NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2017

ECONOMICS

MARKING GUIDELINES

Time: 3 hours | 300 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

SECTION A

QUESTION 1

1.1	A
1.2	C
1.3	A
1.4	A
1.5	C
1.6	D
1.7	B
1.8	B
1.9	B
1.10	C
1.11	C
1.12	B
1.13	A
1.14	D
1.15	A
1.16	A
1.17	C
1.18	B
1.19	D
1.20	C

SECTION B

QUESTION 2 MACRO ECONOMICS

2.1 2.1.1 A – Upswing/Expansion/Recovery/Prosperity
B – Peak
C – Downswing/Contraction/Recession
D – Depression

2.1.2 and 2.1.3 Name 1 m Explain 2 m

2.1.2 Recession/Downswing/contracting/depression – less disposable income for new shoes/ trying to stretch the lifespan of the shoes for as long as possible / consider cheaper alternatives

2.1.3 Upswing/Recovery/expansion/prosperity – a shift from buying inferior goods to normal goods, suggests a rise in real incomes/more disposable income means that consumers are able to switch to more expensive stores. Seek better quality products/Unemployment decreasing

2.2 2.2.1 The marginal propensity to consume is the increase in consumption as a result of an increase in income **OR** The proportion of an increase in income that will be used for consumption.

2.2.2 1/1-mpc
= 1/0,3 or 1/1 – 0.7
= 3,33

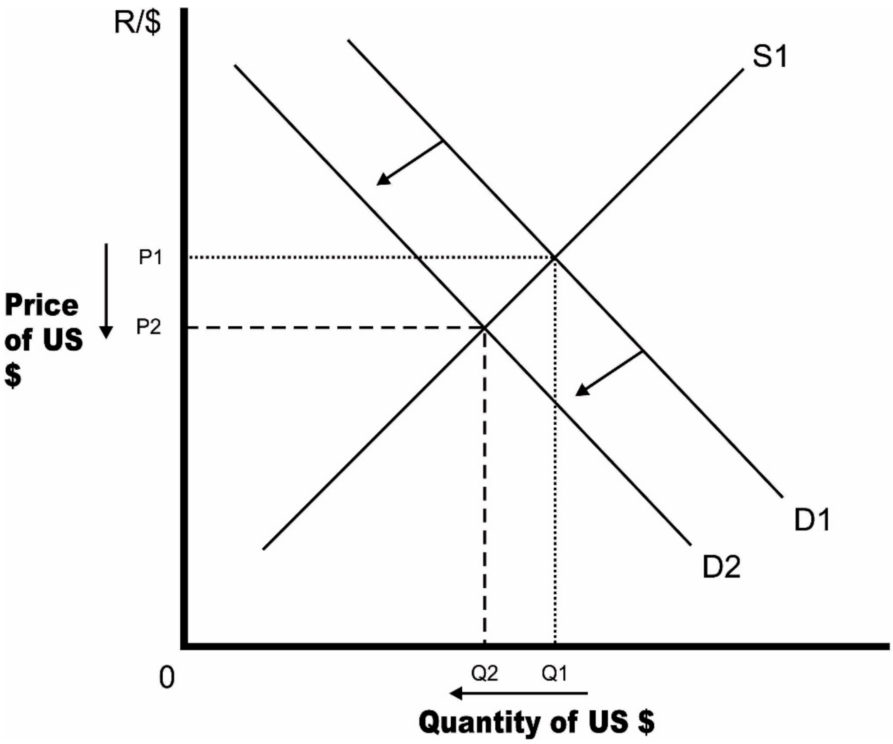
2.2.3 The multiplier would increase.
Explanation or Calculation 2 marks
1/1-mpc
= 1/0,2
= 5

OR
An injection of extra income from an increase in the mpc from 0,7 to 0,8 leads to more spending, which increases the size of the multiplier. The higher the mpc the greater the multiplier effect.

