



# education

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Department:  
Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS  
MEMORANDUM  
EXEMPLAR 2008**

**MARKS: 300**

**TIME: 3 hours**

**This memorandum consists of 23 pages.**

**SECTION A (COMPULSORY)****QUESTION 1**

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

- |        |                                   |          |      |
|--------|-----------------------------------|----------|------|
| 1.1.1  | B (circular flow) ✓✓              |          |      |
| 1.1.2  | C (leading) ✓✓                    |          |      |
| 1.1.3  | B (balance of payments) ✓✓        |          |      |
| 1.1.4  | C (implicit) ✓✓                   |          |      |
| 1.1.5  | A (less and ask more) ✓✓          |          |      |
| 1.1.6  | A (benefit) ✓✓                    |          |      |
| 1.1.7  | C (developing) ✓✓                 |          |      |
| 1.1.8  | C (3 % - 6 %) ✓✓                  |          |      |
| 1.1.9  | A (incentives and subsidies) ✓✓   |          |      |
| 1.1.10 | B (inflation and unemployment) ✓✓ |          |      |
| 1.1.11 | A (sustainable) ✓✓                |          |      |
| 1.1.12 | B (Robben Island) ✓✓              | (12 X 2) | [24] |

1.2 Choose, from the list, the word that best describes the statements that follow.

- |       |              |         |      |
|-------|--------------|---------|------|
| 1.2.1 | demand ✓✓    |         |      |
| 1.2.2 | oligopoly ✓✓ |         |      |
| 1.2.3 | hyper ✓✓     |         |      |
| 1.2.4 | product ✓✓   |         |      |
| 1.2.5 | private ✓✓   | (5 x 2) | [10] |

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

- |       |      |         |      |
|-------|------|---------|------|
| 1.3.1 | E ✓✓ |         |      |
| 1.3.2 | F ✓✓ |         |      |
| 1.3.3 | D ✓✓ |         |      |
| 1.3.4 | A ✓✓ |         |      |
| 1.3.5 | B ✓✓ |         |      |
| 1.3.6 | H ✓✓ |         |      |
| 1.3.7 | I ✓✓ |         |      |
| 1.3.8 | G ✓✓ | (8 x 2) | [16] |



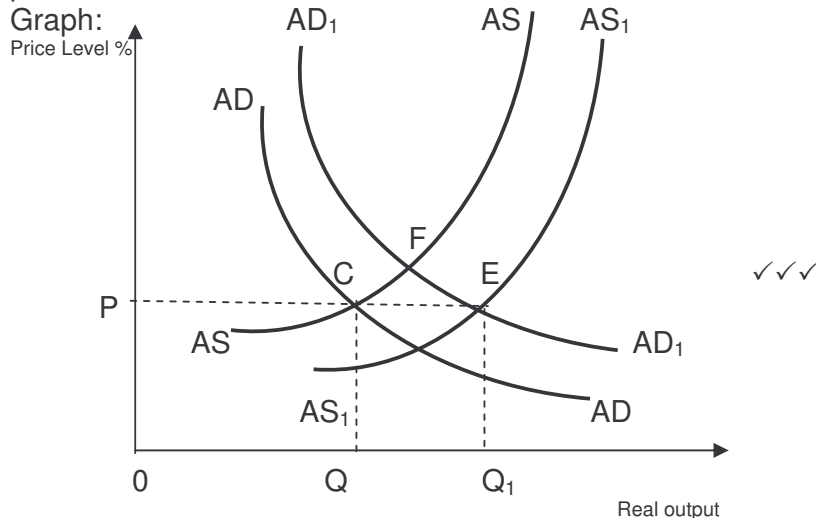
**2.3 Discuss the new economic paradigm (smoothing of cycles) referring to the demand and supply-side policies. Illuminate your answer with graphs.**

- Theories by the Monetarists (Friedman) and Keynesians (Keynes) extreme and only true under specific circumstances ✓✓
- Under real circumstances, government pursues economic growth irrespective of inherently stable or unstable market. Therefore governments aren't extreme, but transparent and follow pragmatic policies ✓✓
- According to the new economic paradigm it is possible for output to rise over extended periods of time without being hampered by supply constraints and inflationary pressures – embedded in demand-side and supply-side policies ✓✓

**1. Demand-side policy:** traditional monetary and fiscal policies focus on aggregate demand (a demand-side approach only) – does not render ideal results ✓✓

