



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS**

**NOVEMBER 2010**

**MEMORANDUM**

**MARKS: 300**

**This memorandum consists of 31 pages.**

**SECTION A (COMPULSORY)****QUESTION 1 LO1 – LO4**

1.1 Various options are provided as answers to the following questions.

- |        |   |          |      |
|--------|---|----------|------|
| 1.1.1  | B – amplitude ✓✓  |          |      |
| 1.1.2  | C – three ✓✓  |          |      |
| 1.1.3  | A – consume ✓✓  |          |      |
| 1.1.4  | B – few ✓✓  |          |      |
| 1.1.5  | C – marginal cost ✓✓  |          |      |
| 1.1.6  | A – Organisation of Petroleum Exporting Countries (OPEC) ✓✓ |          |      |
| 1.1.7  | C - African Union (AU) ✓✓                                   |          |      |
| 1.1.8  | B - structurally ✓✓   |          |      |
| 1.1.9  | A - standard of living ✓✓                                   |          |      |
| 1.1.10 | B – decreased ✓✓  |          |      |
| 1.1.11 | A – tourism ✓✓  |          |      |
| 1.1.12 | C – air ✓✓  | (12 x 2) | (24) |

1.2 Give ONE term for each of the following descriptions by choosing a term from the list.

- |       |                                     |         |      |
|-------|-------------------------------------|---------|------|
| 1.2.1 | Gross Domestic Product (GDP) ✓✓     |         |      |
| 1.2.2 | Depression ✓✓                       |         |      |
| 1.2.3 | Unregulated market ✓✓               |         |      |
| 1.2.4 | Black Economic Empowerment (BEE) ✓✓ |         |      |
| 1.2.5 | A good infrastructure ✓✓            | (5 x 2) | (10) |

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- |       |   |         |      |
|-------|---|---------|------|
| 1.3.1 | D - The objectives of government to improve the livelihoods of the poor. ✓✓         |         |      |
| 1.3.2 | A - Produces given goods at a lower input cost than other countries ✓✓              |         |      |
| 1.3.3 | G - At a price less than average variable cost (AVC) ✓✓                             |         |      |
| 1.3.4 | E - Cost incurred when production increases by an additional unit ✓✓                |         |      |
| 1.3.5 | I - A country where a developed component co-exists with a developing component. ✓✓ |         |      |
| 1.3.6 | H - The monetary authority in South Africa. ✓✓                                      |         |      |
| 1.3.7 | F - Dumping of waste material. ✓✓   |         |      |
| 1.3.8 | C - An indicator of inflation. ✓✓   | (8 x 2) | (16) |

**[50]**

**SECTION B**

Answer any **THREE** of the five questions from this section in the ANSWER BOOK.

**QUESTION 2**

2.1 **Choose the correct word from those given in brackets:**

2.1.1 Multiplier ✓✓

2.1.2 Expansionary ✓✓

2.1.3 Privatisation ✓✓

2.1.4 International Monetary Fund (IMF) ✓✓ (4 x 2) (8)

2.2 **List the THREE economic indicators used in forecasting of business cycles.**

- Leading ✓✓
- Lagging ✓✓
- Coincident ✓✓ (Any 3 x 2) (6)

2.3 **Study the graph below and answer the questions that follow:**

2.3.1 At point e / e / **at the point where DD intersects SS / at a price of R10 and a quantity of 100** ✓✓ (2)

2.3.2 Increased ✓✓

Reasons:

- Increase in the number of South African's visiting USA ✓✓
- South Africans buy more American financial assets. ✓✓
- Increased imports from the USA. ✓✓
- Increased exports to South Africa. ✓✓
- Services (shipping, insurance) from USA. ✓✓
- Payments of interest and dividend on foreign capital. ✓✓
- Payment of installments on repayments of overseas loans. ✓✓
- Other payments to foreign countries, which take place from time to time. ✓✓
- **Foreign currencies speculations** ✓✓
- **(Accept any other country using the dollar as currency)**

(Any 1 x 2) (4)

2.3.3 Depreciated/Decreased ✓✓

Motivation:

- Increased demand for dollars ✓✓ OR
  - Decreased demand for rand ✓✓
  - **More rand for dollars ✓✓**
  - **More expensive to buy dollars ✓✓**
  - **One dollar cost R12,00 instead of R10,00** (Any 1 x 2)
- (4)

2.4 **Study the table below and answer the questions that follow.**

2.4.1 Export prices X 100  
Import prices  
 $\frac{105}{101} \times 100 = 103,9 / 104$

(3)

2.4.2 Indicates that a country is poorer since greater volumes of exports to be produced to afford the same value of imports / **A decrease in export prices / an increase in import prices ✓✓**

(2)

2.4.3 2005 ✓✓

(2)

2.4.4 The terms of trade increased from 2005 – 2010 ✓✓ An increase in the terms of trade indicates an improvement in the welfare ✓ of the country since fewer exports are needed to buy the same amount of imports. ✓

Accept any other relevant facts. (Max 3) (3)

2.5 **Explain leakages and injections.**

- Leakages is any flow that does not give rise to a further round of income ✓✓ also known as withdrawals ✓✓ because it represents a withdrawal of money from the economy. ✓✓
  - (e.g.) of leakages are taxes (T) ✓✓ expenditure on imports (Z/M) ✓✓ and savings (S) ✓✓ (Max 4)
  - Injections represent the introduction of additional money into the economy ✓✓
  - (e.g.) of injections are government spending (G) ✓✓ income earned from exports (X) ✓✓ investment spending (I) ✓✓ (Max 4)
- (8)