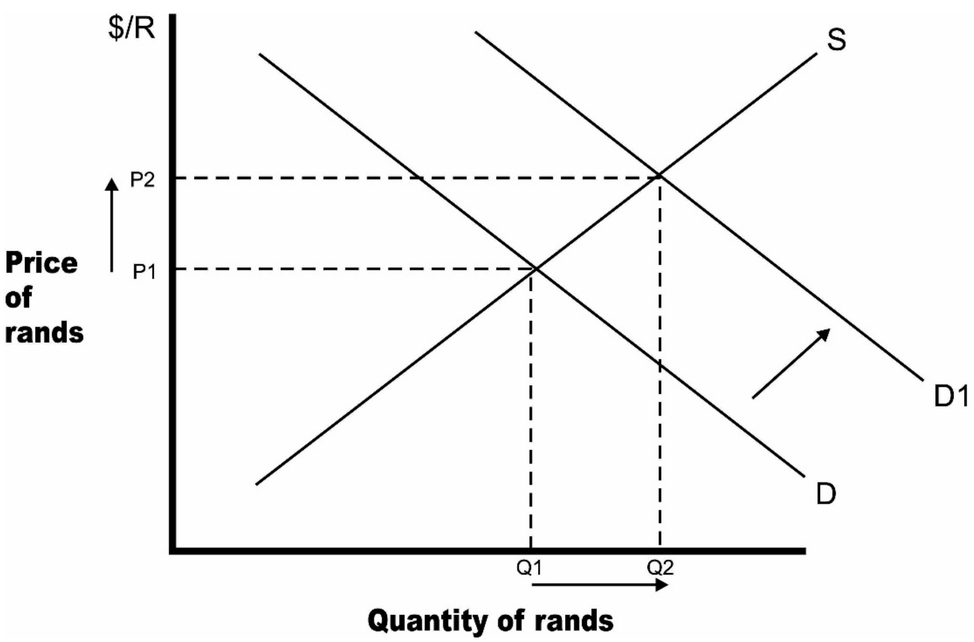
2.3 2.3.1 The rand appreciated/ dollar depreciated ✓ from R16,38 to R13,83.

2.3.2 ***Mark allocation: Graph 6 marks***

Correct shift of demand for dollars decreasing (direct)./Increase in supply of dollars.
OR demand for rands increasing (indirect method)./Decrease in supply of rands.
Indicating the appreciation.
Correct labelling of axes.
Correct labelling of curves.



OR



2.4 2.4.1 Malusi Gigaba

2.4.2 Real GDP is Gross Domestic product at constant prices. Real means that it has been adjusted for price changes/effects of inflation have been removed/inflation-adjusted figure.

OR

Real Gross Domestic product is an inflation-adjusted measure that reflects the value of all **final** goods and services produced with the borders of a country in a given year or production capacity of a country.

2.4.3 The economy needs to be stimulated, but the budget deficit is limiting this/SA budget is in a deficit

He needs to avoid a low-growth trap/low economic growth leading to slower growth/growth has been revised down

2.4.4 **Fiscal policies:**
The government could spend money. This will ensure that businesses could earn income which could lead to spending increases which would lead to more jobs. (max 4)

The government could lower taxes. This will ensure households have more money to spend/increased employment (max 4)

However, the budget deficit will increase furtheras reduced taxes could lower the government revenue and by increasing government spending the budget deficit will also increase. (max 6)
Credit ratings.
Accept any other reasonable answer.

QUESTION 3 MICRO ECONOMICS

3.1 3.1.1 5

3.1.2 The law of diminishing marginal utility states that the marginal utility of a good or service declines as more of it is consumed during any given period.
Give 2 marks if explains using an example.