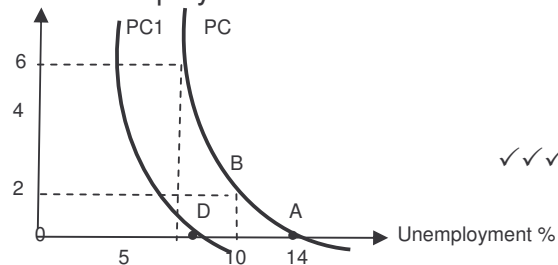
- Aggregate supply needs to be managed as well – focus on increasing flexibility of supply components. If cost of increasing production is completely flexible, a greater real output can be supplied at any given price level ✓✓

▪ Graph:



- Inflation: Aggregate demand and aggregate supply in equilibrium at point C. Aggregate demand is stimulated and moves to AD<sub>1</sub>, supply responds and relocates at AS<sub>1</sub> – larger real output without price increase ✓✓
- Supply often fixed in short term – with increase in demand to AD<sub>1</sub> supply stays constant – intersect at point F – real production and prices increase (inflation) – create conditions where supply is more flexible – use supply-side measures ✓✓
- Unemployment: Demand-side policies effective in stimulating economic growth – increases demand for labour – reduces unemployment – then inflation rises ✓✓

- Relationship between unemployment and inflation illustrated by Philips-curve (PC) ✓✓
- Graph: Inflation %



- PC-curve shows initial situation – A point of intersection of PC-curve with x/vertical-axis – natural rate of unemployment i.e. 14 % - no pressure on wages – no inflationary effects ✓✓
- If economy is stimulated – unemployment rate falls to B i.e. 10 % wage increase – inflation at 2 % ✓✓
- If unemployment falls to C i.e. 8 % inflation caused by wage increases at 6 % ✓✓
- Thus inverse relationship between unemployment and inflation ✓✓
- Supply-side policy measures can relocate Philips-curve to PC1 – shift to left – include improved education, effective training and fewer restrictions on immigration of skilled workers – demand can thus be stimulated to higher levels before increases in employment have effect on inflation rates ✓✓

Max (4 X 2)

**2. Supply-side policies:** governments can arrange things in economy that supply is co-operative to changes in demand – invite increases in demand – integrate long-term measures within overall macro policy ✓✓

- Reduction of costs: greater output supplied at any given price level – AS shifts to AS1 and AD to AD1 – output expands from Q to Q1 with prices stable ✓✓
- Like:
  - infrastructural services like transport and energy costs
  - administrative costs like inspections and regulations – adds to costs
  - Cash incentives like subsidies & compensation to exporters ✓✓
- Improving efficiency of inputs: shifts AS to right – usually achieved with incentive schemes and measures such as: tax rates, capital consumption, human resources development and free advisory services ✓✓
- Improving efficiency of markets: measures to improve efficiency include deregulation, competition and levelling playing field ✓✓ (4 X 2)

[16]  
[50]

**QUESTION 3: LO2 MICROECONOMICS, AS2-AS3****3.1 Answer the following questions appropriately:**

- 3.1.1**
- (a) homogeneous ✓✓
  - (b) seven ✓✓
  - (c) demerit ✓✓
  - (d) imperfect ✓✓
- (4 x 2) [8]

**3.1.2 List any THREE characteristics of a monopoly.**

- Faced with demand curves ✓✓
  - Decide on their production levels ✓✓
  - Exposed to market forces ✓✓
  - Face substitutes / No close substitutes ✓✓
  - Enjoy favourable circumstances ✓✓
  - Exploit consumers ✓✓
  - Are protected by barriers of entry ✓✓
  - (Any other relevant facts)
- (3 X 2) [14] (6)

**3.2 Study the following graph, and answer the questions that follow:**

- 3.2.1**
- (i) loss = C ✓✓
  - (ii) normal profit = A ✓✓
  - (iii) economic profit = B ✓✓
- (3 x 2) (6)
- 3.2.2** Normal profit is a situation where total revenue is exactly equivalent to total costs – is amount entrepreneur pays himself – expense – minimum earnings required to prevent entrepreneur from leaving production sector /  $AR = AC$  ✓✓✓ (3)
- 3.2.3**  $E_2$  where  $MR = MC$  ✓✓✓ (3)
- 3.2.4**  $TR - TC = \text{Total economic loss}$  ✓✓  
 $(R6 \times 60) - (R8 \times 60) = \text{total economic loss}$  ✓✓  
 $R360 - R480 = -R120$  ✓✓ (3 x 2) (6)
- 3.2.5** Total revenue =  $R8 \times 80 = R640$  ✓✓ (2)  
 [20]

