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Basic Education
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SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P1

2017

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 16 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 C - foreign ✓✓
- 1.1.2 A - business ✓✓
- 1.1.3 B - deregulation ✓✓
- 1.1.4 B - terms of trade ✓✓
- 1.1.5 A - education ✓✓
- 1.1.6 B - growth ✓✓
- 1.1.7 C - Accelerated and Shared Growth Initiative for South Africa (AsgiSA) ✓✓
- 1.1.8 C - Industrial Development Zones (IDZ) ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G - owners of the factors of production ✓
- 1.2.2 C - transfer of ownership from the private sector to the public sector ✓
- 1.2.3 I - deliberate decrease in the value of the currency in terms of another currency ✓
- 1.2.4 A - penalty or punishment imposed by one country on another country for some wrongdoing ✓
- 1.2.5 F - new scientific knowledge in the form of inventions and innovations ✓
- 1.2.6 D - consists of enterprises that produce the same kind of products ✓
- 1.2.7 H - expressed by the real GDP per capita, life expectancy and level of literacy ✓
- 1.2.8 E - ratio between output produced in the economy and the input used to produce them ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 State-owned enterprises / parastatals / public enterprises ✓
- 1.3.2 Monetary policy ✓
- 1.3.3 Exchange rate ✓
- 1.3.4 Urbanisation ✓
- 1.3.5 Economically Active Population ✓
- 1.3.6 Globalisation ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

QUESTION 2: MACROECONOMICS

2.1 2.1.1 **Name TWO leakages from the economic circular flow.**

- Savings (S) ✓
- Imports (M) ✓
- Taxes (T) ✓

Any (2 x 1) (2)

2.1.2 **What benefit will government enjoy from selling non-profitable state-owned enterprises?**

- Income will be generated by selling ✓✓
 - State revenue will increase through taxes ✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Name the method used to calculate the GDP in the table above.**

Income method / GDP (I) ✓✓

(1 x 2) (2)

2.2.2 **Briefly describe the term *Gross Domestic Product*.**

Value of all final goods and services ✓ produced within the borders ✓ of a country for a certain period of time
(Accept any other correct relevant response)

(2)

2.2.3 **What is the main purpose of subsidies on production?**

To reduce cost of production / to encourage the production for exports / subsidies will benefit the consumer / increase the production of certain goods ✓✓

(Accept any other correct relevant response)

Any (1 x 2) (2)

2.2.4 **Calculate the consumption of fixed capital as a percentage of the GDP at factor cost. Show ALL calculations.**

560 397 ✓ / 3518 318 ✓ x 100 ✓
= 15.93% ✓ OR 16% ✓

(If only the answer is given, allocate 2 marks)

(4)

2.3 DATA RESPONSE

2.3.1 Identify ONE form of an indirect tax in the information above.

- Fuel levies ✓
- Excise duties ✓
- Custom duties ✓
- VAT ✓

(1)

2.3.2 What type of tax that will contribute most to state revenue during the 2016/17 financial year?

Personal income tax/PAYE ✓

(1)

2.3.3 Briefly describe the term *budget*.

A document showing anticipated revenue and estimated expenditure ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 Give ONE reason why the government increased taxation (excise duties) on demerit goods during the 2016/17 financial year.

- To discourage consumer not to buy or consume the products ✓✓
 - To discourage producers to produce them ✓✓
- (Accept any other correct relevant response)

(2)

2.3.5 How will an increase in corporate income tax impact negatively on economic growth?

An increase in corporate income tax will:

- reduce the amount that companies can put back into business as investment which will limit expansions and reduce jobs ✓✓
- reduce the amount of money that companies can use to become more efficient which will reduce growth ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.4 Explain **natural resources** and **specialisation** as causes of international trade.

Natural resources

- Natural resources are unevenly distributed in the world ✓✓
- They vary from country to country and can only be exploited in places where these resources exist ✓✓
- E.g. South Africa is rich in iron ore, gold, coal and platinum whereas China does not have them and it therefore imports these minerals from South Africa ✓

(Accept any other correct relevant response)

(Max 4)

Specialisation

- The production of certain goods and services allows some countries to produce them at a lower cost than others ✓✓
- This leads to mass production which lowers costs ✓✓
- E.g. Japan produces electronic goods and sells these at a lower price ✓
(Allocate a max of 4 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

(Max 4)

(8)

2.5 An international company invested R5 million in a business venture in South Africa. If the marginal propensity to save (mps) is 0,6, calculate the multiplier and show how this investment will benefit our economy. Show ALL calculations.