**2.6 Discuss the Monetarist approach as a cause of business cycles.**

- Also called the sunspot theory / exogenous approach ✓✓
- Believe markets are inherently stable. ✓✓
- Departures from the equilibrium state are caused by factors outside of the market system. ✓✓
- Market forces (supply and demand) kick in and bring the economy back to its natural state or equilibrium route. ✓✓
- These interferences are not part of the normal forces operating in the market. ✓✓
- Governments should not interfere in the markets. ✓✓
- Major cause of economic fluctuations are inappropriate government policies ✓✓, undesirable increases and decreases in money supply ✓✓ weather conditions ✓✓ shocks (September 11) ✓✓ structural changes ✓✓ severe increases in the price of fuel ✓✓ and wars ✓✓  
(Maximum 4 marks for examples)

(Any 4 x 2)

(8)  
[50]

**QUESTION 3****3.1 Choose the correct word from those given in brackets:**

3.1.1 Oligopolistic ✓✓

3.1.2 Natural / artificial ✓✓

3.1.3 Revenue ✓✓

3.1.4 Can ✓✓

(4 x 2)

(8)

**3.2 List any THREE characteristics of monopolistic competition.**

- Large number of producers / **diverse businesses** ✓✓
- Product is differentiated ✓✓
- Entry to the market is free ✓✓
- Businesses have little/some control over the price of the product ✓✓
- Incomplete information for buyers and sellers ✓✓
- **Hybrid structure** ✓✓
- **It's often local** ✓✓

(Any 3 x 2)

(6)

**3.3 Study the extract below and answer the questions that follow:**

- 3.3.1
- Increase efficiency in the market ✓✓
  - Improve equity in the markets ✓✓
  - Contribute to developmental objectives ✓✓
  - **Prevent monopoly power / abuse of economic power** ✓✓
  - **Regulate growth of acquisitions (takeovers) and mergers** ✓✓
  - **Prevent restrictive practices** ✓✓
  - **Promote competition** ✓✓
  - **Exploit advantages of scale to benefit society in general** ✓✓
  - **Eliminate price fixing** ✓✓

Accept any other relevant response

(Any 2 x 2)

(4)

3.3.2 Grant the order / **confirm** the penalty (**order**) imposed on the company by the Competition Commission. ✓✓✓

(3)

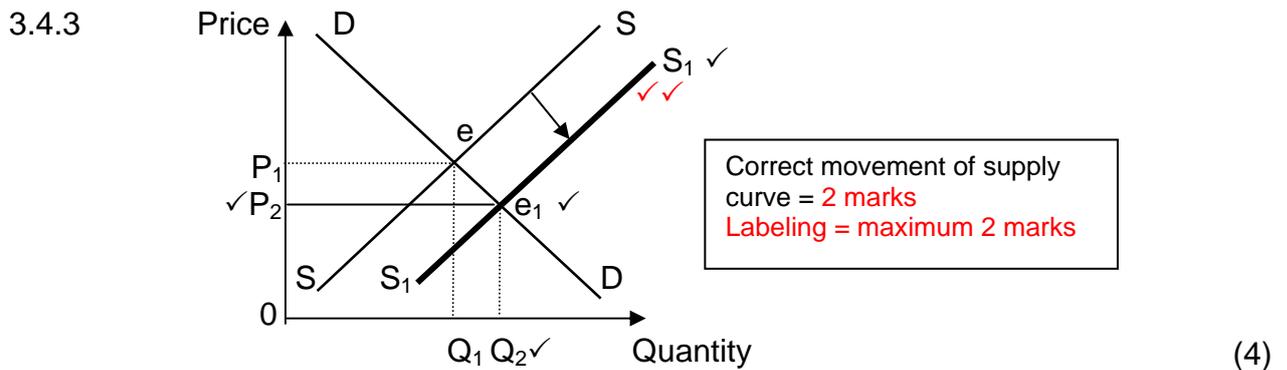
3.3.3 Competition Appeal Court. ✓✓✓

(3)

## 3.4 Study the graph below and answer the questions that follow:

3.4.1 Perfect market / goods and services / factor market ✓✓ (2)

3.4.2 The individual producer on the market is a price taker /  
Market demand and supply establish the price /  
Price determined by market forces / where demand and supply  
 interact or meet ✓✓✓✓ (4)  
 Accept any other relevant fact.



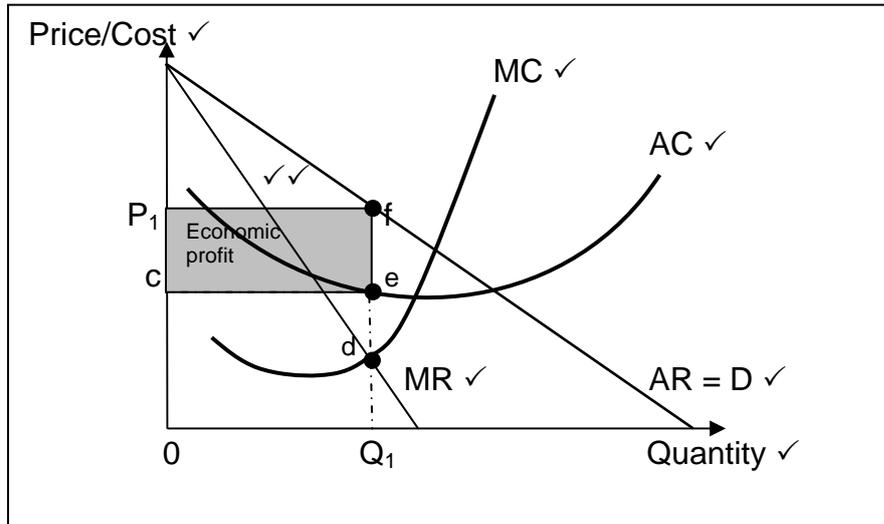
## 3.5 Discuss how non-price competition influences the behaviour of oligopolists.