**3.3 Discuss characteristics of a typical oligopoly**

- Type of product ✓✓ homogeneous (pure oligopoly) or differentiated (differentiated oligopoly) ✓✓
  - Entry ✓✓ new producers have free entry although not easily illustrated - only few businesses in market ✓✓
  - Control over prices ✓✓ producers generally have considerable control over price of products ✓✓
  - Mutual dependence ✓✓ only few businesses – influenced by others' actions – competitors react ✓✓
  - (Any other relevant facts)
- (4 X 4) [16]  
 /50/

**QUESTION 4: LO3 ECONOMIC PURSUITS, AS1 – AS3****4.1 Answer the following questions appropriately:**

- 4.1.1**
- (a) growth ✓✓
  - (b) tourism ✓✓
  - (c) forced ✓✓
  - (d) Gini coefficient ✓✓
- (4 x 2) (8)

**4.1.2 List any THREE advantages of export promotion**

- No limitations ✓✓
  - Cost and efficiency ✓✓
  - Increased domestic production ✓✓
  - Exchange rates ✓✓
  - (Any other relevant facts)
- (3 x 2) (6)  
[14]

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

- 4.2.1** Minister of Finance ✓✓✓ (3)
- 4.2.2**
- SARB ✓✓
  - Department of Labour ✓✓
  - Stats SA
  - (Any other relevant institutions)
- (2 X 2) (4)
- 4.2.3**
- Relative performance of country can be measured (in comparison with other countries) ✓✓✓
  - A complicated economy changes throughout – makes measurement changes necessary ✓✓✓
  - Method of statistical calculation revised
- (3)
- 4.2.4**
- IMF ✓✓
  - World Bank ✓✓
  - United Nations ✓✓
- (2 X 2) (4)
- 4.2.5**
- Indicate economic development ✓✓
  - Indicate living standards ✓✓
  - Used to compare living standards ✓✓
- (3 X 2) (6)  
[20]

**4.3 Tabulate the major differences between the developed countries in the North and the developing countries in the South (North-South divide).**

<b>NORTH-SIDE Developed Countries</b>	<b>SOUTH-SIDE Developing Countries</b>
Per capita income – 87 % produced by 15 % of world's population ✓✓	85 % of world's population living on $\frac{1}{5}$ of world's income ✓✓
Life expectancy is high in developed countries = 75 years ✓✓	Life expectancy in developing countries is low due to malnutrition, disease and ill health = 48 years ✓✓
Level of education: high – everyone literate ✓✓	Level of education low – only 46 % adult literacy. ✓✓
Trade: rich countries subsidise production – developing countries cannot compete ✓✓	Trade: developing countries are marginalized by subsidies. ✓✓
Mass consumption of oil and coal – damage to ozone layer – air, water, noise pollution and toxic waste ✓✓	Focus on agriculture – soil conditions, adequate rainfall and health of crops – degradation and depletion of land, water and vegetation – do not produce sufficient food – hunger and malnutrition ✓✓
(4 X 2)	(4 X 2)

(Any other relevant facts)

[16]

/50/



**QUESTION 5: LO4 CONTEMPORARY ECONOMIC ISSUES, AS1-AS4****5.1 Answer the following questions appropriately:**

- 5.1.1**
- (a) CPIX ✓✓
  - (b) DEAT ✓✓
  - (c) negative ✓✓
  - (d) Earth ✓✓
- (4 x 2) [8]

**5.1.2 List THREE forms of pollution.**

- Air ✓✓
  - Water ✓✓
  - Land ✓✓
  - Residual waste (household waste, obsolete consumer durables and litter) ✓✓
  - Production pollution (affects land, sea and atmosphere like acid rain, smoke, gases, toxic chemicals, pesticide contaminants, liquid chemical effluents, noise pollution, scenic degradation and oil spillages) ✓✓
  - (Any other suitable facts)
- (3 X 2) (6)  
[14]

