 Province of the

 EASTERN CAPE

 EDUCATION

ECONOMICS

GRADE 12 REVISION BOOKLET

2020

ECONOMIC PURSUITS

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1. **ECONOMIC GROWTH AND DEVELOPMENT**

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|  **SECTION A: TYPICAL EXAM QUESTIONS** |

**QUESTION 1: 5 minutes**  **Section A – Short Questions** Various options are provided as possible answers to the following questions. Choosethe answer and write only the letter (A–D) next to the question number. * 1. The policy that was introduced to increase employment, promote economic

 growth and redistribute income.A. AsgisaB. GEARC. RDPD. JIPSA (2)

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| * 1. Many developing countries do not have the … to sustain large-scale

manufacturing operations. 1. salaries
2. wages
3. industrial policies
4. capital (2)
	1. The application of new scientific knowledge in the form of inventions and

innovations is known as … 1. capital.
2. land.
3. labour.
4. technology (2)
 |
| * 1. The scorecard used to measure progress with Black Economic

Empowerment (BEE) is published by the … 1. Amalgamated Banks of South Africa (ABSA).
2. Development Bank of Southern Africa (DBSA).
3. Department of Trade and Industry (DTI).
4. World trade organisation (WTO) (2)
	1. Economic development impacts mainly on …

 A. the standard of living.  B. the real gross domestic product.  C. aggregate supply.  D. production (2) |   |
|  |  5 x 2 (10) |

**QUESTION 2: 5 minutes Section B** (Taken from DBE/Feb.–Mar. 2013)Study the extract below and answer the questions that follow.

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| **DEEP THINKING**South Africa is one of the world's, and Africa's, most important mining countries in terms of the variety of minerals mined. It has the world's largest reserves of chrome, gold, vanadium and manganese. Combined, this represents 6,5% of the country's GDP. In fact, the gold industry remains the largest employer, responsible for more than 50% of total employment in this sector. The move towards black economic empowerment in this industry is progressing, but not fast enough. There is also a move within government towards accommodating small mining companies, creating opportunities for junior operations to start up. [Source: Adapted from *Skyways*, 2012]  |

2.1 Briefly explain the term *economic growth*. (2)2.2 Give reasons why the gold industry is of economic importance to South Africa. (2 x 2) (4)2.3. Why is black economic empowerment necessary in South Africa's mining  industry? (4)**QUESTION 3: 10 minutes (Taken from DBE June 2015)**Study the extract below and answer the questions that follow3.1 According to the extract, what is the misconception regarding the BEE policy? (1)3.2 What is the focus of the BEE policy instrument? (1)3.3 How can broad-based growth be achieved? (2 x 2) (4) 3.4 Do you think that BEE is successful as a measure to redress inequalities of the  past? Motivate your answer. (2 x 2) (4)**QUESTION 4: 10 minutes**  **Section B** (Taken from Easter Cape Prelim Sept 2011)Discuss any TWO South African approaches to improve business efficiency. (2 x 4) (8)**TYPICAL HIGHER ORDER TYPE OF QUESTIONS**1.Evaluate the use of demand side measures in promoting economic growth and  Development. (8) 2. Evaluate RDP and GEAR as South African government policies to promote  economic growth and development. (8)3. Evaluate the impact of EPWP on the community. (8)4. Evaluate the success of government's fiscal policy in ensuring a desirable  redistribution of income? 5. Evaluate the effectiveness of BBBEE as a measure to redress inequality of the  past **.** (8)

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| **QUESTION 5: 40 minutes Section C** (Taken from DoE/Feb.– March 2009)

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| **STRUCTURE OF THE ESSAY:** | **MARK****ALLOCATION** |
| **Introduction**The introduction is a lower-order response.* A good starting point would be to determine the main concept related to the question topic
* Do not include any part of the question in your introduction
* Do not repeat any part of the introduction in the body
* Avoid saying in the introduction what you going to discuss in the body
 | Max. 2 |
| **Body:****Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain**Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest | Max. 26Max. 10 |
| **Conclusion**Any higher-order conclusion should include* A brief summary of what has been discussed without repeating facts already mentioned
* Any opinion or value judgement on the facts discussed
* Additional support information to strengthen the discussion analysis
* A contradictory viewpoint with motivation, if required
* Recommendations
 | Max. 2 |
| **TOTAL** | **40** |

* Discuss the supply-side approach used in South Africa to promote growth and development in detail under the following headings:

(1) Effectiveness and efficiency of markets(2) Business efficiency(3) Cost of doing business (26 marks)* Evaluate competitiveness as a development policy in South Africa. (10 marks)

 [40] |  |

**NOTES:****Economic Growth**Consists of growth in the REAL GDP and implies an increase in the CAPACITY of the 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 the CAPACITY of the POPULATION to PRODUCE more goods and services. It requires policies that EMPOWER people. **The demand-side approach**An increase in domestic demand for a product or service will cause an increase in the level of its production, this increase in the quantity of goods and services will lead to economic growth.C + I + G + X – M **DEMAND SIDE POLICIES TO STIMULATE GROWTH (SOUTH AFRICA’S APPROACH)**1. **MONETARY POLICY**

**Instruments used:**1. **Interest rate changes** it is a rate to stabilise the exchange rate by encouraging capital inflows or outflows.
2. **Open market transaction-**the SARB sells securities to restrict bank credit.

(when banks buy these securities **money** flows from the bank to the SARB) (the banks then have less money to lend and cannot extend its credit as before), to encourage credit creation the SARB buys securities in the open market (money the flows into the banking system)1. **Moral persuasion-**the SARB consults with banks and persuade them to consider current economic conditions in the country, such as recessions. The SARB can see security papers, such as treasury bills and government bonds, which will drain excess liquidity and banks will have less money to lend.
2. **FISCAL POLICY**

**Involves the government expenditure and taxation to stimulate growth.**1. **Progressive personal income tax** higher income earners are taxed at higher rates than lower income earners. The taxes are used to finance social development, such as wage subsidies and grants.
2. **Wealth taxes -** Properties such as houses, offices and buildings are taxed on the value of the property. Transfer duties are paid when properties are bought and securities (shares and bonds) are taxed when they are traded. Capital gains tax (CGT) is levied on the gains earned on the sale of capital goods such as properties and shares. Estate duties are levied on the estates of deceased with a value of more than R3.5 million (2012)
3. **Cash benefits-**old age pensions, disability grants, child support grants.
4. **Benefits in kind** these include the provision of healthcare, education and school meals, protection, municipal services and infrastructure.
5. **Other redistributions-**public works programmes provide employment and **Strategic Integrated Projects (SIPs**) provide employment subsidies and cash benefits, such as for training, financing and export incentives to **SMMEs.**
6. **Land redistribution and restitution-**the purpose of land restitution is to return land to those who lost it due to apartheid laws. Land redistribution focuses on land for residential (town) and productive (farm) use. The main aim is to redistribute 50% of the country’s agriculture to the HDIs.

**SUPPLY SIDE POLICIES TO STIMULATE ECONOMIC GROWTH****(South African approach)**1. **THE EFFECTIVENESS AND EFFICIENCY OF MARKETS**
2. **Effective-**government demands that markets operate in a manner that ensures that more black people are absorbed into the mainstream of the economy.