- Oligopolists do not compete with each other on price because price wars will not benefit them. ✓✓
  - Prices are determined by mutual agreement. ✓✓
  - They compete with each other on product differentiation and efficient service. ✓✓
  - Convenience shopping ✓✓
  - E.g. extended shopping hours ✓✓
  - Firms make use of advertisements to increase awareness and to lure customers towards their products. ✓✓
  - E.g. Pick n Pay use extensive advertising to increase market share. ✓✓
  - Non-price competition builds brand loyalty and product recognition. ✓✓
  - E.g. after sales service, loyalty rewards. ✓✓
- (Accept examples for maximum of 2 marks)

(Any 4 x 2) (8)

3.6

Draw a fully labelled graph to illustrate economic profit for a monopolist in the short run.



Labelling of axes = 2 marks  
 Labelling of curves = 4 marks  
 Indicating economic profit = 2 marks  
**TOTAL = 8 MARKS**

(8)  
[50]



environment) ✓✓

- Promote and develop links between domestic and zone-based industries ✓✓
- Enable exploitation of resource-intensive industries ✓✓ (Any 3 X 2) (6)

4.3.3 **What is the purpose of the EIDD?**

To provide leadership in the development of policies and strategies /to enable competitiveness in the environment, equity and enterprise development ✓✓ (2)

4.4 **Study the cartoon below and answer the questions that follow:**

4.4.1 **Briefly explain the North-South divide as illustrated in the above cartoon.**

The socio-economic and political division, which exists between wealthy developed countries collectively known as the North ✓✓ and the poorer developing countries, collectively known as the South, ✓✓ is referred to as the North-South Divide. ✓✓  
Any relevant example ✓✓ (Any 2 x 2) (4)

4.4.2 **The negative effects of globalisation on South Africa:**

Poverty ✓ There is a growing gap between the rich and the poor. ✓✓  
Growth ✓ South Africa is unable to attract adequate FDI, to ensure sustainable economic growth / **unemployment** ✓✓  
Trade ✓ Rich countries continue to subsidize agricultural production, making it difficult for South Africa to compete on the global market / dumping ✓✓  
Environment ✓ dumping of nuclear waste ✓✓  
Imported inflation ✓ leads to an increase in production costs in import country ✓✓ (Any 2 X 3) (6)

**4.5 Discuss dumping as an argument in favour of protectionism.**

- Foreign enterprises may engage in dumping because government subsidies permit them to sell goods at very low prices or below cost ✓✓ or because they are seeking to raise profits through price discrimination ✓✓
  - In the latter case the initial reason for exporting products at a low price may be to dispose of accumulated stocks of goods. ✓✓
  - **In the short term**, consumers in the importing country will benefit. ✓✓
  - However, their long-term objective may be to drive out domestic producers and gain strong market position. ✓✓
  - In this case consumers are likely to lose out as a result of the reduction in choice and the higher prices that the exporters will be able to charge. ✓✓
  - **Protectionism** prevents foreign industries from dumping their surpluses and out-of-season goods at low prices, which may be harmful to home industries ✓✓
- (Any 4 X 2) (8)

**4.6 Discuss the difference between economic growth and economic development.**

- *Economic growth* consists of growth of real GDP ✓✓ and implies an increase in capacity of economy ✓✓ to produce more goods and services ✓✓ It requires policies that empower the economy ✓✓
  - *Economic development* consists of growth of per capita real GDP ✓✓ and implies an increase in standard of living / capacity of population to produce more goods and services. ✓✓ It requires policies that empower people ✓✓
- (2 X 4) (8)

**QUESTION 5: LO4 CONTEMPORARY ECONOMIC ISSUES, AS1 – AS4****5.1 Choose the correct word from those given in brackets:**

5.1.1 demand-pull ✓✓

5.1.2 deflation ✓✓

5.1.3 international ✓✓

5.1.4 government ✓✓

(4 x 2)

(8)

**5.2 List any THREE characteristics of cost-push inflation.**

- Sudden decrease in the supply of key inputs / Supply shocks / key inputs (increase in price of oil) ✓✓
- Increase in factor prices/wages (cost of labour) / **input costs rise** ✓✓
- Sudden rise in interest rates ✓✓
- Deterioration/depreciation in exchange rate ✓✓
- **Increase in profits** ✓✓
- **Increase in taxes / revenue for Government** ✓✓
- **Increase in the price of imports related to cost of production**
- **Decrease in productivity levels** ✓✓
- **Natural disasters** ✓✓

(Any 3 x 2)

(6)

**5.3 Study the extract below and answer the questions that follow.**

5.3.1 Tuna, becoming extinct, will disappear from shopping lists ✓✓✓  
It might lead to a definite forced change in taste and habits at the side of consumer ✓✓✓  
Accept any other relevant fact. (3)

5.3.2 Tuna fetches very high prices / worldwide (\$50 per kg) / and one fish may weigh up to 680 kg. ✓✓✓ (3)

5.3.3 Support Greenpeace or WWF financially so that marine reserves can increase ✓✓  
Restrict by using quota system ✓✓  
Make employees/stakeholders aware of this endangered species ✓✓  
Better management of fish resources ✓✓  
Accept any other relevant solutions. (Any 2 x 2) (4)