**5.2 Study the following information and answer the questions that follow:**

- 5.2.1**
- They do not have sufficient income resources ✓✓✓
  - They want to improve resource location ✓✓✓
  - It provides an additional source of revenue to the provinces ✓✓✓
- (3)
- 5.2.2**
- Taxes ✓✓
  - Levies ✓✓
  - Duties ✓✓
  - Surcharge ✓✓
  - User-charges + Vehicle license fees ✓✓
  - Loans ✓✓
- (any 1 X 3) (6)
- 5.2.3**
- Inflation will increase ✓✓ transport costs will increase and lead to higher product prices ✓
  - Tourism – positive ✓✓ better service delivery by province ✓
  - Tourism – negative ✓✓ higher petrol prices ✓
  - Environment will benefit ✓✓ more capital available to improve ability of management regarding resources ✓
- (3 X 3) (9)
- 5.2.4** indirect ✓✓
- (2)  
[20]

**5.3 Discuss the causes of demand (-pull) inflation**

- Increased consumption ✓✓ through less savings ✓✓ reduction in taxes ✓✓ easy access to credit ✓✓
- Investment spending ✓✓ lower interest rate improves expectations of businesses – invest more – increase in demand – aggregate demand increases faster than aggregate supply, price rises ✓✓
- Government spending ✓✓ infrastructure like capital projects ✓✓ consumption spending on education, health, protection and safety ✓✓ social spending on public works programmes and social grants ✓✓
- Export earnings ✓✓ foreign growth: trade with foreign countries bring demand for locally produced goods – demand increases as well as the price ✓✓ commodities demand expands and contracts like business cycles do

(4 X 4)

[16]  
/50/

**QUESTION 6: LO3 – AS3 & 4 AND LO4 – AS4, ECONOMIC PURSUITS & CONTEMPORARY ECONOMIC ISSUES****6.1 Answer the following questions appropriately**

- 6.1.1**
- (a) Physical ✓✓
  - (b) developed ✓✓
  - (c) the environment ✓✓
  - (d) non-renewable ✓✓
- (4 x 2) [8]

**6.1.2 List any THREE arguments in favour of protection**

- Raising revenue for the government ✓✓
  - Protecting the whole industrial base ✓✓
  - Protecting particular industries ✓✓
  - Protecting domestic standards ✓✓
  - (Any other relevant facts) (Any 3 x 2)
- (6)  
[14]

- 6.2.1**
- (a) No labour market experience / Lack of educational and training / lack of skills. ✓✓ (2)
  - (b) Get highly educated ✓✓✓ only 1 % of highly educated people is unemployed ✓✓✓ (6)
  - (c) Promote eco-tourism through guest houses, ✓✓ lodges, guest farms, hiking trails; indigenous arts promoted ✓✓ (4)
  - (Any other relevant facts)

- 6.2.2**
- Bursaries to further studies ✓✓ subsidies to make production possible in the formal sector ✓✓ (Any other relevant facts) (Any 1 X 2) (2)

- 6.2.3**
- (a) Technicians ✓✓ 88 % ✓✓ (4)
  - (b) Poor remuneration / Lack in education ✓✓ (2)
- [20]

**6.3 Public sector intervention to ensure environmental sustainability**

- Granting property rights ✓✓ allow people property rights to prevent extinction of fauna and flora species / property rights to clean air – developed countries pay for the right to pollute ✓✓
  - Charging for use of environment ✓✓ government levies fee on consumers and producers for waste produced and dumped / emission charges levied on industries and vehicle owners for gas waste ✓✓ charges must be proportional to waste produced ✓✓
  - Environmental taxes ✓✓ tax imposed on output, known as green taxes ✓✓ e.g. tax on tyres – rate of tax should be equal to marginal external cost ✓✓
  - Environmental subsidies ✓✓ provide subsidies to reduce environmental damage e.g. new techniques or equipment to save energy ✓✓
  - Marketable permits ✓✓ businesses allowed to sell licenses to others – If pollution is reduced by one, the other allowed pollution can be traded in a permit market ✓✓ (Any 4 X 4)
- [16]

/50/

**TOTAL SECTION B: 150**

**SECTION C**

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

- I. Essay responses should include an introduction, body and conclusion. For the introduction and conclusion 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.
- II. Other long answer-questions: For the presentation of facts (cognitive context), 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.

