NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2018

ECONOMICS

MARKING GUIDELINES

Time: 3 hours | 300 marks

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SECTION A

QUESTION 1

1.1	C	(2)
1.2	D	(2)
1.3	A	(2)
1.4	B	(2)
1.5	B	(2)
1.6	B	(2)
1.7	D	(2)
1.8	A	(2)
1.9	B	(2)
1.10	B	(2)
1.11	D	(3)
1.12	B	(3)
1.13	D	(3)
1.14	D	(3)
1.15	B	(3)
1.16	B	(3)
1.17	B	(3)
1.18	C	(3)
1.19	C	(3)
1.20	D	(3)

50 marks

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SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 Income method (2)

2.1.2 869 738 + 411 945 + 560 397 = 1 842 080
1 842 080 + 81 307 – 7 503 = 1 915 884
1 915 884 + 438 785 – 15 005 = **R2 339 664**
(Max 4 if NO calculations) (Max 4 if GNI was calculated) (6)

2.2 2.2.1 Open economy Exports and Imports (2)

2.2.2 Monetary or money flow between the different markets and participants – income, spending and taxation.
Real flow of goods and services, and production factors, between markets and participants. (4)

2.2.3 Taxes, savings and imports are leakages and government expenditure, investment and exports are injections.
Households and businesses pay taxes (T) to the government and the government spends this on infrastructure, services, etc.
Households save money and businesses borrow that money to invest in expanding business, etc.
When products are imported, money leaves the economy and when products are exported, we get money coming into the economy.
Reference to equilibrium in leakages and injections. (max 10)

2.3 2.3.1 Leading indicators are those indicators that give an early indication of changes in economic activity/change before the business cycle changes. (2)

2.3.2 (Name 2 × 2 marks)
Number of new cars sold, new companies registered, building plans approved, share price/stock market returns, business confidence index, product exports. (max 4)

2.3.3 A recession consists of two consecutive quarters of negative GDP growth.
A depression is a prolonged recession. OR A depression is a persistent and severe downturn in output and jobs.
(Accept comparison in tabular format.) (4)

2.3.4 Expansionary monetary policy (Explanation max 8)
Decrease interest rates therefore encourage borrowing, which will increase demand and there will be more spending in the economy.
Business/consumer in debt will be paying less on their loans and have more disposable income to spend, which stimulates economic activity.
Lower interest rates may reduce the incentive to save thereby encouraging spending.
Central bank buys bonds to increase money supply.
Central bank can decrease cash reserves.
Expansionary fiscal policy (Explanation max 8)
The government could spend money. This will ensure that businesses could earn income, which could lead to spending increases.
The government could lower taxes. This will ensure households have more money to spend.
(Accept comparison in tabular format.) (max 16)

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QUESTION 3 MICROECONOMICS

3.1 3.1.1 [0,15]/[0,10] = 1,5 (4)

3.1.2 The cross-price elasticity of demand for substitute goods is positively correlated, as the price of beef increases so does the demand for the substitute, good chicken. (4)

3.2 3.2.1 Externalities
Are economic side effects that affect an uninvolved third party, someone not directly involved in the production.
Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on the people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution.
(Accept any other reasonable explanation.) (max 4)

3.2.2 Imperfect Competition
Monopolies and oligopolies restrict supply in order to maximise profits.
Resources are therefore under allocated to the production of goods and services produced under conditions of imperfect competition.
Where a firm in a market has market power, it may be able to restrict output and raise prices. (max 4)

3.3 3.3.1 Oligopoly (2)

3.3.2 It forces consumers to pay more than they should.
High prices on essential goods, like bread and medicine, has a negative impact on consumers, especially poor people.
It has a negative impact on the rate of inflation, affecting the income and standard of living of consumers.
It prevents fair competition. (max 4)