Calculation of the multiplier (M):

$$M = 1/\text{mps} \checkmark$$

$$= 1 / 0,6 \checkmark$$

$$= \underline{1,67} \checkmark\checkmark$$

OR $M = 1 / 1 - \text{mpc} \checkmark$

$$= 1 / 1 - 0,4 \checkmark$$

$$= \underline{1,67} \checkmark\checkmark$$

(Max.4)

Investment is R5 million, therefore the multiplier effect (benefit to the economy) will be:

$$\text{R5m} \times 1,67 \checkmark\checkmark$$

$$\underline{\text{R8,35 million}} \checkmark\checkmark$$

OR $\frac{\text{Investment}}{\text{mps}} \checkmark$

$$= \frac{5\,000\,000}{0.6} \checkmark$$

$$= \underline{8\,333\,333} \checkmark\checkmark$$

$$= \text{R8.33 m} \checkmark\checkmark$$

(Max.4)

(8)

[40]

QUESTION 3: ECONOMIC PURSUITS

- 3.1 3.1.1 **Name TWO indicators related to production**
- Nominal GDP / GDP @ market prices / GDP @ current prices ✓
 - Real GDP / GDP at constant prices ✓
 - Real GDP per capita ✓
- (2 x 1) (2)
- 3.1.2 **Why does the South African government focus on small businesses to promote economic growth?**
- The country's employment rate will increase / production will increase / competitive levels would rise ✓✓
(Accept any other correct relevant response)
- (1 x 2) (2)
- 3.2 **DATA RESPONSE**
- 3.2.1 **Which trade agreement has given developing countries favourable export opportunities?**
- Africa Growth and Opportunity Act (AGOA) ✓
- (1)
- 3.2.2 **Identify, in the data above, how technology may be used to combat poverty.**
- The use of modern technology has led to a more equal trade and flow of capital / that will boost agricultural and manufacturing production ✓
- (1)
- 3.2.3 **Briefly describe the impact of activities in the North (North-South divide) on the world environment**
- Because they are heavily industrialised, they produce a large amount of greenhouse gases ✓✓
 - Cause a lot of pollution ✓✓
 - Deplete world resources for their own benefit ✓✓
- (Accept any other correct relevant response)
- Any (2 x 2) (4)
- 3.2.4 **In your opinion, how can countries in the South solve the problem of underdevelopment?**
- Problem of underdevelopment can be solved by:
- improving their skills levels (education) in the production of goods and services ✓✓
 - improving their planning and effective and efficient management of resources ✓✓
 - increasing and improving their industrialisation plans to enhance production of a variety of goods and services ✓✓
- (Accept any other correct relevant response)
- Any (2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 According to the extract, which sector created the most jobs in 2014?

Public sector ✓ (1)

3.3.2 Identify the most important cause of poverty in the extract.

Unemployment ✓ (1)

3.3.3 Briefly describe the concept *unemployment*.

When individuals who are willing, qualified and ready to get employment fail to obtain jobs under the current economic circumstances in the country ✓✓

(Accept any other correct relevant response) Any (1 x 2) (2)

3.3.4 Why is the high employment rate by the public sector sometimes viewed as a problem?

- Bloated bureaucracy ✓✓
- Productivity is low ✓✓
- Inefficiency ✓✓

(Accept any other correct relevant response) Any (1 x 2) (2)

3.3.5 What can the private sector do to increase employment in South Africa?

Employment in South Africa can increase by:

- substituting imports which will decrease the demand for goods and services from abroad that will promote local production ✓✓
- promoting new investments and expanding existing industries ✓✓
- finding new foreign markets that will open new business opportunities when quality products are competitive enough ✓✓

(Accept any other correct relevant response) Max (2 x 2) (4)

3.4 Briefly discuss regional development in South Africa using competitiveness and sustainability as benchmark criteria.

Competitiveness

- Industries or businesses established as a result of regional policies should be competitive and not need ongoing financial aid from government ✓✓
- Problems exist regarding pre-existing market structures that showed uncompetitive behaviour – the competition policy needs to be strengthened to deal better with the challenges of high levels of industry concentration and anti-competitive behaviour ✓✓
- To compete in the global markets and meet the challenges of globalisation, economies need to focus more on product differentiation and shorter production cycles ✓✓
- This has resulted in greater integration between firms, domestically and internationally with greater emphasis on product innovation and quality – a variety of semi-customised goods by a skilled and adaptable workforce ✓✓

(Max 4)

Sustainability:

- The capacity of a region has to support its own development ✓✓
 - The natural resources and human resources of the region should be harnessed ✓✓
 - Employment and sustainable development should be achieved through appropriate planning, policies and strategies ✓✓
- (Allocate a max of 4 marks for mere listing of facts/examples)
(Accept any other relevant correct response)

(Max 4)

(8)

3.5 How do the International Monetary Fund and the United Nations as international organisations, play a role in the standardisation of the indicators of member countries?

