disruptions that hinder the expansion of industries. ✓✓
- Burdensome regulations, bureaucracy, and uncertainty discourage investment and limit the establishment of new businesses. ✓✓
- Limited access to capital by many Small, Medium and Micro Enterprises (SMMEs) delays the ability of businesses to invest in new technologies, upgrade facilities, and compete effectively. ✓✓
- Fluctuations in global demand, trade tensions, and economic downturns of key trading partners negatively affect export-oriented industries and the overall economic stability. ✓✓
- Energy constraints, including load shedding and high energy costs, disrupt industrial operations, leading to decreased productivity and competitiveness. ✓✓
- Labour-related challenges, such as industrial strikes, wage disputes, and labour market rigidities, negatively impact on industrial stability. ✓✓
- International trade barriers may limit export volumes by South African industries which limits the expansion of industries. ✓✓

(Accept any other correct relevant response)

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

(4 x 2)

(8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS
40 MARKS – 30 MINUTES**4.1 Answer the following questions.****4.1.1 Name any TWO economic indicators that relate to employment.**

- Economically active population (EAP) ✓
 - Employment rate ✓
 - Unemployment rate ✓
- (Accept any other correct relevant response) (2 x 1) (2)

4.1.2 How can the government achieve the macroeconomic objective of economic equity in South Africa?

- The government uses a progressive personal income tax system where higher income earners pay higher tax rates to reduce the income gap. ✓✓
 - The government may use redistribution programs, such as social welfare and unemployment benefits to redistribute income. ✓✓
 - The government may use redress methods, such as BBBEE and affirmative action to redress the income inequalities. ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Identify the period in which South Africa experienced the longest downswing.**

December 2013 to April 2017 ✓ (1)

4.2.2 Name the turning point of a business cycle associated with the highest level of inflation.

Peak ✓ (1)

4.2.3 Briefly describe the term *amplitude*.

The vertical difference between a trough and the next peak or a peak and the next trough of a business cycle. ✓✓
(Accept any other correct relevant response) (2)

4.2.4 Explain the importance of the trend line in the forecasting of business cycles.

- Trend line shows the general direction in which the economy is heading. ✓✓
 - A rising trend line indicates that the economy is gradually growing / A declining trend line indicates that the economy is gradually contracting. ✓✓
- (Accept any other correct relevant response) (2)



4.2.5 How can an economic recession influence households in the economy?

- During an economic recession households lose their jobs and other sources of income. ✓✓
 - Households may be forced to look for alternative ways of generating income for survival, such as informal businesses. ✓✓
 - Households buy less goods and services due to low income level leading to low standard of living. ✓✓
 - Households may have to import goods and services due to product shortages on local markets. ✓✓
 - Some households may be forced to migrate to other countries for employment opportunities and better standard of living. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 Identify a trade restriction that refers to a tax levied on imported goods.**

Tariffs ✓ (1)

4.3.2 Name the international organisation that promotes the removal of trade restriction between countries

World Trade Organisation (WTO) ✓ (1)

4.3.3 Briefly describe the term *embargo*.

A ban on the export or import of a product and/or ban on trade with a particular country. ✓✓
(Accept any other correct relevant response) (2)

4.3.4 Explain the importance of protecting infant industries from foreign competition.

- Protection allows newly established infant industries to establish themselves such that they can take advantage of economies of scale and become competitive. ✓✓
 - Protecting infant industries helps to create local employment opportunities and stimulates economic development in emerging sectors. ✓✓
 - Protecting infant industries will help to diversify production in industries. ✓✓
 - Protecting infant industries can assist a country to become less dependent of foreign goods and services. ✓✓
- (Accept any other correct relevant response) (2)



4.3.5 How can the economy benefit from specialising in the production of a specific product?

- Specialisations may lead to lower cost of production which can increase profit margins for the producers. ✓✓
- Consumers may pay lower prices for goods and services which leads to better standard of living. ✓✓
- The economy may develop absolute or comparative advantage, which helps to minimise wastage of resources. ✓✓
- Total output may increase due to higher productivity (mass production), which promotes economic growth. ✓✓
- International trade may increase through the cost advantages. ✓✓
(Accept any other correct relevant response) (2 x 2)

(4)