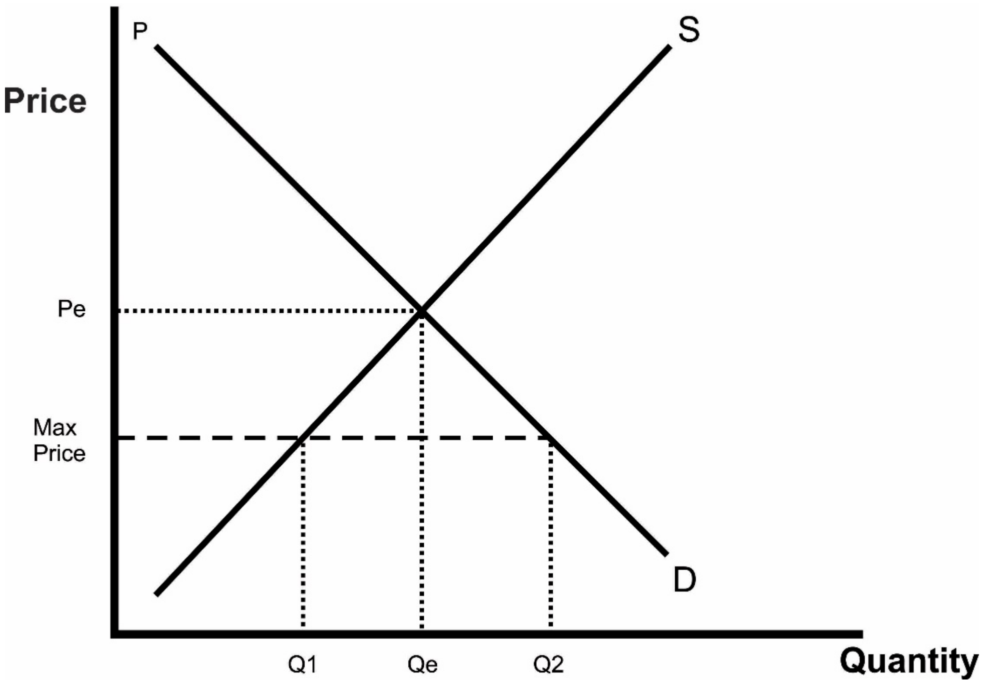
3.1.3 A – 35
B – 114
C – 110

3.2 3.2.1 A normal good is a good for which an increase in income results in an increase in the demand for the good/These products will have a positive income elasticity of demand, e.g. chocolates.
An inferior good is a good for which an increase in income results in a fall in the demand for the good/These products will have a negative income elasticity of demand, e.g. bread, maize meal.

3.2.2 It is very likely the cheaper brands/no name brands will experience an increase in sales during a recession, as they are more affordable.
It is, however, very unlikely that expensive chocolates/branded luxury chocolates will increase sales, as consumers have less spending power during a recession.
Can refer to personal circumstances
Brand loyalty plus explanation
Disagree with given statement – reasonable explanation (max 4)
Accept any other reasonable answer. Accept comparison in tabular format.

3.3 3.3.1 Basic foodstuffs are essential for daily living.
It helps reduce poverty.
It increases affordability and ensures a basic standard of living.

3.3.2 **Mark allocation: Diagram 4 Explanation 4**



Max Price clearly indicated. (one mark for just showing max price line)
Correct labelling of axes and curves.

If the maximum price is set below the equilibrium price, it will cause a shortage – demand will be greater than supply.
Because of the shortage, it creates the incentive to develop a 'black market' where people illegally trade the good.
Another consequence of a maximum price is that people will be forced to queue to try and get the good before it sells out.
Accept any other reasonable answer.

3.4.1 Advertising
Increase in income
Increase in population
Increase in the price of substitutes/complementary goods

3.4.2 **Explanation 2 × 2**
Demerit goods are goods that society feels its citizens should not consume or not overconsume such as fast food.
De-merit goods are thought to be 'bad' for consumers.
The consumption of de-merit goods can lead to negative externalities, such as obesity.
Demerit goods are overproduced and over consumed.
Accept any other reasonable answer.

3.4.3 **Name 2 m, Explain 2 m**

Tax

Imposing a tax on unhealthy foods such as sugary drinks and food containing high proportions of fat could help to reduce consumption.

OR

Public health campaigns

By increasing awareness the government will try to persuade people to consume fewer unhealthy foods acting as a deterrent.

OR

Increase information

Government can force firms to disclose information about their products, e.g. on how much sugar, fat, and salt may be in their food.