**-**Two Acts were introduced to enforce a preference for black workers and HDI:**The Employment Equity Act** this act prohibits discrimination and requires that the workforce reflects the racial and gender profile of the population. Enterprises have to file an employment equity plan with the Department of Labour and inspectors from the department will business sites to ensure compliance.**Broad Based Black Economic Empowerment (BBBEE)-**this Act provides the legal basis for the transformation of the South African economy. It requires redress so that the number of black people who own, manage and control businesses in the country increases significantly.1. **Efficiency-**this includes productive and allocative efficiency in the workplace competition
2. **Deregulation-**private sector power imbalances that inhibit the free operation of markets have been revised and some were even abolished in the mid-1990s. exchange control measures were occasionally relaxed to encourage FDIs
3. **Business efficiency**
4. **Taxes-** Company tax is 28% on the profits of a firm. (Very high for developing economy). Small and micro enterprises pay lower tax rates, depending on their income levels. The effect of bracket creeping (PAYE) for individuals has been reduced over the past few years. Capital Gains Tax (CGT) was slowly introduced since 2012. (Taxes on capital gains.) Value Added Tax (VAT) has been steady at 14% but the poor are negatively affected.
5. **Capital formation**-depreciation of capital goods used by businesses is designed to encourage investments. Government, though the DTI and the IDC also provides capital and loans to SMMEs and larger businesses.
6. **Human resources-**education receives the largest portion of the national budget expenditure. Sector Education and Training Authorities (SETAs) must accommodate the Labour Relations Act states that it promotes economic development, social justice and peaceful labour relations.
7. **Free advisory service –**examples include the development of export markets, managing and running SMMEs, agricultural production weather forecasts and preventing animal diseases.
8. **Cost of doing business**
9. **Transport costs-**transport options are air, rail and sea, while government controls air and rail. A large amount of cargo is still moved by road, causing many problems and delays. Transport costs within South Africa are expensive, due to long distances travelled.
10. **Communication costs -** communication options are cable, signal and mail. Government controls cable (land and fixed line) and mail communication services. The high costs make IT services for businesses and individuals expensive and reduces global competitiveness.
11. **Energy costs -** the forms of energy in South Africa are electricity capacity and liquid fuels. Eskom is a monopoly electricity supplier, and its rates has escalated recently to meet local demands. Government is continually investing in new electricity capacity, such as solar power, wind farms, etc. Government regulates petrol and paraffin prices, controlled by NERSA (National Electricity Regulator OF South Africa). The prices of crude oil are linked to international market prices, which is increased by the weaker rand.

**EVALUATION OF GROWTH AND DEVELOPMENT POLICIES UESD IN SOUTH AFRICA** 1. **The New Growth path (NGP)**

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This policy was announced in October 2010 and implemented in 2011. The aim is to enhance growth, create employment and create greater equity.The key areas where jobs can be created are:* Infrastructure expansion
* Agricultural value chain
* Mining value chain
* Green economy
* Manufacturing sector
* Tourism
1. **National Development Plan (NDP**)

To expand economic opportunities through investment in infrastructure, more innovation, private investment and entrepreneurship.1. **National Skills Development Strategy (NSDS)**

-The NSDS provides a framework for skills development in the workplace.-The first phase focus on productive citizenship.-The second phase on equity, equality, quality training and skills development.-The third phase focus on institutional learning**PREVIOUS PLANS AND STRATEGIES AIMED AT GROWTH AND DEVELOPMENT**1. **Reconstruction and Development Programme (RDP)**

The RDP was implemented in 1994 and was aimed at improving living standards among South Africans.**RDP AIMS:****A. MEETING BASIC NEEDS** 1. Many people live below the poverty level
2. There is a shortage of houses
3. Houses don’t have electricity

**Providing the following needs** Jobs, Land, Housing, Water, Telephones, Transport, Food, Health care, Environment, Social security and welfare **B. DEVELOPING OUR HUMAN RESOURCES** Aims to develop a culture of teaching and learning. All have equal access to education. Important areas to be developed include: * Education and training
* Literacy
* Arts and culture
* Sport and recreation
* Youth development

**C.BUILDING THE ECONOMY** RDP’s goals for the economy * End poverty
* Create jobs
* Build the SA economy and integrate it into the world economy
* End discrimination

The three keys to building the economy: 1. Reconstruction
2. Restructuring
3. Development

**D.TO DEMOCRATISE THE ECONOMY****E. IMPLEMENTING THE RDP AT ALL SECTORS*****EVALUATION:***The public works programme were mostly labour intensive, this helped alleviate unemployment and poverty slightly’Some achievements in building house and providing clean water.**e. Growth, Employment and Redistribution Programme (GEAR)**GEAR is a macroeconomic strategy adopted by the Department of Finance in June 1996 as a five-year plan.**Aims*** Strengthening economic development
* Broadening of employment
* Redistribution of income and socioeconomic opportunities in favour of the poor
* GEAR remains government macroeconomic policy

 ***EVALUATION***: * Mixed outcomes.
* Brought greater financial discipline and macroeconomic stability.
* Real reduction in fiscal deficit (less than 3% in terms of international benchmarks).
* Inflation has dropped mostly to within inflation targets.
* Foreign exchange reserves increased in most regards.
* Failure to create sustainable job opportunities.
* Failure to redistribute wealth more evenly.

**F. Accelerated and Shared Growth Initiative for South Africa (AsgiSA)**This plan consists of the following components:* **The challenge (aim):** To halve poverty and unemployment by 2014. Aim seen as feasible if economic growth rate is maintained.
* **Consultation:** Local governments and provincial governments consulted.
* **Targets of accelerated and shared growth:**  Between 5 and 6% growth rate and achievement of a more balanced and sustainable growth.
* **Binding constraints:** Include currency volatility (rand exchange rate varies considerably), backlogs in infrastructure and investment, shortage of suitably skilled labour, barriers to entry, limits to competition and limited new investment opportunities, many state regulations on small businesses and deficiencies in state organisation, capacity and leadership.

The programme plans to achieve these objectives by concentrating its affords on the following six areas:1. Infrastructure investment
2. Sector investment strategies
3. Education and skills development
4. Eliminating the Second economy
5. Macroeconomic issues
6. Governance and institutional interventions

***EVALUATION:**** Growth in infrastructure investment, especially in the public sector.
* Employment growth has lagged behind economic growth – reason real wage increases are higher than productivity.
* The second economic strategy helped slightly to reduce unemployment through the Expanded public Works Programme.
* Poor economic growth and high unemployment for the youth.

**OTHER POLICIES TO be EVALUATED****g. Joint Initiative on Priority Skills Acquisition(JIPSA)****h. Expanded Public Works Programme(EPWP)****i. Small Business Development Promotion Programme****j. Black Economic Empowerment Programmes****EVALUATION OF GROWTH AND DEVELOPMENT IN SOUTH AFRICA USING DIFFERENT INDICATORS****1.GROWTH POLICIES****a. Economic growth**Performance of the economy has to be measured and economic indicators are used for this purpose. The following indicators are used:* Percentage annual change in GDP at market price Percentage annual change in GDP at constant 2005 prices
* GDP per capita at constant 2005 prices
* Income distribution
* Standard of living
* The GEAR policy (phased out by 2010) reduced the budget deficit to less than 3% of the GDP in the years out by 2009

**b. Inflation*** The SARB adopted an inflation targeting, in a 3% to 6% range in order to control inflation
* The interest rate, based on the repo rate, is the main instrument used in stabilising inflation
* The consistently low, relatively low budget deficit, also stabilise the inflation rate

**c. Employment*** Employment in non-agricultural sectors of the economy increased at a low rate.
* The global recession between 2008 and 2009 made the average growth rate even worse.
* The result is that the unemployment rate increased from 14% (1994) to 25% in 2012.
* Public sector employment increased during and after the global recession, reducing the total effect on unemployment.