4.4 Discuss the social indicators that relate to nutrition.**a) Child malnutrition ✓**

- Malnutrition is expressed in two ways – weight for age (under-weight) and height for age (dwarfism). ✓✓
- The proportion of underweight children is the most important indicator of malnutrition. ✓✓
- In South Africa, malnutrition is one of the leading causes of child deaths, and the number of affected children is increasing. ✓✓
- The main causes of childhood malnutrition are household food insecurity, inadequate care and unhealthy household environment, and lack of health care services. ✓✓

b) Overweight children/Obesity ✓

- An overweight child is one who weighs more when compared on an index to a child of the same age, gender and height. ✓✓
- Obesity of children is associated with diseases such as diabetes and psychological disorder. ✓✓
- Disease caused by obesity may impact directly on the productivity of the individual and place an enormous strain on public health sector. ✓✓
- South Africa has a combined overweight and obesity prevalence in children which is higher than the global average. ✓✓
(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing of facts/examples) (4 x 2)

(8)



4.5 How can an increase in injections contribute positively towards the South African economy?

- A rise in injections, in the form of government expenditure, investment and export earnings, leads to a proportionately larger increase in national income through the multiplier process. ✓✓
- Increase in investments may create new jobs, which helps to reduce unemployment in the economy. ✓✓
- Households' income level may increase leading to higher demand for goods and services. ✓✓
- More direct investments may increase production of goods and services which will increase/stimulate economic growth. ✓✓
- Establishment of new businesses may help to expand the tax base of the government resulting in more tax revenue. ✓✓
- Increase in foreign investments may create capital inflow which helps to increase the value of local currency. ✓✓
- Increase in export earnings may help to reduce balance of payments problems in the economy. ✓✓
- Increase in exports may increase local production of goods and services thereby stimulating economic growth. ✓✓
- Increase in government expenditure on infrastructure helps to attract more direct investment across the country. ✓✓
- Increase in welfare expenditure such as social grants may help to improve the standard of living for the people. ✓✓

(Accept any other correct relevant response)

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

(4 x 2)

**(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 reasons for international trade.** (26 marks)
- **Analyse the impact of a weaker currency (rand) on the South African economy.** (10 marks)

INTRODUCTION

International trade refers to the exchange of goods and services between two countries or more. ✓✓

(Accept any other correct relevant introduction)

(Max 2)

BODY: MAIN PART**REASONS FOR INTERNATIONAL TRADE****Demand reasons****1. Size of population ✓**

- If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand and consumers will be forced to import from other countries. ✓✓

2. Income levels ✓

- Changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓
- Local supply may be insufficient to satisfy the demand, thereby creating a demand for imports. ✓✓

3. Changes in the wealth of the population ✓

- An increase in the wealth of the population leads to greater demand for goods. ✓✓
- People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓
- In case where luxury goods and services cannot be produced locally, people will have to import them from other countries. ✓✓

4. Preferences and tastes ✓

- Preferences and tastes play a part in the determination of prices. ✓✓
- Customers in Australia prefer a specific product which they do not produce and need to import, and it will have a higher value than in other countries. ✓✓
- People's taste and preferences evolve and are often influenced by social media and globalization. ✓✓
- Changes in preference create markets for goods and services that are not always manufactured domestically. ✓✓



5. Difference in consumption patterns ✓

- The difference in consumption patterns is determined by the level of economic development in the country. ✓✓
- In countries where the level of disposable income is high, demand for luxury goods is high, which creates a larger market for imports. ✓✓
- A poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

Supply reasons**1. Natural resources ✓**

- Natural resources are not evenly distributed across all countries of the world. ✓✓
- They vary from country to country and can only be exploited in places where these resources exist. ✓✓
- South Africa has large deposits of gold while Nigeria has crude oil. ✓✓
- The availability of natural resources creates a platform for specialisation and an opportunity to earn valuable export revenue. ✓✓

2. Climate conditions ✓

- Every country has a unique climate which allows it to grow specific crops. ✓✓
- Specialisation is promoted in production which empowers countries to produce at lower cost per unit. ✓✓
- Climate conditions make it possible for some countries to produce certain goods at lower price than other countries. ✓✓
- Brazil is the biggest producer of coffee in the world because its climate conditions are favourable for coffee production. ✓✓

3. Labour resources ✓

- Labour resources differ in quality, quantity and cost between countries. ✓✓
- Some countries have highly skilled and well-paid workers with high productivity levels. ✓✓ such as Switzerland ✓
- Some countries have bigger or smaller labour force, where minimum wage may be higher while others have no regulations regarding remuneration. ✓✓
- Some countries have specialized labour force in the production of certain goods and services. ✓✓
- Germany has the most skilled labour in the production of BMW, VW, Mercedes Benz cars, which gives it the capacity to export to other countries. ✓✓

4. Technological resources ✓

- Technological resources are available in some countries that enable them to produce certain goods and services at a low unit cost. ✓✓
- Some countries have access to advanced technological resources such as machinery and equipment. ✓✓
- Japan and Singapore are considered to be technologically advanced which gives them a competitive advantage on the global markets. ✓✓