Increased information can reduce asymmetry of information in the market thus reducing demand for fast food to the socially optimum level.

Credit: Increased regulation or providing subsidies with appropriate examples.

3.5 **Maximum 4 marks per characteristic and explanation.**

In monopolistic competition, there are many competing producers.

There are many fast-food restaurants in South Africa and there is a lot of competition in the market.

Firms in monopolistic competition differentiate their products (heterogeneous).

Each fast-food chain has a different menu and some specialise in different types of food.

Entry into the market is possible/free, but could be difficult to compete due to fierce competition.

There are some barriers such as franchise fees if buying a franchise.

However, if it is not a franchise, there are low barriers to entry – low capital costs, no special expertise, but there is fierce competition between brands.

The monopolistic competitor cannot control prices, but can ask a premium for a product.

Since the fast-food restaurants offer slightly differentiated goods they have some degree of price making power.

Complete information is not available due to competition.

While there is a lot of information available for the different restaurants, it remains incomplete.

Access to information is fairly open but not perfect.

Factors of production are immobile

Example – franchise agreements

Production of goods and services is high

QUESTION 4 ECONOMIC PURSUITS

4.1 4.1.1 The World Trade Organisation is responsible for dealing with the rules of trade between nations at a global or near-global level.

The WTO helps to resolve conflicts between nations and provide forums for agreeing over trade agreements and their implementation. The WTO aims to ensure that trade flows as smoothly and freely as possible.

Regulates trade between countries

4.1.2 Overreliance on diamonds/Primary product dependency

Sustainability issues, i.e. depleted supply.

4.1.3 Exports will lead to economic growth which is a necessary condition for economic development to take place.

There is, however, no guarantee that economic growth will ultimately lead to economic development.

In order for economic development to take place, the exports must lead to an improvement in the living standards of the majority of people.

In order for development to take place in resource-rich countries, it must benefit the people of a country and improve their quality of life.

4.2 4.2.1 South Africa

4.2.2 Norway

4.2.3 Denmark and Norway High GDP per capita/Low Gini co-efficient/High HDI

4.2.4 GDP per capita takes into account the average income per person/ standard of living of the population. HDI takes into account all major economic and social indicators: e.g. average incomes (GDP per capita), education and life expectancy (health standards).

Accept comparison in tabular format.

4.2.5 Better education and training can improve skill levels, which improve labour productivity and increase aggregate supply.

Better quality education or greater access to schools will increase overall literacy rates thus increasing the HDI.

Better educated population is more aware of health. Therefore increase in life expectancy (max 4)

4.3 4.3.1 Tariffs are taxes imposed on imported goods; they will increase the price of the good in the domestic market.
An import quota is a limit on the number of imports that can be brought into a particular country.
Accept comparison in tabular format.

4.3.2 Tariffs benefit domestic producers but harm domestic consumers, who must pay a higher price for the imported good than they would have to under purely free trade.
They penalise foreign producers and encourage an inefficient allocation of resources both domestically and globally.
They protect inefficient sectors from competition.
Although the statement is mostly true, there might be situations where in the short-term, tariffs can be justified to protect the domestic businesses.
Accept any other reasonable answer.

4.3.3 **Maximum 4 marks per characteristic and explanation.**
Protection of specific industries/Benefit local producers:
Newly established industries find it very difficult to compete with the cheaper costs of production of long-established firms in developed countries.
They are also sometimes exposed to dumping when other countries sell goods at below cost.
Older industries that struggle to compete can also be protected.
(max 4)

Improve Balance of payments:
A reduction in imports and promotion of exports can help to improve the balance of payment.
Import controls help to prevent the value of imports increasing at a faster rate than exports, contributing to the economy expanding.
A surplus on the balance of payments has a positive effect on the exchange rate. (max 4)

Increase Government revenue:
Charging tariffs on imports contribute to the income of the government, especially in developing countries where the tax base is sometimes limited. (max 4)