**QUESTION 7 (LO1 MACRO-ECONOMICS, AS3)**

**‘Fiscal policy is the government’s policy in respect of the nature, level and composition of government spending, taxation and borrowing. Through fiscal policy government aims to achieve particular economic goals.’**

**Discuss the features, composition and effects (including a clearly labeled Laffer curve) of fiscal policy.**

**FEATURES:**

1. It is goal-bound ✓✓
  - Central government use budgetary process of consultation and persuasion, to determine economic and social goals ✓✓
  - Provincial and local governments execute approved budget goals ✓✓
2. It is demand biased ✓✓
  - Fiscal policy is a main policy instrument in demand-side policies – elements also used to realize supply-side objectives ✓✓
  - E.g. when government improves infrastructure, use taxation as incentive, allows rapid depreciation of assets and subsidizes human resource development ✓✓
3. It is cyclical ✓✓
  - Business cycle has direct effect on fiscal policy – during upswing income and profits increase – increase in aggregate demand and expenditure – increase in income tax and profit – government’s income higher – higher levels of spending ✓✓
  - Opposite happens in downswing – therefore fiscal policy should be anti-cyclical, so that smoothes out extreme fluctuations ✓✓ (max 12)

**COMPOSITION:**

Instruments of fiscal policy is government spending and taxation: balanced budget; if expenditure > income: deficit; if income > expenditure: surplus ✓✓

1. Government spending ✓✓
  - Government spending classified in 2 formats: functional and economic ✓✓
  - Spending to provide public and merit goods (free or subsidized prices), pay interest on debt; redistribute income; influence aggregate demand; influence aggregate supply ✓✓

2. Taxation ✓✓

- Government imposes taxation to: raise revenue for expenditure; discourage consumption of demerit goods; convert external into private costs; discourage purchase of imports; redistribute income; influence level of aggregate demand; influence level of aggregate supply ✓✓

3. State debt ✓✓

- Main budget must balance – if deficit: loans incurred to balance; if surplus: savings set off against debt ✓✓
- After adding extraordinary transfers and receipts = net borrowing requirement – borrowing adds to loan debt, known as public debt ✓✓

(max 12)

**EFFECTS (INCLUDING LAFFER CURVE)**

Fiscal policy effects depend on period of business cycle – during upswing policy contracts – during downswing policy expands ✓✓

1. Income distribution ✓✓

- Progressive taxes make income more evenly distributed and regressive taxes make income less evenly distributed – proportional taxes leave distribution unchanged ✓✓
- Spending on social goods, security and welfare payments supplement income of poor more than the rich ✓✓
- E.g. 20 % of SA population enjoyed cash income from welfare and social security in 2005 ✓✓

2. Consumption ✓✓

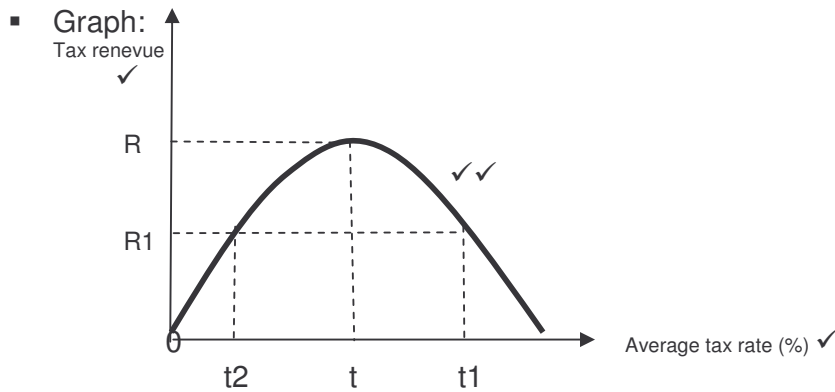
- Direct and indirect taxes will affect total and pattern of consumer spending ✓✓
- Direct taxes reduce disposable income – effect on consumption depend on propensity to consume and level of saving ✓✓ - direct taxes will reduce consumption with little savings
- Income multiplier kicks in when government spending increases due to higher levels of employment, higher income, and consumer spending ✓✓

3. Price level ✓✓

- Direct taxes reduce inflationary pressure – lower aggregate demand ✓✓
- Result in cost-push inflation – stimulate workers - claim higher wages ✓✓
- Rise in indirect taxes raise general price level ✓✓
- Inflationary and deflationary spending depends on availability of production factors ✓✓