3.3.3 Investigating the behaviour of firms accused of restrictive business practices. Deciding whether to allow mergers and acquisitions to go ahead.
Making recommendations to the Competitions Tribunal for approval.
(Accept any other reasonable explanation.) (max 4)

3.4

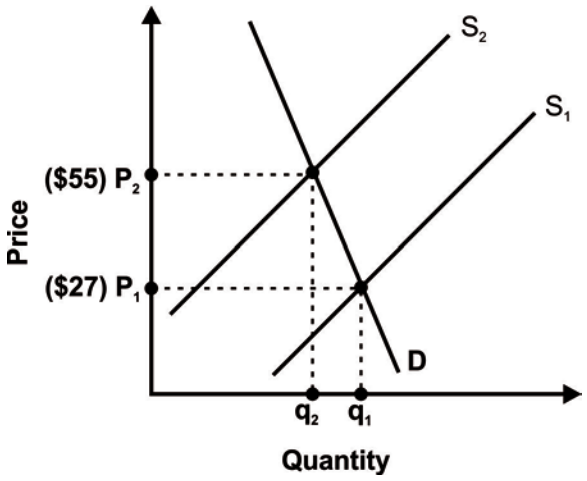
Criteria	**Perfect competition**	**Monopolistic competition**
Number of sellers	Many	Many
Nature of the product	Homogenous	Heterogeneous/ differentiated
Price-maker or price-taker?	None – price-taker	Some pricing power
Is branding/ marketing important?	No	Yes – non-price competition
Are entry barriers zero, low or high?	Zero	Low

(10)

3.5 3.5.1 Organisation of Petroleum Exporting Countries (2)

3.5.2 As the demand for petrol is inelastic, an increase in price will not significantly affect the quantity demanded.
An increase in price with no significant change in quantity demanded will lead to an increase in total revenue. (4)

3.5.3 **Mark allocation: Graph 6 Explanation 2**



Graph:
Labelling of axes, labelling of D and S curves and equilibrium price.
Shift in supply curve to the left.
Shows increase in the oil price.

Explanation:
By OPEC reducing the supply of oil on the world market, supply would shift to the left resulting in a higher price. (8)

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QUESTION 4 ECONOMIC PURSUITS

4.1 Economic growth is usually necessary for economic development, since it provides increased resources.
There is, however, no guarantee that economic growth will ultimately lead to economic development.
In order for economic development to take place, the fruits of economic progress must lead to an improvement in the living standards of the majority of people.
Economic development, in some cases, is possible without economic growth, if resources are redistributed.
If the income generated from resources/economic growth remains in the hands of the wealthy or foreign-based firms, development will be minimal.
(Maximum 4 marks if concepts are explained/defined but not linked.) (6)

4.2 4.2.1 Measured by unemployment rate as a percentage of labour force or economically active population. (2)

4.2.2 Better education and training can improve labour productivity and increase competitiveness.
Better education will improve literacy thereby increasing the likelihood of being employed.
(Accept any other reasonable answer.) (max 4)

4.2.3 No/Loss of earnings, leading to a lower standard of living.
Lower GDP and a possible negative multiplier effect.
Increased social division and unrest with increased socio-economic issues, i.e. crime.
Greater pressure on social/welfare grant system (less tax revenue and greater government spending).
The longer the youth are unemployed, the less attractive they become for prospective employers.
(Accept any other reasonable answer.) (max 4)

4.3 4.3.1 Norway (2)

4.3.2 Nigeria, India, Brazil, China, South Africa, Vietnam (max 4)

4.3.3 GNI is well correlated with HDI – with the exception of Equatorial Guinea.
This suggests that increases in GNI/capita are well correlated with health and education.
This is possibly because increasing per capita incomes give:
(i) citizens better access to diet, education and healthcare.
(ii) governments a stronger tax base, implying better public services.