## 5.4 Study the cartoon below and answer the questions that follow.

- 5.4.1 Inflation is out of control and the SARB is trying to control it. ✓✓  
Accept any other relevant answer. (2)
- 5.4.2
- Increased direct taxes ✓✓
  - Increased indirect taxes ✓✓
  - Reducing government expenditure ✓✓
  - Tax rebates to improve productivity ✓✓
  - Financing the budget on a non-inflationary basis ✓✓
  - A loan levy can be introduced ✓✓
  - Imposing a surcharge on imported goods ✓✓ (Any 1 x 2) (2)
- 5.4.3 3% – 6% ✓✓ (2)
- 5.4.4 Yes ✓✓ e.g. the current inflation figure is within the target range ✓✓  
No ✓✓ e.g. continuous interest rate cuts may push inflation above the upper level of the target ✓✓  
Accept relevant answer (4)

## 5.5 Distinguish between renewable and non-renewable resources.

RENEWABLE	NON-RENEWABLE
<ul style="list-style-type: none"> <li>• Resources that can be generated, <u>replaced</u> or replenished ✓✓</li> <li>• <u>Limiting factor</u> of the availability is the <u>rate</u> at which they can be <u>produced</u> ✓✓</li> </ul> <p><u>E.g.</u> timber, forest products, agricultural products ✓✓</p>	<ul style="list-style-type: none"> <li>• Once these materials are extracted they are <u>gone for ever</u> ✓✓</li> <li>• Once used, they <u>cannot be replaced</u> ✓✓</li> <li>• <u>E.g.</u> mineral resources, fossil fuels, such as oil, petrol, copper, gold and coal ✓✓</li> </ul> <p>Examples: maximum 2 marks</p>

Accept if not tabulated.

(Any 2 x 4)

(8)

**5.6 Explain hyperinflation and stagflation.**

Hyperinflation:

- Most extreme form of inflation / runaway inflation / inflation out of control ✓✓
- 50% or more per month ✓✓
- National currency is almost worth nothing ✓✓
- Leads to exchange of goods for goods (barter) – widespread phenomenon ✓✓
- E.g. Zimbabwe ✓✓
- People lose confidence/faith in the economy ✓✓
- It can occur in times of war ✓✓

(Any 2 x 2)

Stagflation:

- Low economic growth rate exists due to strong monetary and fiscal policies to curb high inflation rates ✓✓
- Conditions of high inflation and high unemployment rates at the same time ✓✓
- Occurs in economies that lost the ability to create new jobs ✓✓

(Any 2 X 2)

(8)  
[50]

**QUESTION 6: LO1 & LO3, AS1 – AS4****6.1 Choose the correct word from those given in brackets:**

6.1.1 opposite ✓✓

6.1.2 resource ✓✓

6.1.3 growth ✓✓

6.1.4 Eskom ✓✓ (4 x 2) (8)

**6.2 List THREE methods by which Gross Domestic Product can be calculated.**

- Production method / Value Added Method ✓✓
- Income method ✓✓
- Expenditure method ✓✓ (3 x 2) (6)

**6.3 Study the table below and answer the questions that follow.**

6.3.1 A subsidy (grant) on a product is paid on the outputs to reduce the price to make it more affordable ✓✓ E.g. R1 for each loaf of bread ✓ (3)

6.3.2 Consumption of Fixed Capital is the diminishing value of an asset over a period of time, also called depreciation ✓✓ E.g. depreciation in the value of equipment, machinery, vehicles ✓ (3)

6.3.3  $\frac{1\ 086\ 907}{2\ 423\ 323} \times \frac{100}{1}$   
= 44,85 % / 44,9% / 45 % ✓✓ (4)

**6.4 Study the table below and answer the questions that follow.**

6.4.1 Life expectancy is the expected number of years **a person** would live ✓✓✓ (3)

6.4.2 Western Cape ✓✓✓ (3)

6.4.3

- Lack of education and training ✓✓
- Ignorance ✓✓
- Apartheid regime ✓✓
- Poverty trap ✓✓

Any other relevant reason. (4)

6.5 **Discuss the role of households (consumers) in the economic circular flow model.**

- Owns four factors of production and presents on input market ✓✓
- Receives income (rent, interest, wages and profit) in return ✓✓
- Primary sector of consumption of goods and services ✓✓
- Pays taxes to the government e.g. income tax ✓✓
- Enjoy collective goods and services delivered by the state ✓✓
- Spending on goods and services (domestic and foreign) ✓✓
- Saving as source of investment ✓✓
- Primary participant in the economy ✓✓

Accept any other relevant fact.

(Any 4 x 2)

(8)

6.6 **Discuss capital and technology as factors that are necessary for economic growth.**

**CAPITAL:**

- Definition of capital: resources used in production of other goods and services ✓✓
- Capital is necessary for the production of goods and services ✓✓
- The more capital we have, the more goods and services can be produced ✓✓
- For effective production to take place, we need both human/social and physical capital ✓✓
- Increase in the production capacity will lead to economic growth ✓✓

(Any 2 x 2)

**TECHNOLOGY:**

- Definition of technology: new scientific knowledge in the form of inventions and innovations / sometimes referred to as fifth factor of production ✓✓
- Sustained economic growth requires technological progress and innovation ✓✓
- Technological progress means new kinds of capital goods as well as new production processes ✓✓
- Technological progress can lead to economic growth ✓✓ (Any 2 X 2)

(8)

[50]

**TOTAL SECTION B:**

**150**

**SECTION C**

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

## I. Essay responses:

- Should include an introduction, body and conclusion.
- For the introduction and conclusion 5 marks will be allocated.
- Five marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

## II. Non-essay responses:

- Can include: formal letters, minutes, reports or memoranda.
- Five marks will be allocated for the interpretation of the topic.
- In addition, 5 marks will be allocated for the format.
- A maximum of 40 marks will be allocated for the content.