Employment:
The protection of local industries is an important mechanism to protect job opportunities in a country.
It is reasoned that if local industries are not protected, they would not be able to compete, with the subsequent loss of vital jobs. (max 4)

Prevention of dumping:
Dumping occurs when goods are sold on foreign markets at below the cost in the original country.
Imported cheap goods could be disastrous for local competitors and local job opportunities.
Sometimes these imported cheap goods are of inferior quality.
(max 4)

Diversifying your industrial base and striving for national independence:
Countries do not want to depend on imports from certain countries, and prefer to supply their own needs for example, US and oil.
Countries also consider certain industry of national importance like energy, food, water and steel.
Countries also want to increase the base of its exports and do not want to depend too much on certain goods, like South Africa with minerals. (max 4)

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1 5.1.1 A decrease in the rate of inflation/Inflation increasing at a decreasing rate.

5.1.2 PPI pertains to cost of production . Price of the goods as they leave the factory gate. (max 2)

5.1.3 The Phillips curve demonstrates an inverse relationship between inflation and unemployment, i.e. if unemployment decreases then inflation will increase. (max 2)

5.2 5.2.1 Demand pull
5.2.2 Cost Push
5.2.3 Cost Push
5.2.4 Demand pull
5.2.5 Demand pull

5.3 5.3.1 The CPI represents the cost of the 'shopping basket' of goods and services of a typical or average South African household.
Each good or service is 'weighted' to indicate its relative importance in the basket.

5.3.2 The Reserve Bank would not be happy.
Yearly inflation is outside the target range of 3–6%./Yearly inflation is above 6%.

5.4 5.4.1 The National Minimum Wage is the minimum pay per hour/per day workers are entitled to by law.
A living wage is a wage that is high enough to maintain a reasonable standard of living.
Accept comparison in tabular format.

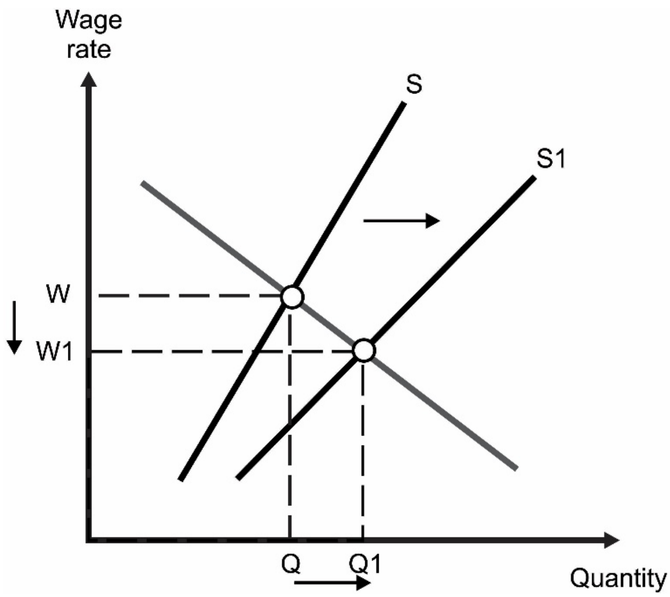
5.4.2 **Explanation max 4 Evaluation 2 marks**

- A minimum wage increases the income of low paid workers.
- An increase will enable people who are earning below the minimum wage an opportunity to improve their standard of living.
- Introducing a minimum wage can, however, lead to unemployment and this could increase poverty levels.
- The impact on relative poverty is not clear cut. The poorest sections of society tend to be out of work and receiving government benefits.
  They are not affected by a national minimum wage.

Accept any other reasonable answer.

5.5 5.5.1 Occupational Immobility
Government can introduce training schemes to ensure the unskilled acquire skills. Workers are more likely to get a decent job if they have skills.
Geographical Immobility.
Government can subsidise transport so workers can go from rural areas to the towns to work.
Location of strategic industries creates a demand
Access to better information about job opportunities
Accept any other reasonable answer.

