NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2019

ECONOMICS

MARKING GUIDELINES

Time: 3 hours | 300 marks

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SECTION A

QUESTION 1

1.1 C
1.2 B
1.3 C
1.4 D
1.5 A
1.6 B
1.7 D
1.8 A
1.9 D
1.10 C

1.11 D
1.12 B
1.13 C
1.14 D
1.15 B
1.16 A
1.17 C
1.18 D
1.19 C
1.20 D

SECTION B

QUESTION 2 MACRO ECONOMICS

2.1 2.1.1 Brazil: real
Russia: ruble (rouble)
India: rupee
China: yuan/renminbi

2.1.2 India and Russia
Explanation: Both of these countries import more from China than they export. India: 58% vs. 11% and Russia 37% vs. 32%

2.1.3 **Transaction:** income earned by South African residents from non-residents (either compensation like salaries or investment income like interest or dividends.) **Account:** income receipts
Transaction: non-residents pay for transportation, travel, financial services, insurance, recreation. **Account:** service receipts
Transaction: gifts from non-residents to SA residents or pensions and grants. **Account:** current transfers

2.1.4 South African exports exceed imports $22,5 bn vs. $12,8 bn – this is positive (J).
Trade Balance will be in a surplus. This will appreciate the SA rand.
Future trade will be negatively affected due to the strong rand (SA merchandise will be expensive) and exports will start to decrease.

2.2
- People have different tastes: no country can produce everything at the right quantity and quality that the citizens might wish to consume – so the country imports.
- Population size: the bigger the size of the population the higher their demand for resources.
- Wealth and income: the richer the population of a country the higher their imports will be, e.g. the USA.
- Uneven distribution of resources: some countries do not have the resources required to produce the required goods and services, e.g. the UK imports wine from SA and SA imports rice from India.
- Differences in technology: some countries have access to the latest technology, e.g. Japan, whereas certain developing nations still use technology that is outdated. Trade is thus necessitated.
- Different production techniques: e.g. electronics require a skilled labour force which is capital intensive whereas agricultural industries are largely labour intensive. Countries will thus export whatever their production techniques make possible.
- Absolute and comparative advantage: some countries use their resources more efficiently than others (i.e. they produce more with the same resources). Other countries are simply more efficient in producing the same goods compared to another country, e.g. SA with minerals and agricultural products.
- Climate changes: different climates (cold, rainy, tropical or dry) enable countries to produce different products, e.g. coffee beans in Central America vs. sunflowers in SA.

2.3 2.3.1 **Free trade:** when producers and consumers are free to buy goods and services anywhere in the world, without the interference of a government. There are no barriers to imports or exports of goods and services and it is actively encouraged.

Protectionism: it limits the extent of trade – specifically imports. It is a policy where goods and services are not allowed to flow freely between countries but are restricted by various regulations, e.g. tariffs, subsidies and quotas).

2.3.2 **Reason for no customers in protectionist shop:** higher prices, limited supply and variety, outdated technology/trends.
Reason for the customers in the free-trade shop: greater variety, cheaper prices, better quality, latest trends.

2.4 2.4.1 Exogenous factor: a reason from "outside" the economy that causes a change in the business cycle, such as climatic conditions – in this case, a drought.

2.4.2 Expansive fiscal policy:
Government should attempt to stimulate the economy of the Western Cape by lowering taxes so that consumers (farmers, farm workers, producers) pay less tax and have more money to drive demand in the retail/wholesale sectors.
Government spending should increase, e.g. to create projects that will generate jobs and income (especially for people who lost income due to the drought).

QUESTION 3 MICRO ECONOMICS

3.1 3.1.1 It is a business organisation wholly or partly owned by the state and controlled through a public authority. It is thought to be a service or product that should be provided by the state.

3.1.2 **SA examples:** Alexkor (diamonds), Denel (military equipment), Eskom (electricity generation), South African Express Airways, South African Forestry Company (SAFCOL) (forestry), Transnet (transportation)

3.1.3 **Market failure:** it occurs when firms do not produce the quantity of output that would have been produced under the conditions of perfect competition **OR** the market is allocatively inefficient and cannot produce the required output most demanded by consumers.
E.g. Eskom that cannot provide sufficient energy and as a result load shedding occurred; Spoornet that doesn't offer effective and sufficient railway links to all SA towns and cities; the Post Office that doesn't supply efficient service with regards to postal deliveries.