4. Incentives ✓✓

- Taxation ✓✓ direct taxes (income and company tax) reduce incentive to work, save, invest and take risks ✓✓ High and progressive rates keep people from entering job market ✓✓
- Laffer-curve: if average tax rate was zero no revenue would be raised – if tax rate raised above zero, tax revenues increase – curve slope upwards – then peaks (t) – thereafter tax rates become so high (t1), fall in output is more than rise in tax rate ✓✓
- Suggests that cut in high rate of income tax from  $t_1$  to  $t$  increase tax revenue from  $R_1$  to  $R$  – encourage people to work – reduce tax evasion and avoidance ✓✓
- By decreasing taxation from  $t_1$  to  $t_2$  have no effect on revenue of state, but reduces tax rate by  $\frac{2}{3}$  ✓✓
- In most countries tax rates are below  $t$  - SA's tax rates also reduced ✓✓
- Government spending ✓✓ grants and subsidies serve as incentives for vital municipal services and feeding schemes ✓✓

5. Discretion ✓✓

- Minister of Finance uses discretion e.g. how much to reduce income tax or spend on new infrastructure ✓✓
- Discretion limits: deficit rule (3 % of GDP); borrowing rule (only for capital expenditure); debt rule (not exceed 60 % of nominal GDP) ✓✓

(Graph: 4 marks max 16)

(40)

Use the following rubric in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context; average writing style
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates significant ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)

[50]

**QUESTION 8 (LO2 MICRO-ECONOMICS, AS2)**

***‘A monopoly is a good example where profit maximization implies under-provision and over-charging of goods and services. This type of market is usually an unregulated market that fails to produce an ideal state of affairs.’***

**Write an essay’ explaining in detail the reasons for market failures.**

**INTRODUCTION**

- Sometimes free markets fail to produce quantities of goods and services that people want at prices that reflect marginal utilities and relative scarcities – known as market failure ✓✓✓
- Market failure means that best available or optimal production outcome has not been achieved – failure of markets to achieve optimum resource allocation ✓✓✓  
(max 3)

**BODY****REASONS:**

1. Externalities ✓✓
  - Sometimes in ideal market conditions some people gain or others suffer due to prevailing of externalities ✓✓
  - Are costs and benefits that convert private costs and benefits to social costs and benefits ✓✓
  - 4 concepts:
    - Private costs (internal costs) ✓✓ costs consumers incur when buying goods e.g. price of bicycle of R990 ✓✓
    - Private (internal) benefits ✓✓ benefits of those who buy and produce goods like joy to the consumer or profit for the producer ✓✓
    - Social costs ✓✓ cost to producers and society at large – includes additional costs like disposing waste products, decreasing appeal of area ✓✓
    - Social benefits ✓✓ positive externalities like clean water leading to few illnesses, healthier workforce, higher productivity ✓✓
  - Private costs and benefits have price – externalities do not have a price – is cost or benefit to third parties ✓✓
  - Externalities are difference between social costs and benefits and private costs and benefits ✓✓
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) ✓✓

- 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) ✓✓
- Public goods 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 ✓✓

### 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 ✓✓
- Common method to overcome eminent market failure – for state to provide them ✓✓
- Options:
  - provide them in part (focus on primary health care and education in general) ✓✓;
  - statutory requirements (youth compelled to stay in school until age of 15) ✓✓;
  - outsourcing: contract private sector to provide some merit goods (some education and training and health care services) ✓✓

#### DEMERIT GOODS:

- E.g. cigarettes, alcohol and non-prescription drugs – over-consumed ✓✓
  - Consumer unaware of true cost of consuming them = negative externalities ✓✓
  - Government can ban their consumption or reduce it through taxation and provide information about their harmful effects ✓✓
- ### 4. Imperfect competition ✓✓
- Competition often impaired 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 ✓✓

5. Lack of information ✓✓

- Lack of information to make rational decisions
- Consumers ✓✓ maximize their utility – need detailed information – technology increase information ✓✓
- 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 ✓✓

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 ✓✓

7. Imperfect distribution of income and wealth ✓✓

- Market system neutral to issue of income distribution ✓✓
- Discrimination distorts earnings of women, minority groups and disabled persons and those subject to illnesses and incapacity ✓✓ (max 40)

## CONCLUSION

Any suitable conclusion. NOT a repetition of any facts from above. ✓✓ (max 2)

Use the following rubric in conjunction with the above to assess the learner's response

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

[5]

**QUESTION 9: LO3 ECONOMIC PURSUITS, AS2**

**Analyse the information in the table below and evaluate South Africa's growth and development policies in terms of international best practice, in the format of a formal letter to the Minister of Finance.**

***(The candidate should be able to give a little background on the growth and development policies of South Africa as part of the first paragraph)***