5.5.2



Mark allocation: Graph 6 marks, Analysis 6 marks

Shift in labour supply curve to the right.
Indicating the decrease in wages and increase in quantity.
Correct labelling of axes and curves.

By improving the mobility of labour, more people are able to work in a particular occupation.
This will lead to the labour supply curve shifting to the right, as more workers are able and willing to work.
This will result in wage levels in the industry decreasing.

Candidates can be allocated marks for a good explanation (max 4) of increased skills creating an increased demand for labour but no marks for graph indicating increase in demand.

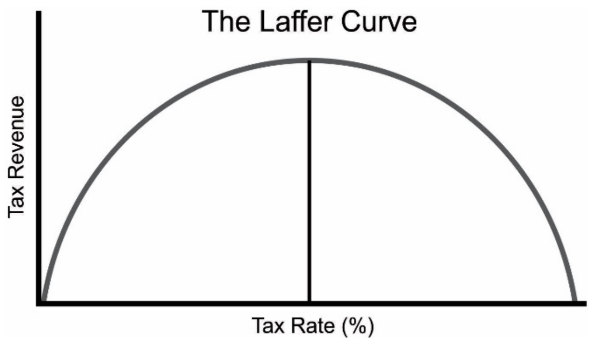
SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 Personal income tax

6.1.2 **Progressive tax** occurs when those on higher income levels pay a higher % of their income in tax, e.g. personal income tax.
Regressive tax occurs when an increase in income leads to a smaller % of their income going to tax, e.g. VAT and excise duties. OR People with lower incomes pay a higher % of their income on taxes.
Accept comparison in tabular format.

6.1.3



Mark allocation: Graph 4 marks, Analysis 4 marks

Drawing the Laffer Curve.
Correct labelling of axes and curves.

The Laffer curve suggests there comes a point where higher income tax rates leads to a decline in tax revenue, because people stop working if tax is too high.
Accept any other reasonable answer.

6.2 6.2.1 It is a period of **stagnation in the economy/**slow growth combined with rising inflation and increasing unemployment.

6.2.2 Positive economic growth
Balance of Payments Equilibrium/Exchange rate stability
Low unemployment or full employment
Equal/fair distribution of income
Low inflation or price stability

6.2.3 **Name 2 marks, Explanation 2 marks.** (4 × 2)
A decrease in the buying power of the currency – the consumer can buy less with his/her money.
Negative influence on savings and investments – have to compare inflation rate with the returns on investments.
People who are dependent on a fixed income are influenced negatively, e.g. pensioners.
It benefits debtors at the expense of creditors. Debtors pay back less overtime.
If the inflation of a country is higher than that of other countries, it will lose its competitive advantage.
Can cause bracket creep and fiscal drag – government receives more tax money (higher salaries, higher taxes).
Can cause social and industrial unrest, for example, as a result of food inflation.
Decrease in FDI's because SA will be seen as a risky investment
Wage spiral starts as higher wages are demanded. This causes an increase in cost of production which results in increase in prices which results in inflation. Could result in unemployment if businesses cannot afford higher wages
Accept any other reasonable response.

6.2.4 **Name 2 marks, Explanation 2 marks.**
If the Reserve Bank increased interest rates then it could lower the inflation rate, but this would negatively affect economic growth.
If the Reserve Bank decreased interest rates then it would increase the inflation rate, but this would have a positive effect on economic growth.
Accept any other reasonable answer.

6.3.1 Leakage

6.3.2 **Explanation 2 marks.** (4 × 2)
Promoting exports.
Reducing imports through import substitution policies as well as import tariffs.
Increasing interest rates which leads to less spending on imports from locals but encourages foreigners to invest in South Africa.
Exchange controls whereby there is a restriction on the amount of money that South Africans can take out of the country.
Government can sell foreign currencies and buy Rands, thereby strengthening the Rand to make imports less expensive.
(of course if Rand was weak South African products would be cheaper for foreigners and our exports would increase as well).
Promote tourism so we have more people visiting SA and spending money in SA.
Any other reasonable answer.
Must expand on point to get the full 2 marks.

Total: 300 marks