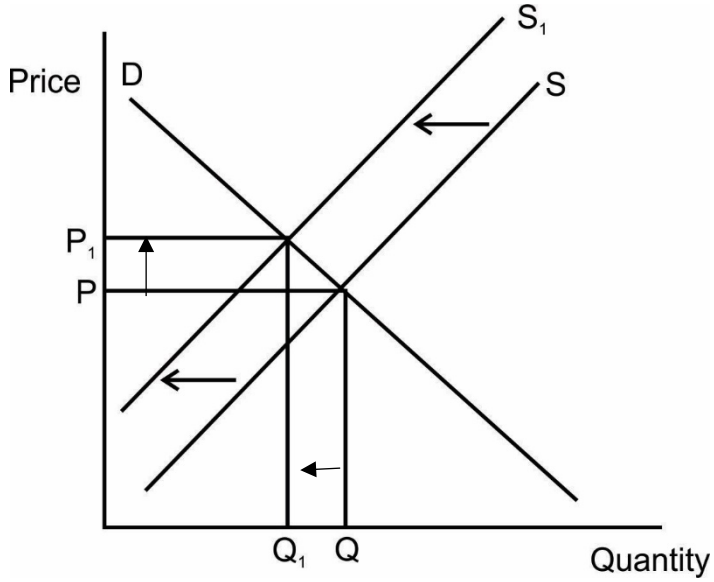
3.1.4 S&P Moodys **OR** Fitch

3.1.5 If South Africa's ability to repay loans is seen as risky, the cost of borrowing will increase, resulting in a greater cost of debt to the Treasury **OR** investors will avoid SA because the country is too risky.

3.2 3.2.1 A cartel is an association of manufacturers or suppliers with the purpose of maintaining prices at a high level and restricting competition or a coalition or cooperative arrangement between political parties intended to promote a mutual interest.
Oligopoly

3.2.2 **Number of firms:** in line with the characteristic, there are only a few big suppliers that dominate the supply of school uniforms in SA.
Barriers to entry/exit: It is free but difficult; it will be difficult for any new supplier to enter this market due to the cost of carrying the supply of the various school uniforms.
Incomplete information: the consumer has imperfect information about prices and profit margins of school uniforms, but the oligopolists fix prices and make decisions in collusion with one another. They have knowledge about prices, but not marketing strategies.
Differentiated/homogenous products: the uniform oligopoly may have participants who sell the same uniform, i.e. white shirts and grey pants, but there are suppliers that sell differentiated uniforms unique to the school requirements.
Pricing policy: the oligopolists have considerable control over the price of their uniforms, although not as much as the monopolist. Because there are only a few big suppliers, they can control the price of uniforms to a large extent.

3.2.3



Graph:
Labelling of axes P and Q
Labelling of curves S and D
Shift of S to S1 + arrow
Shift of P to P1 + Q to Q1 + arrows

Explanation:
Imperfect markets tend to control prices via output. They generally supply less to manipulate price increases.

3.2.4 Government intervention:

- Direct control through rules and regulations: government can pass laws in an attempt to control the behaviour of school uniform outlets. Similar to pollution Acts, government can prohibit this behaviour.
- An advertising campaign not to support certain outlets.
- The government established the Competition Commission, the Competition Tribunal and the Competition Appeal Court to ensure that the level of competition is fair.

3.3 3.3.1 Price elasticity of demand refers to the percentage change in the quantity demanded if the price of the product changes by 1%.

3.3.2

- The PED could be relatively inelastic, meaning the QD will decrease by less than the % change in price.
  The reason: there are only a few big suppliers and school uniform is a need and a school requirement in SA **OR**
- The PED could be relatively elastic, meaning the QD will decrease by more than the % price.
  The reason: there are less expensive outlets with generic uniforms like Jet, Mr. Price, Ackermans, etc.