**QUESTION 7**

**Due to problems experienced in the Department of Public Enterprises, Nomsa Dlamini, the Minister of Public Enterprises, writes a memo to personnel in her Department to discuss the necessity of the public sector and the macroeconomic objectives in detail.**

**Write the memo on behalf of Mrs Nomsa Dlamini.**

**[50]**

**DEPARTMENT OF PUBLIC ENTERPRISES ✓**

**MEMORANDUM ✓**

**TO : ALL PERSONNEL ✓**

**FROM : MINISTER OF PUBLIC ENTERPRISES, NOMSA DLAMINI ✓**

**SUBJECT : NECESSITY OF THE PUBLIC SECTOR AND ITS OBJECTIVES. ✓**

**DATE : \_\_\_\_\_ ✓ (Format: maks 5)**

All countries have public sectors and there are good reasons for the existence of such sectors. ✓✓ The public sector is **necessary** for the following reasons.

**1. To provide public goods ✓✓**

- Public goods are mostly in the form of services. ✓✓
- Government use policies such as taxation and government spending ✓✓
- Community goods ✓✓ are characterized by non-excludability and non-rivalness. ✓✓ Non-excludability (e.g.) defence force ✓✓ The protection available to everyone living in a country irrespective of whether they are willing to pay for it or not. ✓✓
- Collective goods ✓✓ e.g. parks, beaches ✓✓ can exclude free-riders by levying

fees ✓✓

**2. To take care of common resources** ✓✓

- Environment consists of resources that no one owns yet everyone can use free of charge. ✓✓
- (e.g.) oceans for fishing / the air we breathe / natural scenery we enjoy ✓✓
- Governments have to intervene in order to protect the environment and prevent the creation of negative externalities / protection and enforcement of legal structure ✓✓

**3. To manage the economy.** ✓✓

- Governments manage the collective interests of its people ✓✓
- Government has to ensure a social and legislative environment in which businesses and individuals can pursue their own interests to the maximum ✓✓
- Government must also apply suitable and credible economic and other policies in order to achieve internationally respected economic objectives. ✓✓
- Public policy needed to secure high employment, price stability and socially desired rate of economic growth ✓✓

**4. Externalities** ✓✓

- benefits or costs from production of goods and services ✓✓
- government can subsidize or restrict production ✓✓

**5. Merit and demerit goods** ✓✓

- merit goods benefit the public more than private goods ✓✓
- e.g. health care and education ✓✓
- demerit goods are goods considered to be harmful to society ✓✓
- government impose taxes and regulations to discourage consumption ✓✓
- e.g. cigarettes ✓✓

**6. Monopolies and imperfect competition** ✓✓

- Government should intervene and prevent economically inefficient and imperfect competition from occurring ✓✓

In developing countries governments have **FIVE macroeconomic objectives.**

**A. Economic growth** ✓✓

- Refers to an increase in the production of goods and services in the economy. ✓✓
- it is measured in terms of real GDP ✓✓
- For economic development to occur, economic growth rate must be higher than the population growth rate. ✓✓
- Growth and development in a country benefits its citizens because it often leads to a higher standard of living. ✓✓

**B. Full employment** ✓✓

- Accept any relevant definition ✓✓
- Government is always trying to attain high levels of employment. ✓✓

- Unemployment rate increased from 14,0% in 1994 to 26,5% in 2005.✓✓
- Employment increased mainly due to informal sector activities.✓✓
- The GEAR strategy was implemented to create a climate that was conducive to employment creation by the private sector.✓✓

**C. Exchange rate stability** ✓✓

- The government should manage the economy through effective fiscal and monetary policies, so that the exchange rate remains relatively stable.✓✓
- Depreciations and appreciation of a currency could create uncertainties for producers and traders and should be limited.✓✓
- The SARB changed the exchange rate from a managed floating system to a free-floating exchange rate system.✓✓

**D. Price stability** ✓✓

- SARB has succeeded in keeping inflation within the target range of 3% - 6% ✓✓
- Market economies produce better results in terms of economic growth and development when prices are relatively stable.✓✓
- Interest rates, based on the repo rate are the main instrument used in the stabilization policy.✓✓
- The stable budget deficit also has a stabilizing effect on the inflation rate.✓✓

**E. Economic equity** ✓✓

- Redistribution of income and wealth is essential in market economies.✓✓
- In South Africa, the progressive tax system is used. ✓✓
- Progressive income tax ✓✓ tax on profits ✓✓, wealth and expenditure are used to finance free social services✓✓ (e.g.) health ✓✓ education ✓✓ and to pay cash grants to the poor✓✓ (e.g.) pensions✓✓ and other vulnerable people ✓✓

**(max 40)**

\_\_\_\_\_ ✓  
**MRS NOMSA DLAMINI**  
**MINISTER OF PUBLIC ENTERPRISE** } ✓

\_\_\_\_\_ ✓  
**DATE**

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
-------	-------------------------

0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 - 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 - 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 - 45)

**[50]**

**QUESTION 8**

**Discuss FIVE reasons for market failures and briefly outline the South African government's attempts to improve income distribution.**

**INTRODUCTION**

- Market failures occur when the market is not efficient. Sometimes free markets fail to produce maximum of goods and services from a given set of resources / The market also fails to produce the optimal mix of goods and services desired by consumers. ✓✓✓