But

HDI doesn't directly measure living standards – living standards encompass a broader variety of indicators than life expectancy, income and years of schooling.
(Accept any other reasonable answer.) (max 6)

4.4 4.4.1 Free trade is the free flow of goods, capital, and labour between nations, without barriers that could hinder the trade process. (2)

4.4.2 Tariffs are taxes imposed on imported goods; they will increase the price of the good in the domestic market.

OR

An import quota is a limit on the number of imports that can be brought into a particular country.

OR

Subsidies – government help (state aid) for domestic businesses facing financial problems.

OR

Intellectual property laws, e.g. patents and copyright protection.
(Accept any other reasonable answer.) (max 4)

4.4.3 (**Maximum 4 marks per characteristic and explanation.**)

Protection of specific industries:
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)

Countries retaliate:
Increased protection leads to other countries retaliating against the granting of subsidies for instance, by imposing an import tariff.
Employment gained in the one sector could be lost in another.
Today most countries are members of the WTO and have to abide by certain rules and guidelines. (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 don't want to depend on imports from certain countries, and prefer to supply their own needs; for example, US and oil.
Countries also consider certain industries of national importance like energy, food, water and steel.
Countries also want to increase the base of its exports and don't want to depend too much on certain goods, like South Africa with minerals. (max 4) (16)

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QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1 5.1.1 The consumer price index is the most commonly used indicator of changes in the general price level. OR It reflects the cost of a representative basket of consumer goods and services. (max 2)

5.1.2 Deflation – the price of a wide range of goods and services decrease continuously over a long period of time. (2)

5.1.3 Hyperinflation – a very high or excessive rate of inflation. (2)

5.2 5.2.1 Demand for Labour (2)

5.2.2 Supply of Labour (2)

5.2.3 Demand for Labour (2)

5.2.4 Supply of Labour (2)

5.2.5 Demand for Labour (2)

5.3

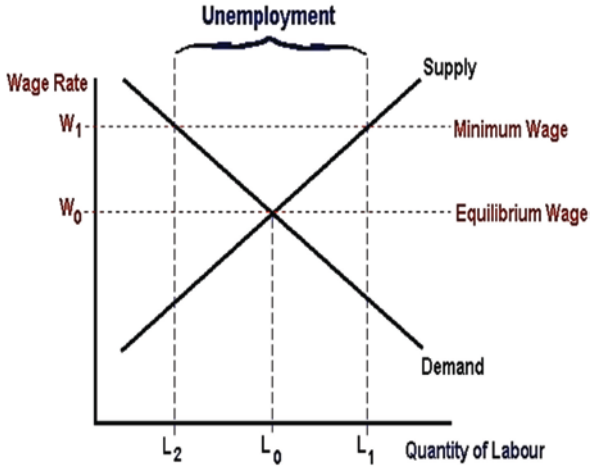

Diagram (Max 6 marks)
Minimum wage clearly indicated above the equilibrium
Labelling (D/S/Q/W)
Surplus of labour/Unemployment clearly indicated

Analysis/Explanation (Max 4 marks)
Higher wages causes the demand for labour to decrease and supply to increase.
Thus minimum wages can lead to increased unemployment/surplus in the labour market.
By setting the minimum wage above the equilibrium wage, it becomes too expensive for employers to keep all their workers and they have to retrench employees/reduce the workforce. (10)

5.4 5.4.1 South African Reserve Bank (2)

5.4.2 3–6% (2)

5.4.3 Cost-push inflation is triggered by increases in the cost of production. Increases in production costs push up the price level, e.g. fuel price and electricity. (4)

5.4.4 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.
(Any other reasonable answer.) (Any 4 × 4 = 16)

[50]

200 marks

SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 A public good is a good that is used by the community or society at large, e.g. street lights, lighthouses, police force.
Pure public goods are characterised by non-rivalry in consumption and non-excludability. (max 2)

6.1.2 **Lack of Accountability**
Civil servants are appointed by the state but they do not always serve the interests of the public as they are not directly accountable to the taxpayer.