3.3.3
- Substitutes – the more substitutes available, i.e. cheaper stores that sell the same generic grey pants, white shirts, black jerseys, the more readily the consumer will switch if there is a price change. Thus: a sensitive response – the more elastic the demand curve.
- Durability – the longer the good lasts, the more responsive the change in quantity demanded is to a change in price (e.g. you would hang on to an old school blazer till prices drop).
- Proportion of income spent on the good – a pair of school socks takes a fraction of a worker's income. People may not even be aware of a price increase – inelastic. However, a school blazer or shoes would cost a large proportion of a worker's income and a price increase would be noticed immediately.
- Advertising – businesses use advertising to create brand loyalty. The reason: to make the demand for the product more price inelastic, e.g. Bata or Toughies shoes.
- Habit-forming products – not relevant to school uniform, because school uniforms are a necessity or a need.
- Time period – the demand for goods tends to be more elastic the longer the time period, e.g. new, better brands are developed that are more efficient, cheaper and more convenient, e.g. new better-quality shoes; organic shirts, socks.

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 Inflation is a continuous increase in the prices of goods and services and fall in purchasing value of money OR a sustained increase in the general level of prices over time.

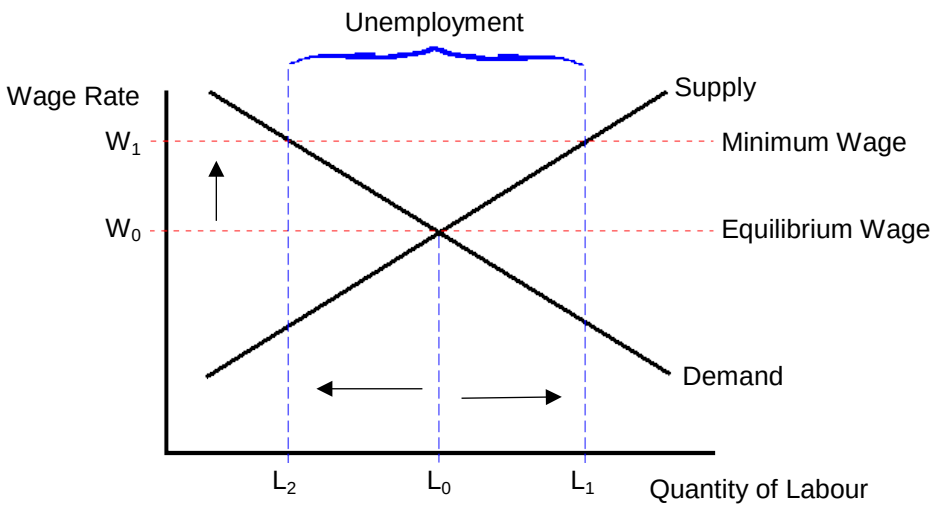
4.1.2
- SA inflation bracket is 3–6%.
- Inflation targeting is a monetary policy in which a central bank has an explicit target inflation rate for the medium term, i.e. prices may not exceed the band.

4.1.3
- A decrease in the buying power of the currency – the consumer can buy less with his/her money if prices increase.
- Negative influence on savings & investments – have to compare inflation rate with the real money value of savings. If the inflation rate is 6,5% and the interest rate is 5,5%, the consumer who saves is in actual terms losing money.
- People who are dependent on a fixed income are influenced negatively, e.g. pensioners get R3 000 per month and that does not increase with other prices on the shop shelves.
- It benefits debtors (borrowers) at the expense of creditors (lenders). At the time of borrowing the money was worth more than at the time of paying it back.
- If the inflation of a country is higher than that of other countries, it will lose its competitive advantage. SA prices of goods and services will be more expensive than other countries, and we will lose trade partners.
- Can cause bracket creep & fiscal drag – government receives more tax money (higher salaries, higher taxes). The consumer will have less money to spend on goods and services.
- Can cause social & industrial unrest. People will not be able to pay for basic services and goods and will become angry.

Any other reasonable answer.

4.2 4.2.1 R20 per hour or R3500 per month

4.2.2



Graph:
Labelling of axes Wage Rate and Quantity of labour
Labelling of curves S and D
Shift of L_0 to L_1 and L_2 and arrows
Indicate Minimum Wage level

2 disadvantages:

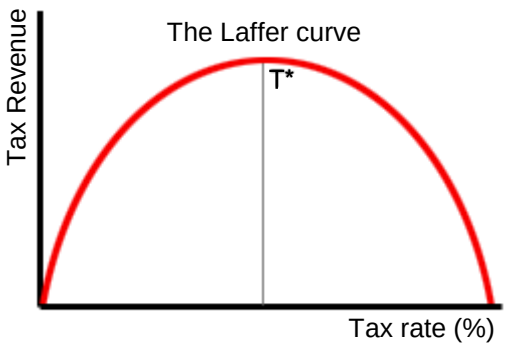
- Over-supply of labour L_0 to L_1 and decreased demand for labour L_0 to L_2. Result in unemployment.
- Higher wages will necessitate suppliers to increase prices of goods and services. This will lead to inflation.
- Companies may show lower profit levels – resulting in a reluctance to hire labour and/or to expand.