**d. Exchange rate stability*** The South African currency depreciates considerably from one year to the other.
* The SARB uses a free-floating exchange rate system
* South Africa uses the market forces to determine its real exchange value, with minimal intervention

**THE NORTH/SOUTH DIVIDE**

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| **Teacher Note:** Be careful to refer to hemispheres- rather talk about developed and developing. The developed countries include countries like Australia that is in the Southern hemisphere and the developing countries include countries like India that is in the Northern hemisphere. The developed countries are MOSTLY in the Northern hemisphere and the developing countries are MOSTLY in the Southern hemisphere. A table work the best to explain the differences between developed and developing. Always be careful when using stats – stats become out dated, rather stick to theory. |

***Characteristics of developed countries:**** Well-developed infrastructure
* Relatively high standard of living
* High productivity
* Low population growth
* Rapid capital development
* Normal distribution of income
* Diversified economic structure

***Characteristics of developing countries:**** Low standard of living
* Low productivity
* High population growth
* Unemployment
* Defective economic structure
* Weaker position in international relations
* Climate, soil and terrain restrictions

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| **THE DIVIDE RELATES TO THREE AREAS, SUCH AS:**1. **Unequal standard of living:**

-per capita income-life expectancy-education**B. Globalisation challenges**-poverty-growth-trade**C. Environment** -northern countries-southern countries |

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| SECTION C: HOMEWORK |

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**ECONOMIC GROWTH AND DEVELOPMENT**

**QUESTION 1**

**Give ONE term for each of the following descriptions by choosing a term from the list below. Write only the term next to the question number.**

1.1 The aim of this initiative is to halve poverty and unemployment in South Africa by 2014

1.2 An increase in the productive capacity of a country to produce goods and services

1.3 The policy implemented in 1994 in South Africa to redress inequalities of the past. (1 X 3) (3)

**QUESTION 2: 10 minutes**  **(taken from various sources)**

2.1 What is the main purpose of the expanded public works programme (EPWP)? (2)

2.2 What is the main aim of South Africa's National Development Plan (NDP)? (2)

2.3 How does economic growth relate to economic development? (1 x 2) (2)

2.4 Differentiate between economic growth and economic development. (8)

2.5 Briefly discuss the demand-side policy used in promoting growth and development. (8)

2.6 Explain Black Economic Empowerment (BEE) as a development initiative.

(4 x 2) (8)

**QUESTION 3: 10 minutes**  **(Taken from DBE November.2013))**

Study the extract below and answer the questions that follow



3.1 What portfolio was Trevor Manuel responsible for as mentioned in the extract? (2)

3.2 Which economic indicator from the extract can be used to compare standards of living? (2)

3.3 How can the National Development Plan assist the promotion of small and medium enterprises (SMEs)? (2)

3.4 How can the economy achieve an average growth rate of 5,4% per year? (4)

**QUESTION 4: 10 Minutes (Taken from DBE November 2015)**

****

4.1 What is the difference in the per capita income between countries in the North and countries in the South? (2)

4.2 What message is conveyed in the cartoon above? (2)

4.3 Why will the subsidising of agricultural produce by wealthy countries make it difficult for developing countries to participate? (2)

4.4 How do countries in the North contribute to the destruction of the environment? (2 x 2) (4)

1. **REGIONAL development**

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| **Learner Note**: All developed countries are strong in industrialisation. For South Africa to be seen as a developed country, we need to improve our industries. Economic activities and opportunities must be created in the whole of South Africa. Under- developed areas must be identified and policies must be put in place to address this in these rural and under-developed areas. |

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| **SECTION A: TYPICAL EXAM QUESTIONS** |

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**QUESTION 1.1: 10 Marks 5 minutes Section A** *(*Taken from various sources)

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

1.1 The Maputo Corridor is found in the … province.

1. Eastern Cape
2. Gauteng
3. Mpumalanga
4. Free State

1.2 Spatial areas that offer a passageway to mining, manufacturing and other

 businesses are referred to as …

1. gateways.
2. corridors.
3. export processing zones.
4. Industrial development zones

1.3 A purpose-built industrial estate which is physically enclosed and linked to an

 international port is a/an …

1. industrial development zone.
2. corridor.
3. industrial development community.
4. spatial area

1.4 The process whereby indigenous people are empowered in development is

 called …

1. Skills Support Programme (SSP).
2. Black Economic Empowerment (BEE).
3. Industrial Development Zones (IDZ).
4. Export processing zones (EPZs)

1.5 The national government's initiative aimed at economic development of specific locations in South Africa, is called …

1. SDI.
2. DTI.
3. DOT.
4. IDZ

(5 x 2) (10)

**QUESTION 1.2: 7 Marks 5 minutes Section A** *(*Taken from various sources)

**Give one term for each of the following descriptions. Write only the term next to the question number (1.2.1–1.2.8) in the answer book.**

* + 1. A cash grant for skills development
		2. A policy by government that seeks to redress past discrimination

1.2.3 A purpose-built industrial estate that are physically enclosed and linked to an port or airport

1.2.4 A regional development initiative in South Africa to attract infrastructure and business investments to neglected and underdeveloped areas

* + 1. Used in regional development where sectors have a comparative advantage in terms of production
		2. Specially demarcated geographic areas in which some aspect of the business environment differs from the norms in the rest of the country
		3. Projects that support regional development, fill infrastructure gaps and needs in terms of population growth for water and electricity

**TYPICAL HIGHER ORDER QUESTIONS:**

 1. Evaluate Spatial Development Initiative in South Africa. (8)

 2. Evaluate the use of incentives in establishing new businesses into IDZ’s (8)

 3. Evaluate the successfulness of Small and medium Enterprise (SMEDP) and

 Foreign Investment Incentives (FIG) used by South African government to

 encourage industrial development. (8)

**OTHER HIGHER ORDER TYPE OF QUESTIONS**

* What are the advantages of good government management in regional development for the country?
* How successful was the Department of Trade and Industry through intervention, to promote industrial development in South Africa?
* How can government ensure that industrial development policies follow international best practice?
* Evaluate whether the latest government initiative – The National Development Plan – meets its objectives.
* How will Special Economic Zones benefit regional development in South Africa?
* Evaluate the different strategies used in South Africa (NSDS. NGP, NDP)
* Why is it important to compare the economic performance between countries?
* How can special economic zones contribute to regional development?
* How successful is the government to create favourable conditions for regional development to succeed?

**QUESTION 2.1: 10 Marks 10 minutes** (Taken from DBE/November 2012)

Study the map below and answer the questions that follow.