Problem of assessing needs
State-owned enterprises do not operate according to the forces of supply and demand.
It becomes thus very difficult for state-owned enterprises to assess needs and they are thus prone to under- or over-supplying public goods and services.

Pricing policy
Government does not pursue the profit maximisation objective. Government takes into account certain social, economic, political and environmental conditions as well as public opinion about what to charge.

Inefficiency
Bureaucracy – following the official rules and procedures is time-consuming and hampers productivity.
Incompetence – the lack of skill or ability to do a task successfully.
Corruption – the exploitation of a person's position for private gain/ taking bribes, committing fraud, nepotism.
Any other reasonable answer. (any 2 × 4 marks = 8)

6.1.3 **Advantages: (max 6 marks)**
Improved performance/quality service – any profit-driven firm ensures that the focus is on financial performance, as a result employees are productive and efficient.
The government has failed in delivering quality services to the public and privatisation should be increased. The sooner companies like SAA and Eskom are sold to private enterprise the better.

Increased competition/efficiency – Competition is necessary for efficiency and increasing production. By privatising state-owned industries the government can no longer 'protect' inefficient industries and they will be forced to become more efficient.

Government finances will be under less pressure
Public spending as a percentage of GDP continues to increase and government finances are constantly under pressure with significant bail-outs, e.g. SAA, Eskom. Privatisation will ensure that government spending addresses more urgent needs in the economy.
(any 2 × 3 marks = 6)

Disadvantages: (max 6 marks)
Prices/Costs increase
Without state funding, costs will increase and as a result prices will increase. In the case of electricity, this will negatively affect consumers, increasing inequality.
Privatisation can lead to consumers being exploited.

Loss of control of Strategic Industries
The government can manage the economy by controlling the important industries. SAA and Eskom play a significant role in growing the South African economy and if it is in the hands of private individuals, control is lost.

Government's social responsibility
The private sector only focuses on profits, it is the role of government to intervene more to ensure that goods and services are rendered to all people. By privatising the parastatals the focus shifts away from social responsibilities. Companies owned and run by the people *for* the people take social costs (pollution, etc.) into account and the profit goes back *to* the people. (any 2 × 3 marks = 6) (12)

6.2 6.2.1 The multiplier is the ratio of the change in income to the change in spending that brought it about. (2)

6.2.2 Lost production/lower output leads to a decrease in GDP.
Lost working days can reduce profitability and increase unemployment.
South Africa becomes less attractive for foreign investors.
Lost tax revenue.
Fewer exports negatively affect the trade balance.
Any other relevant answer. (max 6)

6.2.3

Mark allocation: Graph 8 marks

As a result of lost production and the decrease in exports:
Correct shift of demand decreases (indirect method) OR supply (direct method) supply of decreases.
Indicating the depreciation.
Correct labelling of axes.
Correct labelling of curves.

OR

As a result of foreigners withdrawing/disinvesting in South Africa:
Demand for dollar increase (direct) OR supply of rand increases. (8)

6.2.4 (**Name 2 marks, Explanation 2 marks**)

Natural resources are not evenly distributed:
E.g. S.A.'s mineral riches enable us to produce more cheaply to export and at the same time we have to import other resources, e.g. oil.

Labour resources differ from country to country:
Quality, quantity and cost differ between countries, e.g. labour supply in China is high and cost is low. Other countries have high levels of sophistication of labour – more productive.

Technology & Specialisation:
Some countries have access to technological resources to produce at low cost. Japan specialises in electronic equipment, mass produces and sells at lower prices.

Levels of income differ from country to country:
Higher income results in a change in needs, especially for luxury goods.

Consumer preferences and tastes change:
People are exposed to more and more products every day.

Development of communications and transport:
Role of television, Internet, etc. exposes people to new products and services. Countries and products are within easy reach of one another.

(Any other reasonable answer.) (max 12)

50 marks

Total: 300 marks

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