4.2.3
- Demand-side: C+I+G+(X–Z), i.e. consumer, government, investment spending and export promotion and import substitution.
- If workers' income increases, they will spend/demand more.
- If employers have to pay more, they will show lower profits and pay less tax, will reduce Government spending.
- They will also reduce output due to lower profits and export less.

4.3 4.3.1
- The increase is the most effective way of raising significant amounts of additional revenue.
- To limit the impact of the hike on poor individuals, tax-exempt basic food stuffs will show no increase.
- It will result in additional costs for all consumers as they will now have to pay additional VAT on any purchases of goods or services from VAT vendors.
- This will reduce the consumer's disposable income and will dampen demand.
- The poor, with a limited budget, will be hit hard and may go into debt.

4.3.2
- Also called a sin tax. It is a tax that is added to products or services that are seen as vices, such as alcohol, tobacco and gambling. These types of taxes are levied by governments to discourage individuals from partaking in such activities without making the use of the products illegal.
- Beer, cider, wine, cigarettes, sugar.

4.3.3



Graph:
Axes: Tax revenue and Tax rate
The Laffer curve with tax at its maximum indicated

Explanation:
- It shows the relationship between tax rates and the amount of tax revenue collected by governments.
- The curve is used to illustrate that the more an activity such as production is taxed, the less of it is generated.

4.3.4 Government expenditure exceeds government revenue.

QUESTION 5 MIXED QUESTIONS

5.1
- Price stability and/or favourable rate of exchange between 3% and 6%. Inflation has successfully been managed and has been kept within the required bracket. Currently 3,8% (March 2018)
- Balance of payment equilibrium (ideally a surplus). SA trade balance has been in a surplus as the drought has been relieved in most provinces and mining has returned to normal.
- Positive economic growth. SA's growth prospects have improved and are projected to grow above 1% in 2018.
- Low unemployment rate – or high employment. At 26,7% SA has one of the highest unemployment rates in the world and has not achieved this objective.
- Equitable distribution of income. SA has one of the highest Gini coefficients in the world indicating huge inequality and a failed objective.

5.2 5.2.1 Naira

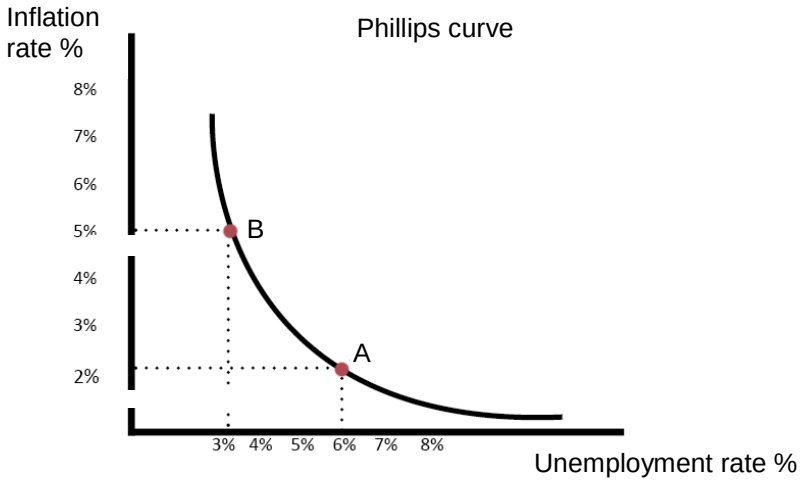
5.2.2 Debt as a % of GDP ratio is the ratio between a country's government debt (a cumulative amount) and its gross domestic product (GDP) (measured in years). A low debt-to-GDP ratio indicates an economy that produces and sells goods and services sufficient to pay back debts without incurring further debt.