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[Adapted from *Natal Witness,* 16 September 2011]

2.1 What is an *industrial development zone*? (2)

2.2 Which industrial development zone is found at **A**? Name ONE advantage of industrial development zones. (2 x 2) (4)

2.3 Why would government encourage new industries to establish themselves in an industrial development zone? (2 x 2) (4)

**QUESTION 2.2: 10 marks 10 minutes (taken from DBE MAY-JUNE 2016)**

Study the information below and answer the questions that follow



2.2.1 Identify ONE country that forms part of BRICS. (1)

2.2.2 Which member country is interested in signing a nuclear power deal with South Africa? (1)

2.2.3 Explain the concept emerging economies. (2 x 2) (4)

2.2.4 How can South Africa benefit from the New Development Bank BRICS?

 (2 x 2) (4)

**QUESTION 2.3: 10 marks 10 minutes**



2.3.1 What does the abbreviation SDI stand for? (2)

2.3.2 Give ONE example of an SDI in South Africa. (2)

2.3.3 Explain the term corridors. (2)

2.3.4 How will South Africa benefit from SDIs? (2 x 2) (4)

**QUESTION 3: 42 Marks 45 minutes** (Taken from DBE various papers)

3.1 Name any TWO incentive schemes which involve cash grants to promote regional industrial development. (2 x 1) (2)

3.2 Explain spatial development initiatives in South Africa. (4 x 2) (8)

3.3Briefly discuss the aims of regional development. (4 x 2) (8)

3.4 Distinguish between industrial development zones and special economic

zones. (2 x 4) (8)

3.5 Discuss how the Small and Medium Enterprise Development Programme (SMEDP) and the Foreign Investment Grant (FIG) help to improve industrial development in South Africa. (2 x 4) (8)

3.6 How can the South African government ensure that its industrial policies comply with international benchmarks? (8)

3.7 Why is industrial development a necessity in South Africa? (1 x 2) (2)

3.8 How can special economic zones (SEZs) contribute to regional development?

 (8)

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| **STRUCTURE OF THE ESSAY:** | **MARK ALLOCATION** |
| **Introduction**The introduction is a lower-order response.* A good starting point would be to determine the main concept related to the question topic
* Do not include any part of the question in your introduction
* Do not repeat any part of the introduction in the body
* Avoid saying in the introduction what you going to discuss in the body
 | Max. 2 |
| **Body:****Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain**Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest | Max. 26Max. 10 |
| **Conclusion**Any higher-order conclusion should include* A brief summary of what has been discussed without repeating facts already mentioned
* Any opinion or value judgement on the facts discussed
* Additional support information to strengthen the discussion analysis
* A contradictory viewpoint with motivation, if required
* Recommendations
 | Max. 2 |
| **TOTAL** | **40** |

**QUESTION 4: 40 Marks 40 minutes** (Taken from DBE/November 2013)

• Discuss regional industrial development in South Africa by focusing on the Spatial Development Initiatives and Industrial Development Zones. (26 marks)

• How appropriate are the various financial incentives granted by the South African government for the establishment of new businesses? (10 marks)

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| **SECTION B: ADDITIONAL CONTENT NOTES** |

**economic growth and evelopment: industrial development policies**

**THE NATURE OF INDUSTRIAL POLICIES:**

Planning for and building new industries in certain areas as well as expanding existing industries in certain areas.

**REASONS FOR INDUSTRIAL DEVELOPMENT**

* Creating employment and deceasing poverty
* Ensuring gender equality
* Replacing imports and Increasing exports
* Protecting the environment

**THE NATURE OF INDUSTRIAL POLICIES:**

Industrial development is the planning and building of new industries in a country. Such development is guided by the **Industrial policy** of the country.

The South African government regulates the industrial sector through the **National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plan (IPAP**).

The Department of Trade and Industry is responsible for coordinating the action plans at all levels of government.

The South African government recently developed two new strategies to support its growth and competitiveness:

* **The National Research and Development Strategy (NRDS)**
* **The Integrated Manufacturing Strategy (IMS)** aimed at the development of technology. (this strategy involves cross-cutting services)

**INTEGRATED INDUSTRIAL DEVELOPMENT**

* IMS was launched in 2002 by the South African government.
* The strategy was implemented by the DTI, and focuses on developing global competitiveness of South African manufacturing enterprises.
* The IMS is a strategy which applies to all processes that transform natural products into manufactured products.
* It includes all associated processes, extending beyond the boundaries of what were traditionally considered to be industrial processes to include various related activities and services. These include the extraction of raw materials and purchase of inputs, the production of intermediate goods and the packaging, marketing, distribution and retail handling of the final product.
* The government identified four measures to improve the business environment on a micro-economic level. These follow a sensible approach to assisting industries to grow by ensuring that cross-cutting services exist, with certain competitive input sectors in place.
1. **CROSS- CUTTING ISSUES**
* The following areas need to be improved and developed together to ensure that manufacturing enterprises have a solid foundation to build on.
* For a company to be successful, it needs access to up-to-date technology, productive workers, access to finance and physical infrastructure.
1. **Infrastructure:**
* In order for a country to be internationally competitive it must have a modern infrastructure.
* The **physical infrastructure** must include modern modes of transport and efficient logistical services at harbours, airports and railway stations.
* The **social infrastructure** must include an education system that meets the demands of the economy and also offers work-related training programmes. For industrial development, scientific, engineering and mathematical skills are of importance and should be promoted to ensure growth of the industry.
1. **Access to finance:**
* Government, through DTI, will allocate access to finance to the most productive activities.
* In South Africa industrial development is hampered by a shortage of finance of small businesses and BEE.
* The government therefore created Khula Enterprises to provide financial support through intermediaries, such as Business Partners.
1. **Human Resource Development (HRD):**
* HRD focuses on post-school training.
* Government aims to help identify priority areas for skills development within value chains and to create strategies to work together with business.
* An important role was envisaged for the Sector Education and Training Authorities (SETAs), in that they were created to advance the development of skills in South African employees who have completed school and are earning an income.
* The MERSETA is the SETA for manufacturing, engineering and related services.
1. **Technology:**
* Research and technology is the life blood of technological development.
* A large focus area is in this field is that of biotechnology.
* Technological development involves the discovery of new knowledge. In SA the government finances or subsidises various research and development institutions, such as the Human Science Research Council (HRSC) and the Council for Scientific and Industrial Research (CSIR), the Agricultural Research Council (ARC) and MINTEK, South Africa’s national mineral research organisation.
1. **COMPETITIVE INPUT SECTORS**
* Businesses rely on some key inputs of services that are provided by government or private sector enterprises. The cost of these services also has an impact on the cost of production and therefore the prices and competitiveness. These include:
1. **Transport**: transport is essential for manufacturing industry. It has a direct impact on the stock levels a company has to keep and the price that it charges for its products. The higher the direct costs of transport, the more expensive the end product will be, decreasing overall competitiveness.
2. **Telecommunications**: the ability to communicate effectively and efficiently with customers, suppliers and partners, locally and internationally, utilising the latest technologies, is probably one of the most important aspects of successfully conducting business.
3. **Energy**: all businesses require some form of energy to carry on their daily operations, either from electricity or liquid fuel. This should be readily available and reliable. For example, power failures can be detrimental to production.
4. **PRIORITISED GROWTH SECTORS**
* The DTI focuses on the following sectors:
1. Export sectors
2. Tourism
3. Agriculture
4. Information and communication technology (ICT)
5. Cultural industries

**Focus of these policies and actions:**

• Targeted industries, sectors and regions

• Sectors with potential

• Special Economic Zone (SEZ)

• Southern Africa

**The National Industrial Policy**

* South Africa has experienced a major shift in industrial policy since 1994 away from an inward-looking industrial policy towards an outward-looking industrial policy.
* The new policies that were put in place to restructure the economy focused on measures to support the production side of the economy, to increase exports and to ensure redress of the economy of South Africa.
1. **The National Industrial Policy Framework (NIPF)**

• It is the industrialisation policy of the Department of Trade and Industry.