**(max 3)****BODY****REASONS:**1. **Externalities** ✓✓

- **Known as spill-over effects** ✓✓
- Sometimes in ideal market conditions some people gain or suffer due to the existence of externalities ✓✓
- Are cost and benefits to third parties which are not included in the market price ✓✓
- Private costs (internal costs) and benefits are determined the market mechanism ✓✓
- Externalities do not go through the market mechanism and thus do not have a price attached to them ✓✓
- Externalities converts private costs and benefits are converted to social costs and benefits ✓✓
- Externalities are difference between social costs and benefits and private costs and benefits ✓✓
  - Private costs ✓✓ price of bicycle of R990 ✓✓
  - Private (internal) benefits ✓✓ e.g. profit for the producer ✓✓
  - Social costs ✓✓ e.g. additional costs like disposing waste products, decreasing appeal of area ✓✓ **optimal social and market allocation** ✓✓
  - Social benefits ✓✓ e.g. clean water leading to few illnesses, healthier workforce, higher productivity ✓✓

**(max 6)**2. **Public goods** ✓✓

- Markets incomplete – do not meet demand for certain goods – public sector provides these goods known as public goods ✓✓
- Divided into community (water drainage and light houses) and collective goods (parks, pavements) ✓✓
- Public goods are not provided by price mechanism – producer cannot withhold goods for non-payment ✓✓
- State finance public goods through taxation and provide it themselves ✓✓
- In SA – most goods and services private goods – have rivalry in consumption and excludability ✓✓
- Features of public goods:
  - non-rivalry ✓✓ consumption by one person does not reduce consumption by another individual e.g. lighthouse ✓✓
  - non-excludability ✓✓ consumption of public goods cannot be confined to those who pay for it (free riders e.g. radio and television licenses) ✓✓
  - social benefits outstrip private benefits ✓✓ large social benefits relative to private benefits e.g. health care and education ✓✓

- infinite consumption ✓✓ once provided, marginal cost of supplying one more individual is zero (traffic lights) ✓✓
- non-reject ability ✓✓ individuals may not be able to abstain from consuming them even if they want to (e.g. street lighting) ✓✓ **(max 6)**

### 3. Merit and demerit goods ✓✓

#### MERIT GOODS (✓)

- Some goods highly desirable for general welfare – not highly rated by market – leads to too little consumed – market failed ✓✓
- E.g. health care and education, safety – merit goods – special form of private goods ✓✓
- Few people would pay for education if they had to meet full cost – results in market failure ✓✓
- In pure market system – consumers' spending on merit goods determined by private benefits ✓✓
- Merit goods have positive externalities – social benefits derived from their consumption exceed private benefits ✓✓

#### DEMERIT GOODS (✓)

- E.g. cigarettes, alcohol and non-prescription drugs – over-consumed ✓✓
- Consumer unaware of true cost of consuming them e.g. increased health costs, social decay = negative externalities ✓✓ **(max 6)**

### 4. Imperfect competition ✓✓

- Competition often reduced by power in market economies – power lies with producers ✓✓
- Conditions of imperfect competition: restrict output, raise prices where price exceeds marginal cost, prevent new businesses to enter, prevent full adjustment to changes in demand ✓✓
- Modern market does not allow for price negotiations ✓✓
- Advertising promote producer sovereignty – encourage consumer to buy products – delay products from market until it is in businesses' financial interest ✓✓
- E.g. businesses had technology to produce long-life light bulbs/allows cars to be driven by fuels other than fossil fuels/cure for common cold ✓✓ **(max 6)**

### 5. Lack of information ✓✓

- Information is not always available to make rational decisions. ✓✓
- Consumers ✓✓ – need detailed information to maximize their utility – technology increase information but it is not perfect. ✓✓
- Workers ✓✓ unaware of job opportunities, advantages and disadvantages, health risks of current jobs ✓✓
- Entrepreneurs ✓✓ lack of information about costs, availability and productivity of some factors of production – operating on basis of incorrect info about reliability and life span of machines in use ✓✓ **(max 6)**

### 6. Immobility of factors of production ✓✓

- Most markets do not adjust rapidly to changes in supply and demand – due to lack of info, resources not mobile ✓✓

- Labour ✓✓ takes time to move occupationally and geographically – adjust slowly and inadequately ✓✓
- Unskilled workers ✓✓ not able, willing or have time to gain necessary skills ✓✓
- Physical capital ✓✓ infrastructure like telephone lines – can move from one location to another at irregular intervals ✓✓
- Structural changes ✓✓ occur slowly – demand increases or decreases – technology used like robots – takes time for labour-intensive textile production to be switched to computer assisted production ✓✓ **(max 6)**

### 7. Imperfect distribution of income and wealth ✓✓

- Market system is neutral to income distribution ✓✓
- Market economy provides opportunities to earn an income, but it's not equal – no equal education and skills ✓✓
- Results in minority groups like women and disabled people earning less ✓✓ **(max 6)**

### 8. Price discrimination ✓✓

- A situation in which identical goods and services are sold at different prices to different consumers ✓✓
- Leads to a situation where some consumers pay lower prices ✓✓
- E.g. when airlines sell tickets on the same flight at different prices to different customers ✓✓ **(max 6)**

**(Any 5 x 6) (30)**

## GOVERNMENT'S ATTEMPT TO REDISTRIBUTE INCOME

- Taxation to provide free goods and services ✓✓
- Subsidising goods and services ✓✓
- Transferring income to the poor ✓✓
- Job creation programmes / Expanded Public Works Programme ✓✓
- Labour legislation: Basic Conditions of Employment Act, Employment Equity Act ✓✓.
- Preferential access to the disadvantaged to government contracts ✓✓.
- BEE policies ✓✓
- Affirmative action ✓✓.
- Land redistribution ✓✓
- Land restitution ✓
- Property subsidies ✓✓
- RDP ✓✓
- Minimum wages ✓✓
- Maximum prices ✓✓
- Minimum prices ✓✓
- Free education and training ✓✓ **(max 10)**

**[50]**

## CONCLUSION

Any suitable conclusion. ✓✓

**(Max 2)**

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.