**[50]**

Since 1994, the South African government has pursued international mainstream economic and development policies, making use of both demand-side and supply-side approaches. If the outcomes of these policies are satisfactory, the approaches used in pursuing them would also be satisfactory. ✓✓

The market approach could also be followed where, ✓✓

Demand factors such as : Consumer spending, Investment spending, Government spending, Exports and imports and ✓✓

Supply factors such as: Natural resources, Labour, Capital, Technology and entrepreneurship are being discussed. ✓✓

Any 4 marks

**[4]**

***(In the following paragraphs the candidate should be able to describe the specific policy and then evaluate it against international best practice)***

**Growth policies: (Any FOUR policies)**

**Economic growth : ✓✓**

South Africa is a developing country; in terms of the World Bank a lower-middle income country. ✓✓

The average economic growth rate was 3.1 % per year between 1994 and 2005, in comparison to an average of 1 % per year over the previous decade. ✓✓

After the implementation of GEAR (1996), the budget deficit reduced to less than 3 % of the GDP was accepted as benchmark. ✓✓

**Inflation: ✓✓**

Inflation decreased continuously from 9 % in 1994 to 3,4 % in 2005. ✓✓

The SARB dropped monetary targets and adopted inflation targets, initially in a 3%-6% range. ✓✓

Interest rates, based on the repo rate, are the main instrument used in the stabilisation policy. ✓✓

The consistently stable budget deficit also had a stabilizing effect on the inflation rate. ✓✓

**Employment: ✓✓**

Employment in the non-agricultural sector of the economy decreased. ✓✓

The GEAR strategy suggested that a climate was needed that was conducive to employment creation by private sector. ✓✓

Labour productivity in the formal economy increased by 4.2 % per year over the 10 years period until 2005. ✓✓

The unemployment rate Increased from 14 % in 1994 to 26.5 % in 2005, yet employment increased – mainly because of informal sector activities. ✓✓

**Exchange rate stability: ✓✓**

The South African currency depreciated considerably between 1994 and 2002.

Then from 2005 it appreciated. ✓✓

International reserves increased from 3 % of GDP in 1994 to 18.7 % in 2005. ✓✓

The SARB switched from managed floating to a free-floating exchange rate system. ✓✓

**2 Marks - Heading**

**2 Marks - Discussion**

**[16]**

**Development Policies: (Any FIVE policies)**

**Macroeconomic policies : ✓✓**

The successful implementation of macroeconomic policies is as much important for the rich as for the poor. ✓✓

The per capita GDP increased from 1,6 % in 1998 to 3,5 % in 2005.- the standard of living of the whole population improved. ✓✓

Redistribution through the tax system was also successful ✓✓ and has made possible a substantial increase in the distribution of benefits in cash and kind; macro-economic policy benefits, housing and service benefits. ✓✓

**Microeconomic policies: ✓✓**

Employment in the formal and informal sector increased by about 32 %. (3,6 % per year). From 1996 to 2005, which was higher than the average real growth rate of 3,2 %. ✓✓

**Social Policies: ✓✓**

Almost 34,1 % of the South African population are poor in terms of the international benchmark poverty line income (\$2 a day) ✓✓

Poverty reduction is, therefore, a serious policy matter for the government, with the result that a number of policies focus on basic needs for the poor. ✓✓

Such as :

- Social security grants
- Benefits in kind
- Services
- Primary Health care
- Education

**Redress: ✓✓**

International organizations such as the UN articulate the importance of the empowerment of the indigenous peoples of developing countries. ✓✓

The South African government passed both empowerment and affirmative action acts and has introduced a range of other measures to ensure redress takes place. ✓✓

**Black Economic Empowerment (BEE): ✓✓**

The Broad Based Black Economic Empowerment Act, No.53 of 2003, provides the legal basis for the transformation of the South African economy. ✓✓

The speed and extent of empowerment and transformation were agreed upon in terms of so called charters between government and various industries. ✓✓

The DTI published a scorecard that is used to measure progress of businesses and industries which include some of the following elements : ✓✓

Management and control ✓✓	} Any 1x2
Employment equity ✓✓	
and social responsibility ✓✓	

**Land redistribution and restitution: ✓✓**

The government aims to redistribute 30% of agricultural land to previous disadvantage individuals and groups. ✓✓

By 2004 some 1,5 % of agricultural land had been redistributed. ✓✓

Some 61 % of claims for land restitution had been finalised. ✓✓

**Affirmative action: ✓✓**

Affirmative action rules are described in the Employment Equity Act, no 55 of 1998, ✓✓ and apply to employers with 50 or more employees or those with an annual income of, for e.g., R2 million in agriculture and R10 million in industry. ✓✓