• Aims:

1. To make the economy more diverse so that exports can increase.

2. To make industrialisation more intensive in the long run.

3. To promote the development of labour-intensive industries.

4. Greater participation by disadvantaged groups and development of marginalised areas.

5. Increase potential for large scale production**.**

1. **The industrial Policy Action Plan 2 (IPAP 2*)***
* Purpose is to expand production in value-added sectors, with high employment and growth potential.
* Industries included:
	+ Metals fabrication, capital and transport equipment, green and energy-saving industries and agro-processing
	+ Interventions in sectors identified in the first Industrial Policy Action Plan like: automotive and components, medium and heavy vehicles, plastics, etc.
	+ Focus on sectors in which South Africa has the potential to develop long-term advanced capabilities like nuclear, advanced materials and aerospace sectors

**REGIONAL DEVELOPMENT POLICY**

**OBJECTIVES OF REGIONAL DEVELOPMENT**

• Reduce unequal development of economic activities within the country

• To stimulate development in poorer areas

• To implement and coordinate the implementation of national and regional industrial policies

• To prevent new imbalances from emerging

**SOUTH AFRICAN STRATEGIES**:

1. **Spatial Development Initiatives (SDIs)**

Spatial development initiatives (SDI) endeavour to attract infrastructure and investments to underdeveloped areas. Creating employment is its primary aim. This programme makes provision for private-public partnerships (PPPs) to take advantage of the economic potential of underdeveloped areas.

**The SDI programme consists of 9 local SDIs**

* Maputo Development Corridor
* Lubombo SDI
* Richards Bay SDI including the Durban and Pietermaritzburg nodes
* Wild Coast SDI
* Fish River SDI
* West Coast Investment Initiative
* Platinum SDI
* Phalaborwa SDI
* Coast -2- Coast corridor

**Industrial Development Zones (IDZs)**

IDZs are purpose built industrial estates located near major transport nodes such as ports and airports, they are physically enclosed areas.
The benefits of IDZs are support to investing companies, especially for greenfield development projects, access to transport for export purposes; waiver of import duties for products that are produced for export; and subsidies in the provision of skills training for employees.

(The four IDZs are to be incorporated into SEZs)

**Special Economic Zones (SEZs)**

Geographically demarcated area where specific economic activities have been identified to be developed. These areas may enjoy incentives such as tax relief and support systems to promote industrial development. It creates a basis for a broader range of industrial parks and provides economic infrastructure to enable the effective clustering of value-adding and employment-enhancing manufacturers.

**Corridors**

A corridor is a track of land that forms a passageway allowing access from one area to another and is developed as part of regional development (also forms part of an SDI).

**INCENTIVES TO ENCOURAGE INDUSTRIAL DEVELOPMENT**

1. **Small Medium Enterprise Development Programme (SMEDP) / Small Business Support Program**

This programme is designed for small businesses with assets of R100 million or less.

* This incentive consists of a tax free cash grant for investment in industries.
* Grants were available to new and expanding businesses.
* Grants are given for three years after which the company is expected to become self-sustaining.
1. **SEDA Technology Program (STP)**
* STP was created as part of government’s national strategy of consolidating and rationalising small enterprise support interventions across the different government departments and government agencies, within the overall objective of improving the delivery of small business support services to entrepreneurs and small enterprises.
1. **Skills Support Programme (SSP)**
* This a cash incentive to encourage greater investment in skills training and to introduce new, advanced skills to the SA labour force.
* A maximum of 50% of a company’s trading costs are covered.
1. **Critical Infrastructure Facility (CIF**) **/ Critical Infrastructure Programme**
* It is a cost sharing grant for projects designed to improve infrastructure in SA. • It covers a qualifying development cost between 10% and 30% towards the total development cost.
* It becomes available on completion of the project.
* It extends to both the public sector (e.g. municipalities) and private sector (companies).
* It is deemed “critical” if the investment had not taken place or would not work optimally without the infrastructure.
1. **Custom free incentives / Duty-free incentive**
* These incentives are aimed at export orientated manufacturing businesses that operate in the IDZs and SEZs.
* Duty-free imports on intermediate products that will be used in the IDZ to produce other final goods.
1. **Foreign Investment Grant (FIG) / Foreign investment incentive**
* It is a cash incentive to assist foreign investors who want to invest in new manufacturing businesses in SA.
* It covers the cost of relocating new machinery and equipment from abroad.
* It becomes available to any registered company who would like to operate in the manufacturing sector.
* It also covers up to 15% of the costs of new machinery and equipment to a certain value.
* Strategic Investment Programme.
1. **Strategic Investment Programme (SIP)**
* The SIP is an incentive scheme that makes an additional industrial investment allowance available to projects in the manufacturing, computer and research and development fields**.**
1. **Business Processes Service (BPS) / Service to Business Processes**
* The BPS aims to attract investment and create employment in South Africa through off-shore activities. • A base incentive as a tax exempt grant is paid over three years for each offshore job created and maintained.
* A graduated bonus incentive is paid as follows: – 20% bonus for more than 4 000 but less than 8 000 offshore jobs paid once off in a year in which the bonus is reached; – 30% bonus for more than 8 000 offshore jobs paid once off in the year in which the bonus level is reached.

**APPROPRIATENESS OF SOUTH AFRICA’S INDUSTRIAL POLICIES**

* The NIPF, on which IPAP 1 and IPAP 2 were based, was a well-designed and resourced programme.
* South Africa’s national industrial policy adheres to international best practice in the following aspects:
* Infrastructure investment: investing in the maintenance and expansion of Africa has investment programmes that include infrastructure such as railways, roads, ports, electricity and water.
* Technology: companies are encouraged to increase their technological know-how and to apply it to the product improvement process. Technologically advanced businesses have a greater potential foe exporting their products.
* Competition: companies are more focused, innovative and effective if strong competition is present. This improves the overall quality of the manufactured product. As with technological advancement, high-quality products can more easily be exported and compete on an international level.
* Creative development: all businesses are encouraged to continually conduct research and to develop new products. As with research and new product development, intellectual capital is at risk of falling into the hands of competitors. For this reason, intellectual capital is protected by copyright and patents.
* Human capital: the development of human capital through skills development is of critical importance, as skilled employees are more productive than untrained employees. By investing in human capital, a country is assured of having long-term economic growth.

**Success factors:**

* Interventions in industries were based on sound economic research and analysis.
* There was substantial progress and growth in the upgrading of value-adding and labour intensive manufacturing sectors.
* Great success was achieved in combating customs fraud, and targeting illegal imports and products of inferior quality.
* An alignment of trade policy with industrial policy took place. This resulted in South African industries being more competitive in global markets.

**External constraints:**

* The implementation of the NIPF and IPAP 1 and 2 overlapped with one of the worst global recessions since the great depression. This had a great impact on South Africa as a developing country. The manufacturing sector was the hardest hit.
* The exchange rate could not stabilise the production sectors of the economy resulting in slow economic growth and development in the industrial sectors.
* The global recession resulted in a decrease in the demand for goods and services from traditional export countries such as the United States and the European Union.