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5	Candidate has interpreted topic correctly and has linked facts to topic. (31 - 45)

**QUESTION 9**

**Discuss and assess the economic indicators as depicted below in terms of the state of the South African economy.**

**[50]****INTRODUCTION**

A statistic that shows the behaviour of one or other economic variable /  
Any suitable introduction. ✓✓✓

**(Max 3)****BODY****1. Real Gross Domestic Product (Production)**

- Definition: The GDP is the total value of all final goods and services produced within the borders of a country in one year. ✓✓
- The GDP measures the total production of an economy. ✓✓
- An increase in the Real GDP will cause economic growth, which is defined as the annual rate of increase in total production. ✓✓
- Nominal GDP cannot be used because its magnitude is partly caused by price increases and not by an increase in the physical numbers. ✓✓
- The real GDP is obtained when the effect of inflation is removed from the data. (GDP-Deflator) ✓✓
- RGDP is used to describe business cycles. ✓✓
- An important use of the RGDP is therefore to express real aggregate economic activity and to describe the movement of business cycles. ✓✓
- It is also used in forecasting, e.g. if the index of leading indicators starts to increase after a continuous decrease, it is an indication that the cycle has turned. ✓✓

Assessment:

- The total value of production decreased with 4% over the period 2008/2009. ✓✓
- It is a clear that South Africa's economy was trapped into a recession. (negative growth for two consecutive quarters) ✓✓
- As a result one will find the following:
  - Increase in the unemployment rate/ layoffs ✓✓
  - Increase number of bankruptcies / debt ✓✓
  - Poor profit margins etc. ✓✓

**(Max 5 X 2) (10)****2. Per Capita Real Gross Domestic product (Standard of living)**

- If the population grows at a faster rate than the economy, everybody may be seen worse off despite increases in the quantities of goods and services. ✓✓  
(For this reason the per capita RGDP is calculated)
- Calculation: per capita RGDP = RGDP / population number ✓✓
- The per capita figures are use for three purposes:
  - To indicate economic development ✓✓
  - To indicate living standards ✓✓
  - To compare living standards ✓✓

Assessment:

- As a result of the global and domestic recession we find our self in the position where many people is been laid off and with out income, ✓✓
  - this will have a negatively impact on the GDP and also on the per capita RGDP. ✓✓
  - That will indicate a drop in the standard of living and contributes to our growing poverty problem. ✓✓
- (Max 5 X 2) (10)**

### 3. Consumer Price Index (Price changes)

- Consumer price indexes show price changes of a representative basket of goods and services that consumers buy. ✓✓
- The index covers metropolitan and other urban areas. ✓✓
- It is an overall index and the weights are obtained from the expenditures of different income categories of households. ✓✓
- It is the most comprehensive indicator measuring consumer inflation in South Africa. ✓✓
- It shows changes in the general purchasing power of the rand. ✓✓

Assessment:

- The CPI decreases to within the inflation target of 3-6% over the period ✓✓
  - What means that inflation is for the time being, under control because of strict monetary measures by the SARB ✓✓ and
  - The negative perception from consumers of the economy due to the global recession. ✓✓
- (Max 5 X 2) (10)**

### 4. Repo rate (Monetary conditions)

- Interest rates are the main determinant of investment on a macroeconomic scale. ✓✓
- The key rate of interest, on which all other interest rates are founded, is the repo rate. ✓✓
- Interest rates are very important indicators, if they move up, the debt of households and businesses require bigger repayments. ✓✓
- This includes hire purchases and housing and other property loans. ✓✓
- It may be signal that a downturn in the business cycle is pending. ✓✓
- means that household incomes may fall as some workers lose their jobs. ✓✓

Assessment:

- Against the background of a slowing global and domestic economy and the improved medium-term outlook for inflation, the MPC has decided to reduce the repurchase rate (Repo Rate) ✓✓
- (Max 5 X 2) (10)**

**5. Gini Coefficient (Distribution of income)**

- The Gini coefficient is calculated from the information provided by a Lorenz curve.✓✓
- A Lorenz curve shows the distribution of income among proportions of the population.✓✓
- The Gini coefficient is therefore, the ratio of the proportion of the population who lives on less than the proportional income.✓✓
- The value of the Gini coefficient can vary between 0 and 1.✓✓
- The higher the value the more unequal the distribution of income is.✓✓

Assessment:

- Gini coefficients for countries with highly unequal distribution are typically between 0.50 and 0.70. It is therefore clear that South Africa can be classified as a country, which is highly unequal.✓✓

**(Max 5 X 2) (10)**  
**(Any 4 x 10) (40)**

**CONCLUSION**

Any suitable conclusion ✓✓

**(Max 2)**

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**[50]**

**QUESTION 10**

**Discuss the positive impact of tourism on the South African economy, highlighting the contribution of the 2010 Soccer World Cup.**

**[50]**

**INTRODUCTION**

Tourism represents a unique industry in an economy because its effects extend far beyond the tourism industry itself. Tourism is an industry that provides a substantial economic stimulus to other industries ✓✓✓ **(Max 3)**

## BODY

### POSITIVE EFFECT OF TOURISM:

#### 1. Gross Domestic Product (GDP) / Economic growth / Direct foreign spending by tourists ✓✓

- Direct impact amount to 3.9% of GDP in 2005 ✓✓
- Indirect impact is about 9.0% in real terms – more than contribution of gold mining ✓✓
- Differs from country to country – Mauritius gets about 1/3 of its National Income from this sector ✓✓
- Biggest impact on services industry than on agriculture or manufacturing ✓✓
- Contribution (own opinion) ✓✓