5. Specialisation ✓

- Specialisation in the production of certain goods and services allows some countries to produce them at a lower cost than others (comparative advantage). ✓✓
- Japan specializes in the production of electronic goods and sells these at a lower price. ✓✓



- Specialisation ensures that mechanization, division of labour and economies of scale are associated with mass production are achieved. ✓✓
- Countries therefore earn international reputation for specializing in the production of certain products. ✓✓

6. Capital ✓

- Capital allows developed countries to enjoy an advantage over underdeveloped countries. ✓✓
- Developed countries are usually highly industrialized and have well-developed infrastructure which promotes higher levels of productivity. ✓✓
- Due to a lack of capital, some countries cannot produce all the goods they require themselves. ✓✓

(Accept any other correct relevant response)

(Allocate a max of 8 marks for headings/subheadings/examples) (Max 26)**ADDITIONAL PART****A weaker currency (rand) may positively impact on the South African economy as follows: -**

- Imports will become relatively more expensive which may discourage importing and increase demand of local products. ✓✓
- Demand for South African exports such as base metals and mineral products will increase as they become relatively cheaper. ✓✓
- Tourism activities will increase as more tourists visit the country due to the weaker rand. ✓✓
- Balance of payments deficit will decrease as less goods are imported while more goods are exported. ✓✓

A weaker currency (rand) may negatively impact on the South African economy as follows: -

- Importing production inputs such as crude oil, agricultural chemicals and vehicle parts will become expensive fuelling cost-push inflation. ✓✓
- Higher cost of importing production inputs may decrease domestic production which will slow down economic growth. ✓✓
- Foreign investors may withdraw their investments in the economy because a weaker rand reduces the returns on their investments. ✓✓
- Import payments will increase which may reduce welfare as more resources are used to produce more exports to finance higher cost of import. ✓✓
- Export earnings will decrease, resulting in a decrease in trade balance. ✓✓

(Accept any other correct relevant response)

(Max 10)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)**CONCLUSION**

As a developing country, South Africa should encourage international trade to achieve higher economic growth. ✓✓

(Accept any other higher-order conclusion)

(Max. 2)

[40]

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

- **Discuss in detail the demand-side approach in promoting economic growth and development in South Africa.** (26 marks)
- **Analyse the importance of promoting small businesses to the South African economy.** (10 marks)

INTRODUCTION

The demand-side approach involves discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand and therefore output. ✓✓

(Accept any other correct relevant introduction)

(Max 2)

BODY: MAIN PART**THE SOUTH AFRICAN DEMAND-SIDE APPROACH**

- The South African government uses both monetary and fiscal policies for stabilisation purposes. ✓✓
- It uses monetary policies, through the SARB, mainly to stabilise prices during the long upswings of the business cycles. ✓✓
- The government uses fiscal policy to meet social development and economic growth. ✓✓

Monetary policy ✓

- The SARB, as the central bank, is responsible for formulating South Africa's monetary policy and is largely responsible for implementing this policy. ✓✓
- Its primary goal, as defined in the Constitution, is to protect the value of the currency, by stabilising prices in terms of inflation targets. ✓✓

It uses mainly the following monetary policy instruments: -

1. Interest rate changes ✓

- In South Africa interest rates are used to influence credit creation by making credit more expensive or cheaper. ✓✓
- To stimulate economic growth, the SARB may reduce interest rates to make borrowing cheaper which will encourage consumer spending and encourage production. ✓✓
- Interest rates are used to stabilise the exchange rate by encouraging capital inflows or outflows in order to take care of a deficit or a surplus on the current account of the balance of payments. ✓✓

2. Open market transactions ✓

- To restrict bank credit, the SARB may sell securities on open markets which results in money flowing from the banks to the SARB and cannot extend credit. ✓✓
- To encourage credit creation, the SARB buys securities on open markets leading to money flowing into the banking system and used to extend credit. ✓✓

3. Moral suasion ✓

- The SARB consults with banks and persuades them to act in a manner that is desirable in terms of the economic conditions that prevail at the time. ✓✓
- The persuasion is often linked to transactions of the SARB in the money market, for example buying and selling paper such as bills and bonds. ✓✓

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- For instance, if banks are too generous in extending credit, the SARB can call on them to be stricter. ✓✓
- To encourage credit extension, the SARB may persuade commercial banks to be more lenient when granting credit to their clients. ✓✓

4. **Cash reserves requirement** ✓

- To restrict bank credit, the SARB may increase the cash reserve requirement which reduces credit extension by banks. ✓✓
- To encourage credit creation, the SARB decreases the cash reserve requirement to allow banks to extend more credit to the public. ✓✓
- Access to more credit will increase consumer spending and investments which will stimulate economic growth. ✓✓

