 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF- STUDY ANSWER SHEET**

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| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **15/05/2020** |
| **TOPIC** | **MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES MARKS: 40** | **TERM 1**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

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| **QUESTION 1: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES** | | |  |
|  | | |  |
| 1.1 | 1.1.1 | **Name TWO World Heritage Sites in South Africa.**   * Mapungubwe √ * Sterkfontein Caves √ * Robben Island √ * Vredefort Dome √ * Richtersveld and Botanical Landscape √ (Any 2 x 1) | (2) |
|  |  |  |  |
|  | 1.1.2 | **What is the effect on a business if the average cost is more than the average revenue?**   * The business will suffer losses (economic losses) √√ (1 x 2). | (2) |
|  |  | |  |
| 1.2 | **Study the data below and answer the questions that follow.** | |  |
|  |  | |  |
|  | 1.2.1 | **Identify ONE private cost and ONE external benefit from the data above.**   * Private cost: road construction equipment  External benefit: establishment of new businesses √ (2 x 1) | (2) |
|  |  |  |  |
|  | 1.2.2 | **Explain the term cost-benefit analysis.**   * Project evaluation that need to be done in order to find conclusive answers/procedure used to measure total cost of a project against its total benefits √√   (Accept any other relevant response) | (2) |
|  |  |  |  |
|  | 1.2.3 | **What alternative measure could the government consider instead of building a new road?**   * Maintenance of existing roads √√ * Measures to prevent flooding in future e.g. dams √√   (Accept any other relevant response) | (2) |
|  |  |  |  |
|  | 1.2.4 | **Should the government** **proceed with the building of this road? Motivate your answer.**  **Yes √**   * Flooding will not be a problem for road users, tourists and the local community (farmers) √√ * Income derived from toll gates will ensure future maintenance, and will cover the investment made in the construction of toll roads √√ * The final decision will be determined by the positive difference between total benefits from this project over total costs √√   **No √**   * Floods only exist during the rainy season and other measures could be taken to prevent flooding e.g. dams √√ * Pollution will harm the local community (especially farmers and the environment) on a permanent basis √√ * Social cost will exceed social benefits due to temporary job creation √√   (Accept any other relevant response) | (4) |

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| 1.3 | **Study the extrct below and answer the questions that follow.** | |  |
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|  | 1.3.1 | **What is the current inflation target range?**   * 3%–6 % √√ | (2) |
|  |  |  |  |
|  | 1.3.2 | **What is the main purpose of the South African inflation targeting policy?**   * To ensure a stable and sustainable economy √√ | (2) |
|  |  |  |  |
|  | 1.3.3 | **How can lower interest rates benefit the South African economy in the short term?**   * Increase consumer expenditure √√ * Increase production √√ * Lead to new job opportunities √√ * Lead to a higher standard of living for more people √√   (Accept any other relevant response) (Any 1 x 2) | (2) |
|  |  |  |  |
|  | 1.3.4 | **How successful, in your opinion, was the Reserve Bank in meeting its inflation target?**   * The Reserve Bank was successful – The bank manages to pin down inflation between the target range of 3%–6% √√ * They have successfully increase the repo rate at the right time to prevent inflation to increase above the 6% target range √√ * (Accept any other relevant response) (2 x 2) | (4) |
|  |  |  |  |
| 1.4 | **Distinguish between economic profit and normal profit in the perfect market.**  **Normal Profit:**   * A firm makes normal profits when total revenue (TR) equals total costs/when average revenue (AR) equals average cost (AC) √√ * Normal profit is the maximum return the owner of a firm expects to receive to keep on operating in the industry √√ * The minimum earnings required to prevent an entrepreneur from leaving the industry √√ * When average revenue equals average cost the firm makes a normal profit √√   (2 x 2)  **Economic profit:**   * Profit that is made in addition to normal profit √√ * When average revenue is greater than average cost the firm makes an economic profit √√ * When the average cost per unit is lower than the price √√   (Accept tabular format) (Accept any other relevant response) (2 x 2) (2 x 4) | | (8) |
|  |  | |  |
| 1.5 | **What is the impact of inflation on investors and savers?**   * Assets with fixed nominal values remain constant, the purchasing power of the nominal values increase, the real value decrease √√ * Assets with flexible market value: The holders of shares and fixed property usually gain by price increases because the nominal value of these assets tend to increase at least proportionately to the rate of inflation √√ * Often the prices of these assets increase more rapidly than the increase in the general price level √√ * In this case, inflation creates wealth, to the advantage of the shareholders √√ * People who save are disadvantaged by inflation due to the fact that interest earned will be less than the current inflation rate √√   (Accept any other relevant fact) (Any 4 x 2) | | (8) |
|  | DBE/Feb-Mar. 2016 | | **[40]** |