#### 2. Employment / Entrepreneurial opportunities and the informal sector ✓✓

- World Travel and Tourism Council (WTTC) estimates ½ million jobs directly created by tourism in 2002 – 1/3 of economy's workforce ✓✓
- Largest provider of jobs and earner of foreign exchange, ✓✓ due to: tourism is labour intensive ✓✓ employs many skills ✓✓ can provide immediate employment ✓✓ provides entrepreneurial opportunities ✓✓
- Indirectly 6.9% of workforce involved with tourism in SA ✓✓
- Significant part of tourist expenditure goes towards informal sector activities ✓✓
- Tourism contributes equally to GDP and job-creation – indicates how labour intensive the sector is ✓✓
- DEAT shows current focus of government on sector's potential to create entrepreneurial and employment opportunities for historically disadvantaged ✓✓
- Contribution (own opinion) ✓✓

#### 3. Poverty relief ✓✓

- Tourism makes a substantial contribution to economic growth and job creation – not sufficient to ensure poverty eradication – affect lives of the poor in many ways / fast and effective distribution mechanism in development of rural areas ✓✓
- Sensible policy guidelines can counteract the potentially negative effects of tourism ✓✓
- Prime tourism attractions located in rural areas ✓✓

- Promote balanced and sustainable development ✓✓
- Provides alternative to urbanization, permitting people to continue – enfranchising both women and youth ✓✓
- Offers diversity of income sources to poor people: allowing them a stake, empowering them, creating partnerships ✓✓
- Contribution (own opinion) ✓✓

#### 4. Externalities ✓✓

- Benefits that arise from economic activities that are not reflected in the actual prices of transactions – refer to economic side-effects of certain transactions ✓✓
- Tourism strategy will maximize external benefits and minimize external costs of various externalities ✓✓
- Such benefits are normally measured in terms of an impact or cost-benefit analysis ✓✓
- Attracts large amounts of revenue, but cause undue environmental damage ✓✓
- Rapid growth aimed at short-term benefits ✓✓
- Global tourism will grow due to increased population and increased living standards ✓✓
- Potential: attract revenue to country, alleviate poverty, conserve cultural and natural assets – needs conscious planning ✓✓
- Needs to achieve ethical and sustainable tourism must respect tradition and customs of area, plough back earnings into local community – area must be protected as attractive tourist resort ✓✓
- Contribution (own opinion) ✓✓

#### 5. Environmental effects ✓✓

- People have become more aware of the negative environmental consequences and implications for consumption and waste ✓✓
- Tourism's relationship with environment is complex – involves many activities that have adverse environmental effects ✓✓
- Led to emphasis on ecotourism development - involves guidelines for managing social, economic and environmental impact of tourism ✓✓
- Objective is to achieve an equitable spread of benefits across the entire population ✓✓
- Local communities engaged in tourism to achieve local empowerment ✓✓

- Ecotourism development embraces principles of ecological preservation ✓✓
- Permanent environmental restructuring ✓✓ e.g. highways, airports ✓✓
- Contribution (own opinion) ✓✓

## 6. Infrastructure ✓✓

- SA has modern, world-class infrastructure, sophisticated transport system ✓✓  
low-cost and widely available energy and advanced telecommunication system ✓✓
- Quality infrastructure will increase volume of tourism – need good travel facilities, well-maintained road network and excellent tourist accommodation, such as hotels and lodges ✓✓
- Most centres have good transport lines, superior road and highway infrastructure ✓✓
- Proper infrastructure planning needed to accommodate growth in tourism ✓✓
- Development of infrastructure is seen as public investment ✓✓
- Contribution (own opinion) ✓✓

## 7. Measuring tourism ✓✓

- There should be a purpose for the visit and activity ✓✓
- No remuneration should be earned ✓✓
- The minimum length of stay is one night ✓✓
- The maximum length of stay is one year ✓✓
- The travelling distance should be more than 160 km ✓✓

## 8. Foreign exchange generator ✓✓

- Every time money is spent locally, it helps to ensure the balance of payments equilibrium ✓✓

## ADVANTAGES:

### 1. Households ✓✓

- Income is earned through employment ✓✓
- Infrastructure is created for use by both tourists and local people ✓✓
- Skills require education and training – offered as school subjects: Tourism, Hospitality ✓✓

### 2. Businesses ✓✓

- Economic and basic services infrastructure provided by public sector forms foundation for superstructure ✓✓

- E.g. accommodation, transport, built attractions, retailing and recreation services ✓✓
- Combinations of public sector, private sector combinations (PPP) develop ✓✓
- Informal opportunities like car rental, arts and craft also exist ✓✓

### 3. Government ✓✓

- Levy of taxes ✓✓ with two purposes:
- Recover external costs (showers on the beach) ✓✓
- Raise revenue (tourists seen as part of tax base) ✓✓

### 4. Infrastructure (✓✓)

- Residents and visitors enjoy adequate and well-maintained physical and basic services essential in tourist destinations ✓✓
- DEAT, SDI, corridors and PPPs with tourism as focus ✓✓
- Also require social infrastructure e.g. ambulance services ✓✓

(Max 40)

(Max 10 for contribution)

## CONCLUSION

From the above discussion it is clear that tourism plays a very important role in any economy, but that certain effects of tourist activities can be harmful to the community as such. ✓✓

Accept any other relevant conclusion.

(Max 2)

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TOTAL SECTION C: 100

GRAND TOTAL: 300

[50]