**Internal constraints:**

* The increase in the electricity and logistics costs in the country was a big blow to a rapid growth rate in the industrial sector of the economy. These price hikes affected the smaller businesses and many were forced bankruptcy.
* Slow progress was made with regard to addressing skill shortages. SETAs did not achieve their aims with billions of rand not used or either not used well.
* There were backlogs in infrastructure expenditure at all levels of government.
1. **Appropriateness of regional development policies**
* Development within the IDZs has been slow – only two zones are fully established and operating.
* Regional development is still uneven – economic activities are concentrated in the four metropolitan regions.
* The IDZs do not attract as much local and international investor interest as expected.
* Workers still have to move to where employment is.
1. **Small business development**
* The promotion of entrepreneurship has been achieved. The main task of the DTI is to promote small enterprises in partnership with the Centre for Small Business Promotion (CSBP) and Ntsika Enterprise Promotion Agency.
* Improved access to finance and capital, information and advice has provided effective incentives for small businesses. Khula Enterprise Finance and Business Referral and Information Network offer loans and other financial support and information.
* The DTI has various programmes in place to support SMMEs. These are mainly aimed at providing easier access to capital, information, business advice and entrepreneurial development.
1. **Black Economic Empowerment**
* The laws relating to unequal opportunity employment and the regulations relating to BEE support the South African transformation.
* These policies are supported by the United Nations and the World Bank, especially in terms of empowering indigenous people and the international law that recognises the role of laws in empowering the people.
1. **Regional development on the continent**
* The South African government regards the promotion of strong levels of industrialisation and economic integration on the continent as important.
* South Africa has played a leading role in supporting regional economic development, for example, in the activities of the African Union (AU), and the New Partnerships for Africa’s Development (NEPAD).
* Regional development on the continent is hampered by a lack of cross-border infrastructure.
* South Africa’s regional approach further seeks to provide strategic direction in terms of South Africa’s trade position in the Southern African Customs Union and the SADC.

**APPROPRIATENESS OF SOUTH AFRICA’S REGIONAL
DEVELOPMENT POLICIES**

1. **The regional policy** is underpinned by most important international best practice principles: job creation, human development and macro- and microeconomic development. It focuses on:
* Workers-to-the-work: The priority is on employment creation. Workers have to move to where employment is.
* Work-to-workers: This is internationally regarded as the policy most likely to affect long-term problems of structural unemployment (unemployment resulting from a mismatch between demand in the labour market, and the skills and locations of workers).
1. **Small business development policies**
* The Department of Trade and Industry has various programmes in place to support SMMEs.
* The creation of employment for structurally unemployed people.
* Focus is on incentives for small businesses.
* Providing easier access to capital, information, business advice.
* Promotion of entrepreneurial development among women and the youth.
1. **The appropriateness of black economic empowerment in the South African economy**
* This strategy is in line with the empowerment of indigenous people in the development in developing countries. It is in line with the UN and World Bank development initiative of indigenous people in a country.
* Benchmark criteria.

**INTERNATIONAL BEST PRACTICE FOR REGIONAL DEVELOPMENT**

These are the best international practices for regional industrial development policies:

1. **Good governance** -Regional development strategies should be managed effectively and free of corruption. Democratic decision making, transparency, financial management and control.
2. **Integration**-An integrated approach, ensuring that the benefits of one region spill over to other industries and areas.
3. **Partnerships** - Partnerships should be built between central government, local authorities, civil society, special interest groups, NGOs and the private sector.
4. **Provision of resources** -Sufficient resources should be provided in resource-poor areas, e.g. infrastructure, human resources.
5. **Competitiveness** Industries or business established as a result of regional policies should be competitive and not need ongoing financial aid from government.
6. **Investment of social capital** -Regional development concerns people, and aims to serve the people of the region. Training, education, improving productivity and providing essential goods and services to raise the standards of living in regions. People should be involved.
7. **Development from below** - Concentrate on issues at grass roots level where most urgent human needs exist. It starts by dealing with poverty.
8. **Sustainability**-Treat development from a global perspective covering all human life, including the interaction of special forces in a community, e.g. education, health, nutrition

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| **SECTION C: HOMEWORK**  |

**economic growth and evelopment: industrial development policies**

**QUESTION 1: 10 Marks 10 minutes**  (taken from DBE November 2015)



1.1 What does the abbreviation SDI stand for? (2)

1.2 Give ONE example of an SDI in South Africa. (2)

1.3 Explain the term corridors. (2)

1.4 How will South Africa benefit from SDIs? (2 x 2) (4)

**QUESTION 2: 14 marks 10 minutes**  (Source: Clever Economics)

2.1 What is the overall objective of South Africa’s industrial development policy? (2)

2.2 Why does South Africa need a regional development plan? (10)

**QUESTION 3: 14 Marks 10 minutes**  (Source: Solution for all Economics)

3.1 Describe the different levels on which a development policy should be

 evaluated. (8)

3.2 Explain why a spatial development initiative that involves more than one country may be beneficial to all countries involved. (8)

**QUESTION 4: 24 marks 20 minutes (taken from the examination guideline)**

4.1 Briefly explain *Sustainability* and *Good governance* as best practice for regional development. (2x4) (8)

4.2 Explain the positive impact of globalisation on developing countries. (4x2) (8)

4.3 Broadly outline South Africa’s Industrial Development Strategies. (8)

4.4 Discuss competitiveness and investment in human capital as benchmark strategies for industrial development***.*** (8)

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| 4.5 How can the development of small businesses benefit the South African economy? (8)4.6 Briefly discuss Special Economic Zones as part of South Africa's industrial development plan. (8) |  |  |

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| **STRUCTURE OF THE ESSAY:** | **MARK ALLOCATION** |
| **Introduction**The introduction is a lower-order response.* A good starting point would be to determine the main concept related to the question topic
* Do not include any part of the question in your introduction
* Do not repeat any part of the introduction in the body
* Avoid saying in the introduction what you going to discuss in the body
 | Max. 2 |
| **Body:****Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain**Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest | Max. 26Max. 10 |
| **Conclusion**Any higher-order conclusion should include* A brief summary of what has been discussed without repeating facts already mentioned
* Any opinion or value judgement on the facts discussed
* Additional support information to strengthen the discussion analysis
* A contradictory viewpoint with motivation, if required
* Recommendations
 | Max. 2 |
| **TOTAL** | **40** |

**QUESTION 5: 40 Marks 40 MINUTES (Taken from the examination guideline)**

* Discuss the practices and principles that are suggested to be internationally best when managing regional development. (26)
* Analyse the success factors for the implementation NIPF on which IPAP 1 and IPAP 2 were based. (10)

 **[40]**

**3. eCONOMIC AND SOCIAL PERFORMANCE INDICATORS**

**Learner Note**: Success must measure, how else will you know whether you are successful. For this reason, we have to measure economic growth and economic development. We use economic indicators to measure economic growth and social performance indicators to measure economic development.

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| SECTION A: TYPICAL EXAM QUESTIONS |

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**QUESTION 1: 10 marks 5 minutes**  **Section A – Short Questions**

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

the answer and write only the letter (A–C) next to the question number.

1.1 The inflation target range of the South African Reserve Bank is …

1. 2% - 3%
2. 3% - 4%
3. 3% - 6%
4. 1% - 6%

1.2 Which ONE of the following is a developmental policy?

1. Broad-based Black Economic Empowerment
2. Growth, Employment and Redistribution
3. Industrial Development Corporation
4. Labour policy
	1. The policy that was introduced to increase employment, promote economic

growth and redistribute income.

1. Asgisa
2. GEAR
3. RDP
4. Development trade policy
	1. Its objective is to encourage greater investment in training and to stimulate the

development of new skills.