Fiscal policy ✓

- South Africa's fiscal policy is put into practice by means of the budgetary process. ✓✓
- The main purpose of fiscal policy in South Africa is to stimulate macroeconomic growth and employment, and to ensure a desirable redistribution of income (economic equity). ✓✓
- The price stability and exchange rates stability objectives are left for the most part to monetary policy. ✓✓
- The government compiles its expenditure and taxation in a way that enhances its chances of achieving its macroeconomic objectives. ✓✓

In South Africa, fiscal policy includes the following elements: -

1. **Progressive personal income tax** ✓

- Higher-income earners are taxed at higher rates than lower-income earners. ✓✓
- The taxes are used to finance social development. ✓✓
- Tax revenue will benefit the poor through social grants and social allowances such as pensions. ✓✓

2. **Wealth taxes** ✓

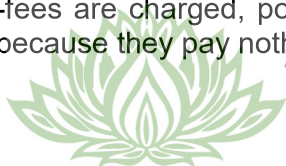
- Properties such as houses, offices and factory buildings in urban areas are taxed annually (Property tax). ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when they are traded. ✓✓
- Capital gains tax (CGT) is levied on gains earned on the sale of capital goods, such as properties and shares. ✓✓
- Estate duties are levied on the estates of deceased persons with a value of more than R3,5 million. ✓✓
- Taxes are used to finance development expenditures which benefit the poor more than those who are not poor. ✓✓

3. **Cash benefits** ✓

- The government provides social security payments such as old-age pensions, disability grants, child support grants, foster child grant, unemployment insurance and the social relief of distress (SRD) grant. ✓✓

4. **Benefits in kind/Natural/Natura benefits** ✓

- Benefits in kind include the provision of healthcare, education and school meals, protection, municipal services and infrastructure. ✓✓
- Where user-fees are charged, poor people and low-income earners benefit more than others because they pay nothing or less than higher-income earners. ✓✓



- For instance, Free basic electricity (FBE) of 50kWh per household per month and Free basic water (FBW) of 6 kl (6 000 litres) of water per month per household are provided. ✓✓

5. Other redistribution methods ✓

- Some macroeconomic policies have advantages that favour poor and low-income earners. ✓✓
- Public works programmes provide employment and strategic integrated projects (SIPs), provide employment subsidies and a number of other cash and financial benefits to SMMEs. ✓✓
- Previously disadvantaged persons receive first preference to redress the imbalance of the past. ✓✓

6. Land restitution and land redistribution ✓

- The purpose of land restitution is to return land (or pay cash compensation) to those who lost their land because of discriminatory laws of the past. ✓✓
- Land redistribution focuses on land for residential (town) and productive (farm) use. ✓✓
- The aim is to redistribute 30% of the country's agricultural land to previously disadvantaged persons. ✓✓
- The funds for land restitution and land redistribution programmes are provided for in the main budget. ✓✓

7. Property subsidies ✓

- Subsidies help beneficiaries to acquire ownership of fixed residential property. ✓✓
- The government's housing subsidy scheme provides funding options to all eligible persons earning a specified range of monthly income. ✓✓
- A housing subsidy is not a cash pay-out but it is paid directly to the financial institution providing the housing bond or to the seller. ✓✓
- The subsidy depends on a person's income but the lower the income, the higher the subsidy. ✓✓
- The housing subsidy scheme is financed from the main budget. ✓✓
(Accept any other correct relevant response)

(Allocate a max of 8 marks for headings/subheadings/examples) (Max 26)

ADDITIONAL PART

- Small businesses can help to create employment for those who are structurally unemployed in the economy thereby reducing the unemployment rate. ✓✓
- Small businesses may compete with larger businesses which improves economic efficiency and promotes innovation. ✓✓
- Output produced by small businesses contributes to the GDP of the country thereby stimulating economic growth. ✓✓
- Small businesses may create a source of income for the households which helps to alleviate poverty in South Africa. ✓✓
- The establishment of small businesses may expand the tax base which increases tax revenue for the government. ✓✓
- Output produced by small businesses may contribute to an increase in exports which helps to reduce balance of payments (BOP) problems. ✓✓
- Promotion of small businesses may help to encourage skills development amongst the South African population. ✓✓



- The population percentage that depends on social grants may decrease thereby reduce the welfare expenditure for the government. ✓✓
- Tax revenue collected from small business may increase the financial capacity of the government to develop infrastructure. ✓✓
(Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)
(Max 10)

CONCLUSION

The government should complement demand-side policies with supply-side policies to achieve higher economic growth. ✓✓

(Accept any other relevant higher order conclusion.)

(Max. 2)

[40]

TOTAL SECTION C:	40
GRAND TOTAL:	150