5.2.3
- Emerging economies is the front-runner of developing nations.
- Emerging economies export huge quantities to foreign countries; developing nations are in the process of increasing production and export.
- Emerging economies enter into trade agreements with stronger economies – their currencies strengthen and the general standard of living of the people increases faster than developing economies.
- Literacy rates, per capita income, etc. are higher in emerging economies than in developing economies.

5.2.4
- Only economic indicators may be used:
- GDP: Nigeria has a higher GDP ($405 million) than SA ($294 million)
- Debt to GDP: Nigeria has a lower debt % to GDP than SA (17% vs. 51%)
- Unemployment rate: Nigeria has a lower unemployment rate than SA (7% vs. 26%)

Nigeria will be the better option.

5.2.5



[Source: <www.economicshelp.org>]

Graph:
Axes: % Inflation and % unemployment
Drawing curve
Values on X and Y axes e.g. 0 – 10% and 0 – 30%

Explanation: (2 marks)
The Phillips curve shows the relationship between unemployment and inflation in an economy.

5.3 5.3.1
- MPC: this is called the marginal propensity to consume: it is the fraction of additional income that households will spend on consumption.
- Impact: a high MPC will result in a high multiplier (a small initial increase in spending causes a proportionally bigger increase in national income.) Economic growth will be high.
- Impact: a high MPC implies high demand and spending levels in an economy. The danger could be very high inflation (as seen in Nigeria's 14% rate).

5.3.2 **Formula for multiplier:**
1 / (1 – MPC)
1 / (1 – 0,92) = 1 / 0,08 = 12,5

Multiplier effect:
$200 bn × 12.5
= $2.5 trillion / 3 500 bn

5.3.3
- Imports
- Taxation
- Savings

SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1
- Primary + secondary + tertiary = gva at basic + taxes on products – subsidies on products = GDP at market cost (if it is all that is given = 2 marks).
- R390 bn + R610 bn + R1 705 = R2 705 bn (GVA at basic) + R3 72 bn – R113 bn
  = R2 964 bn (GDP at market cost)

6.1.2 Compensation of employees + net operating surplus + consumption of fixed capital = GVA at factor + tax on production – subsidies on production (if it is all that is given = 2 marks)
R2 198 bn + R920 bn + R452 bn = R3 570 bn (GVA at factor) + R55 bn – R110 bn = R3 515 bn

6.1.3 C + I + G + Residual = GDE
R1 684 bn + R613 bn + R672 bn (or 622 – 9) + R24 bn
= R2 993 bn

6.1.4 GDP at market + income/payments from the rest of the world (primary payments from the world) – income/payments to the rest of the world (primary payments to the world) = GNI or GNP.

6.1.5
- When GDP is greater than GNI it means that there are many non-residents working in SA, Brazil and India **(optional response)**
- The residents of SA, Brazil and India would be worse off because foreigners' money flow out of their countries as a leakage and jobs for residents may be lost. **OR**
- The residents of SA, Brazil and India may be better off because foreign know-how and expertise come into their countries (enhancing skill levels)

6.2 Economic growth must be based on prices that exclude the effect of higher prices (inflation). Nominal prices include the price increases and result in false, inflated figures.

6.3 6.3.1 A: $\text{nominal GDP} = \dfrac{\text{real GDP}}{\text{base year}} \times \text{CPI}$

$$\frac{2\ 888\ 333}{100} \times 100 = \text{R2 888 333}$$

B: Real GDP = (Nominal GDP/CPI) × 100
= (3 812 366/104) × 100
= R3 665 736,5 or R3 665 737

6.3.2 [(4 035 921 – 3 665 737) / 3 665 737] × 100
= 10% or 10,1%

6.4 6.4.1 Leading: new car sales, exports
Lagging: commercial car sales
Coincident: imports, real GDP

6.4.2 Leading: these types of indicators signal future events. These indicators show the economists where the economy is heading.
Lagging: a lagging indicator is a financial sign that becomes apparent only after a large economic shift has taken place.
Coincident: these indicators occur at approximately the same time as the conditions they signify.

6.5 6.5.1 2018: Upswing
GDP growth: upswing (the economy is growing faster than in 2017)
JSE performance: upswing (increased from 2017)
Unemployment: upswing (more jobs are created)
Trade balance: upswing (the rand is strengthening and more imports than exports occur = deficit is increasing)

6.5.2 The rand will depreciate because imports are increasing, resulting in Trade Balance deficit and a weakening of the rand.

Total: 300 marks

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