1. Spatial Development Initiatives
2. Industrial Development Zones
3. Skills Support Programme
4. Industrial Policy Action Plan
	1. An example of an economic indicator is …
5. labour productivity
6. life expectancy
7. housing
8. education **(2 X 5) (10)**

**Give one term for each of the following descriptions. Write only the term next to the question number (1.2.1–1.2.4) in the answer book.**

* + 1. Techniques which include double-entry accounting, for measuring the economic activity of a nation
		2. A statistic that shows the behaviour of one or other economic variable
		3. The number of years how long a new born infant would live
		4. Statistics which represent social facts independent of personal judgements

 **(1 X 4) (4)**

**TYPICAL HIGHER ORDER QUESTIONS**

1. Evaluate the uses of employment figures (8)
2. Evaluate Real GDP as an economic indicator (8)
3. Evaluate the uses of Per Capita figures (8)
4. Evaluate the impact of population growth and life expectancy as social indicators relating to demographics. (8**)**

**OTHER HIGHER ORDER TYPE OFQUESTIONS**

* Why is it important to compare the economic performance between countries?
* Give your opinion how economic development can be promoted through the use of demographics and services a social indicator
* Why is education considered as a key social indicator?
* How successful is South Africa regarding globalisation / international standardisation / aid and support, measured against international best practice?
* How successful is South Africa in utilizing the full potential of its labour force, measured against international best practice?
* How much does South Africa comply to the standardisation of indicators set by the IMF, World Bank and the United Nations?
* Give your opinion, to what extent government can use social indicators to monitor growth and development in South Africa.

**QUESTION 2.1: 10 marks 10 minutes (taken from DBE November 2013)**

**Study the graph below and answer the questions that follow.**

****

2.1.1 What type of indicator is shown by the bar graph above? (1)

2.1.2 Explain the term poverty line. (2)

2.1.3 What percentage (%) of the world population lives above the poverty line of $2 a day? (1)

2.1.4 Name the economic concept which measures the extent of poverty in various countries. (2)

2.1.5 Why do you think the poor find it difficult to escape poverty? (4)

**QUESTION 2.2: 10 marks 10 minutes (taken from DBE MAY-JUNE 2016)**

Study the diagram below and answer the questions that follow

****

2.2.1 Which international institution provided the data in the extract? (1)

2.2.2 When did the income disparities in South Africa increase drastically? (1)

2.2.3 Which index describes the percentage of the population living below the poverty-line income? (2)

2.2.4 Give a reason why poverty in South Africa declined between 2000 and 2006. (2)

2.2.5 What is the relationship between the Lorenz curve and the Gini coefficient?

(2 x 2) (4)

**QUESTION 2.3: (taken from DBE November 2016)**



2.3.1 What happened to the standard of living of South Africans between 1996 and 2015? (1)

2.3.2 Identify an element of the Human Development Index (HDI) in the information above. (1)

2.3.3 What can the government do to improve the quality of service delivery even

 further? (2)

2.3.4 How can the private sector get involved through public-private partnerships to

strengthen the efforts of government? (2)

2.3.5 In your opinion, how can labour market access drive future improvement in

living standards? (2 x 2) (4)

**QUESTION 3: 12 marks 14 minutes (Taken from various sources)**

3.1 Why are economic indicators important to the government? (1 x 2) (2)

3.2 Analyse *population growth* and *life expectancy* as social indicators relating to demographics. (2 x 4) (8)

3.3 How would a high level of education influence the ability of an individual to become employed? (1 x 2) (2)

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| **STRUCTURE OF THE ESSAY:** | **MARK ALLOCATION** |
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* Do not include any part of the question in your introduction
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* Avoid saying in the introduction what you going to discuss in the body
 | Max. 2 |
| **Body:****Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain**Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest | Max. 26Max. 10 |
| **Conclusion**Any higher-order conclusion should include* A brief summary of what has been discussed without repeating facts already mentioned
* Any opinion or value judgement on the facts discussed
* Additional support information to strengthen the discussion analysis
* A contradictory viewpoint with motivation, if required
* Recommendations
 | Max. 2 |
| **TOTAL** | **40** |

**QUESTION 4: 40 marks 40 minutes (taken from DBE Feb/March 2015)**

* Analyse in detail the following economic indicators:
* Inflation rate
* Employment (26)
* In your opinion, why is it important for the government to consider assessing the performance of the economy from time to time? (10)

[40]

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| **SECTION B: ADDITIONAL CONTENT NOTES** |

1. **The performance of an economy**

Economic indicators are statistics that show general trends in the economy. They are used to analyse economic performance and to predict future performance.

The government, private sector and international investors must know how the economy of a country is performing.

The South African Reserve bank and Statistics South Africa provide the data that government uses to assess economic performance. Other organisations also supply important statistics for private and international investors.

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| **SARB**South African Reserve Bank* Quarterly bulletins
* Annual reports
 | **UNITED NATIONS*** UNESCO – reports
* Environmental reports
 |
| Reviews of banks and other financial institutions* Standard Bank
* ABSA
* FNB
* Nedbank
 | **INTERNET*** Newspaper financial sections

 JSE indices |
| **STATISTICS SOUTH AFRICA*** Census reports
* Unemployment data
* GDP data
* Standard of living data
 | **WORLD BANK*** Data for countries
* Indicators for development

Publications |

The macroeconomic indicators show the following:

* the changes taking place in the country – an increase in the real GDP per capita can indicate economic growth
* one country can be compared to another country
1. **Economic Indicators**

The economic indicators measure the macroeconomic objectives of government as discussed in Session 3. The following macroeconomic aims were given:

* **Economic Growth** – Real GDP per capita.
* **Full employment** – look at economically active population (EAP) and the use of productive resources, usually measured in terms of the unemployment rate.
* **Balance of payments stability** – exchange rate stability (terms of trade).
* **Price stability** – Inflation rate
* **An equitable distribution of income** - the aim should be for a fairer distribution of income – use of the Gini coefficient.
	1. **Inflation**

Inflation may be defined as a significant and continual rise in the general price level of goods and services over a given time, with the result that the purchasing power of money will decrease.

Two measures are used:

1. Consumer price index (CPI)
2. Producer price index (PPI)

**Consumer price index(CPI)**

This is an indicator that measures the change in the cost of a fixed basket of goods and services that an average household will purchase.

**Producer Price Index (PPI)**

This is the indicator of changes in the price of manufactured goods as they leave the factories and imported goods as they enter the country.

**The formula to determine inflation**:

$\frac{CPI year 2-CPI year 1}{CPI year 1}$ x $\frac{100}{1}$

South Africa experienced double digit inflation for many years until the government and the South African Reserve Bank introduced the inflation target of 3% - 6%.

* 1. **Employment**

It is not so easy to measure employment as there are a lot of people employed in the informal sector, they are not registered or recorded.

The economically active population figures are used (this was done in grade (11) All the people willing and able to work between 15 and 64 in a country.

Unemployed are all the EAP, they were actively looking for work 7 days prior to the investigation and can start work 7 days after the investigation.

* 1. **Foreign Trade (This was discussed in detail in Session 4 – Balance of Payment, Foreign exchange and Terms of trade)**

**Terms of trade**

The Terms of Trade looks at the relationship between the price received for exports and the amount of imports we are able to buy with that money.

Terms of trade = $\frac{Average Price of Exports}{Average Price of Imports}$ x $\frac{100}{1}$

**Balance of payment**

The balance of payments is a systematic record of all transactions between one country and the rest of the world.

The balance on the current account provides an indication of the difference between exports and imports of goods and services. A positive balance shows that exports exceed imports.

The foreign capital flowing into the country is also important, through foreign direct investments.

**Exchange rates**

The rate at which one currency can be exchanged for another currency. Exports and imports are strongly influenced by the exchange rate of the domestic currency. (Look at your notes in Session 4 in appreciation and depreciation of the currency)

* 1. **Productivity**

Productivity measures the relationship between input and outputs. The more outputs you can produce for the same or less inputs the more productive you are.