**2 Marks - Heading**  
**2 Marks - Discussion**

**[20]**

Use the following rubric in conjunction with the above to assess the candidate's letter:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	LETTER FORMAT
1	Letter format and the presentation of facts is inappropriate
2	Letter format is acceptable but the presentation of facts needs improvement
3	Letter format is satisfactory and the presentation of facts is appropriate
4	Letter format is very good and the presentation of facts is comprehensive
5	Letter format is excellent and the presentation of facts is outstanding

(10)  
[50]**QUESTION 10: LO4 CONTEMPORARY ECONOMIC ISSUES, AS2**

***‘Tourism can be an engine of growth, capable of dynamiting and rejuvenating other sectors of the economy. We must see tourism as a means for a better life for all. Tourism is the world’s largest industry and every year it pumps millions of dollars into some of the poorest countries.’***

**Discuss the effects of tourism on the South African economy, highlighting its impact on GDP, employment, poverty, externalities, the environment and infrastructure.**

**Tourism is effecting the economy in the following ways:**

**GROSS DOMESTIC PRODUCT (GDP)**

One economic fact about tourism is certain, is the fact that it impacts more on the service industry than on agriculture or manufacturing. ✓✓

Its contribution is directly and indirectly :

**Direct contribution :** ✓✓

Economic developments of the tourism sector is important, its total direct contribution to the economy is estimated at R93,6 bn for 2004, ✓✓  
when GDP amounted to R1 387 bn. ✓✓  
(according to the World Travel and Tourism Council - WTTC)  
This means that tourism contributes 6.8 % in total. ✓✓

**Indirect contribution:** ✓✓

Tourism is basically a service based industry partly responsible for the service sectors growth in South Africa. ✓✓  
In developing countries the sector is responsible for around 40 % of GDP, ✓✓ while it is responsible for more than 65 % of GDP in developed economies. ✓✓ In South Africa it is similar to that of developed countries. Services contributed more than 65 % of GDP in 2004. ✓✓

**EMPLOYMENT:** ✓✓

The WTTC estimated that tourism in South Africa created 1.12 million jobs in 2004.  
Tourism is the world largest generator of jobs for the following reasons: ✓✓

Its labour intensive ✓✓ It employs many skills ✓✓ It can provide immediate employment ✓✓ It provide entrepreneurial opportunities ✓✓	}	Any 2 x 2 [4]
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**POVERTY:** ✓✓

Tourism is widely recognized as one of the fastest and more effective redistribution mechanisms in development. ✓✓  
It brings development to the poor in rural areas. ✓✓  
Many of the prime tourism attractions are located in the rural areas and not in the city centers. ✓✓

It offers opportunities in to diversity sources of income for poor people by :  
Allowing them a stake to operate small scale tourism. ✓✓  
Empowering them to exploit opportunities on the job and other training ✓✓  
Creating partnership with mainstream tourism businesses supplying goods or services. ✓✓

**EXTERNALITIES:** ✓✓

Both positive and negative impacts.

Positive: ✓✓

Large amounts of revenue ✓✓  
Transportation growth ✓✓

Negative : ✓✓ Undue environmental damage ✓✓ Uses resources and produces waste ✓✓ Short term benefits – negative long-term effects ✓✓ Pollution ✓✓	}	Any 2 x 2 [4]
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**ENVIRONMENT:** ✓✓

Any form of industrial development impact upon the physical environment in which it takes place. ✓✓  
Tourists have to visit the places of production in order to consume the output which created environmental stress. ✓✓  
The following are four main categories of stressor activities :

Permanent environmental restructuring ✓✓  
Waste product generation ✓✓  
Direct environmental stress ✓✓  
Effects on population dynamics ✓✓

**INFRASTRUCTURE: ✓✓**

An adequate, physical, economic and basic services infrastructure is essential for tourist destination areas which includes : ✓✓

Transport infrastructure ✓✓

Communication infrastructure ✓✓

Energy infrastructure ✓✓

Basic services infrastructure ✓✓

Effects = 8 marks each

Headings 1 x 2 = 2

Discussion 2 x 2 = 4

**5 Effects x 8 = 40**

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context; average writing style
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates significant ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)

**TOTAL SECTION C: 100**

**GRAND TOTAL: 300**