Productivity is linked to cost – the more productive you are the lower costs are.

Example if one labourer can produce more than another labourer the cost of labour will reduce.

Productivity will increase the Real GDP per Capita. This will increase economic growth.

* 1. **Interest rates**

As seen in session 2 (Business cycles) and session 2 (Public sector) interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth.

The two important rates are:

1. Repo rate
2. Prime rate
3. **Repo rate**

The rate at which the SARB lends money to commercial banks.

1. **Prime Rate**

The rate at which commercial banks lends money to households and business.

If interest rates move upward, the debt of households and business require bigger repayment instalments. This may indicate that the business cycle could be heading for a downward cycle, businesses might have to cut down production, unemployment may increase and economic growth will decline.

* 1. **Money supply**

The money supply indicates the money in circulation in the economy and how fast it moves from one person to another as this indicate high or low inflation.

Money supply is divided in three categories.

**M1**: This includes coins and notes.

**M2**: Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions,

**M3**: Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions.

Too much money in circulation could lead to more spending and higher inflation. Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth.

1. **Social Indicators**

Sometimes called human development indicators or development indicators because they promote improvement in the standard of living.

* 1. **Demographics**

This is the description of the physical population and its composition. To get this a census is done regularly to obtain this information.

**Human development index (HDI).**

This is a measure of people’s ability to live long and healthy life, to communicate, to participate in the community and to have sufficient income to experience a decent lifestyle.

 **HDI for 2014**Source: https://data.undp.org/dataset/Table1-Human-Development-Index-and -its-components/wxub-qc5k

**Human poverty index (HPI).**

It measures:

* life expectancy is measured by the percentage of newborns not expected to survive to age 40
* lack of education is measured by the percentage of adults who are illiterate
	1. **Health and nutrition**
1. **Health indicators**
* life expectancy at birth
* infant mortality rate
1. **Nutrition indicators**
* daily calorie intake per person
* the number of children who go hungry

These measures are important to government as they are supplying healthcare and sometimes have to include legislation such as adding vitamin A to basic foodstuffs such as bread.

* 1. **Education**

The standard of living of people is directly connected to their education. Educated people are employable and can earn an income and provide for their own wants and needs.

Two important measures are:

* Secondary enrolment percentage – how many children that start Grade 1 get to Grade 8 and finish Grade 12
* Adult literacy – People over the age of 15 that can read and write.

Referring to Session 3 (Public sector) in the budget that the Minister of Finance delivered last year and this year the largest portion of government spending was given to education.

* 1. **Services**

Because of our constitution certain basic services must be supplied by the government. These services have a direct effect on people’s living standards. These basic services differ from rural to urban areas.

1. Electricity
2. Refuse disposal
3. Water supply
4. Sanitation
	1. **Housing and urbanisation**

**Urbanisation**: the process by which an increasing proportion of a country’s population is concentrated in its urban areas as a result of natural increase and migration from rural areas.

This measure is important as more people come to live in urban areas the greater the demand for housing, services, education, health care etc.

**Housing**: the percentage of the population living in a permanent dwelling, or house.

The government issue housing subsidies to help poor people to own a house. South African citizens or permanent residents earning R3 500 or less a month could apply for this subsidy.

* 1. **Summary**

| **Measure of development**  | **Method of measurement**  | **Possible interpretation**  |
| --- | --- | --- |
| **Infant mortality**  | The number of children who die between birth and the age of 5  | An indication of the living standards and the state of medical services in a country  |
| **Life expectancy at birth**  | How long a person is expected to live when he/she is born  | An indication of the living standards and the state of medical services in a country  |
| **Population growth rate**  | Given as a percentage  |  An indication of the living standards  |
| **People per doctor**  | The number of people for each medical doctor  | An indication of the living standards and the state of medical services in a country  |
| **Percentage of children in school**  | The percentage of children who attend school  | An indication of the living standards and the state of education in a country  |
| **Literacy level**  | The number of people who are able to read and write  | An indication of the living standards and the state of education  |
| **Percentage of people with safe water**  | Percentage of the total population who has access to safe, clean drinking water  | An indication of the living standards  |

1. **International comparisons**

Figures collected by the World Bank, International Monetary Fund (IMF) and United Nations provide the best data for comparison purpose.

Other measures used:

* Purchasing power parity (PPP) (This was done in session 4) the number of units of one country’s currency that gives the holder the same purchasing power as one unit of another country’s currency.
* The Big Mac Index – Burgernomics explain the PPP theory. A Mc Donald’s Big Mac burger, sold in about 120 countries. The index is based on the price of the Big Mac around the world as compared to its price in the United States.

|  |  |
| --- | --- |
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| SECTION C: HOMEWORK |

 |

**QUESTION 1: 10 marks 10 minutes**  (Source: Solution for all Economics)

1.1 Name TWO uses of economic indicators. 2 x 1 (2)

1.2 Name and describe the different methods and tools that economists can use to

 make forecasts of the economic future. (8)

**QUESTION 2: 10 marks 10 minutes**  (Source: Oxford Successful Economics)

Study the table below and answer the questions that follow:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jan-March 2010 (thousands)** | **Jan-March 2011 (thousand)** | **Year-on- year change (%)** |
| **Population (15-64)** | 31 818 | 32 314 | 1.6 |
| Labour force | 17 471 | 17 482 | 0.1 |
| Employed | 13 076 | 13 118 | 0.3 |
| Unemployed | 4 375 | 4 364 | -0.7 |
| Not economically active | 14 346 | 14 832 | 3.4 |
| Discouraged work seekers | 1 870 | 2 223 | 18.9 |
| Other | 12 476 | 12 609 | 1.1 |
| **Rates(%)** |  |  |  |
| Unemployment rate | 25.2 | 25.0 |  |
| Labour absorption rate | 41.1 | 40.6 |  |
| Labour force participation rate | 54.9 | 54.1 |  |

Source: [www.statssa.goc.za](http://www.statssa.goc.za)

2.1 Identify the group that has shown the largest increase. (2)

2.2 Distinguish between discouraged work seekers and those who are not economically active. (4)

2.3 Differentiate between the terms of trade and the trade balance. (4)

**QUESTION 3: 10 marks 10 minutes**  (Source: Via Afrika Economics)

3.1 List TWO indicators that reflect the level of education in a country. 2 x 1(2)

3.2 Explain the inflation rate as an economic indicator. (8)

**QUESTION 4: 10 marks 5 minutes (Taken from the examination guideline)**

4.1 HOT QUESTION: Propose four considerations when assessing the performance of an economy? (8)

|  |  |
| --- | --- |
| **STRUCTURE OF THE ESSAY:** | **MARK ALLOCATION** |
| **Introduction**The introduction is a lower-order response.* A good starting point would be to determine the main concept related to the question topic
* Do not include any part of the question in your introduction
* Do not repeat any part of the introduction in the body
* Avoid saying in the introduction what you going to discuss in the body
 | Max. 2 |
| **Body:****Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain**Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest | Max. 26Max. 10 |
| **Conclusion**Any higher-order conclusion should include* A brief summary of what has been discussed without repeating facts already mentioned
* Any opinion or value judgement on the facts discussed
* Additional support information to strengthen the discussion analysis
* A contradictory viewpoint with motivation, if required
* Recommendations
 | Max. 2 |
| **TOTAL** | **40** |

**QUESTION 5**

* Examine the following social indicators:
* **Demographics**
* **Education**
* Nutrition and health (26)
* What can the South African government do to improve the delivery of social services to its citizens? (10)

 [40]