The IMF standardise indicators by:

- manually focusing on government finance statistics (GFS) on public finance accounting ✓✓
- basing their predictions only on transactions that have indeed taken place and not those that are expected to happen – cash flow ✓✓
- compiling South Africa's annual budget review in terms of GFS specifications ✓✓

Maks (4)

The United Nations standardise indicators by:

- applying the manual of economic indicators or data systems - the UNs System of National Accounts (SNA) ✓✓
 - focusing on production, income and expenditure, and how to avoid double counting ✓✓
 - compiling data in the Quarterly Bulletin of South African Reserve Bank in terms of SNA specifications ✓✓
- (Allocate a max of 2 marks for mere listing of facts/examples)
(Accept any other relevant correct response)

Max (4)

(8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS

- 4.1 4.1.1 **Name TWO markets that form part of the economic circular flow.**
- Factor / labour / resource ✓
 - Goods / product / produce ✓
 - Financial / capital / money ✓
 - Foreign exchange / currency ✓
- (Accept any other correct relevant response) (2 x 1) (2)
- 4.1.2 **What would be the impact on economic development if the population increased without an increase in the real gross domestic product (GDP)?**
- Low standard of living ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **Identify TWO economic indicators in the cartoon above.**
- GDP ✓
 - Inflation rate ✓
 - Exchange rate ✓
- Any (2 x 1) (2)
- 4.2.2 **Briefly describe the term *recession*.**
- Economic slow-down (negative economic growth rate) for more than two consecutive quarters ✓✓
- (Accept any other correct relevant response) (2)
- 4.2.3 **How will the initial stages in an economic downturn influence interest rates in South Africa?**
- Interest rates will remain high during a recession / interest rates will decrease during a depression ✓✓ (2)
- 4.2.4 **What can the South African Reserve Bank do to increase the economic growth in the country?**
- The SARB can increase economic growth by:
- decreasing interest rates (expansionary monetary policy) ✓✓
 - influencing credit creation by making credit cheaper ✓✓
 - stabilising the exchange rate to encourage the inflow of funds ✓✓
 - encouraging open-market transactions through the purchase of securities to allow money to flow back into the banking system ✓✓
- (Accept any other correct relevant response) Any (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 Identify ONE key policy initiative developed by the Department of Trade and Industry in the extract above.**

- National Industrial Policy Framework (NIPF) ✓
- Industrial Policy Action Plan (IPAP) ✓
- Automotive Production and Development Programme ✓
- Clothing and Textile Competitiveness Programme (CTCP) ✓ (1)

4.3.2 According the extract, what is the main purpose of the Department of Trade and Industry?

- Growing the economy ✓
- Reduce unemployment ✓
- Enhance the equitable distribution of economic activity ✓ (1)

4.3.3 Briefly describe the aims of the National Industrial Policy Framework

- Diversification beyond traditional commodities and services ✓✓
 - Intensifying industrialisation processes and movement towards a knowledge economy ✓✓
 - Promotion of labour-absorbing industrialisation ✓✓
 - Increased participation of historically disadvantaged people and marginalised regions ✓✓
 - Contributing to industrial development on the African continent ✓✓
 - To increase the potential of large scale production ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3.4 How would these key policy initiatives support the growth of the South African economy?

Growth will be supported by:

- developing a strong industrial base for the country ✓✓
 - improving infrastructure development that is critical for expanded production ✓✓
 - improving production methods ✓✓
 - increasing production-driven skills ✓✓
 - increasing competitiveness of the economy ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.4 Briefly discuss *distribution of income* (economic equity) and *price stability* as macroeconomic objectives

Distribution of income (economic equity):

- Progressive income tax and tax on profits, wealth and expenditure are used to finance free social services ✓✓
- E.g. education, primary healthcare, basic economic services and to pay cash grants to poor and other vulnerable people ✓✓ (Max 4)

Price stability:

- Stable prices lead to better results in terms of job creation and economic growth ✓✓
- The SARB inflation target is 3–6% and has been successful in keeping inflation within this target ✓✓ (accept above upper limit response)
- Interest rates, based on the repo rate is the main instrument used to achieve price stability ✓✓
- A stable budget deficit also has a stabilising effect on the inflation rate and on prices ✓✓

(Allocate a max of 4 marks for mere listing of facts/examples) (Max 4) (8)

4.5 How can the government use incentives to encourage industrial development?

Government can encourage industrial development by:

- developing programmes that will ensure that proper skills are given to the labour force and cover a certain minimum of companies' trading costs ✓✓
- providing business support programmes to help improve the delivery of small business support to small business and entrepreneurs ✓✓
- availing grants to small and emerging businesses ✓✓
- providing tax free grants for investment in industries ✓✓
- providing foreign investment incentives e.g. Strategic Investment Programme ✓✓

(Allocate a max of 2 marks for mere listing of facts/examples)

(Accept any other relevant correct response)

(Max 8) (8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE question in this section.
The answer must be assessed as follows:

QUESTION 5: MACROECONOMICS

South Africa's international trade policy consists of export promotion and import substitution.

- **Discuss *export promotion* as part of South Africa's international trade policy under the following headings:**
 - **Reasons (8)**
 - **Methods (8)**
 - **Disadvantages (10)** **(26 marks)**
 - **Analyse the arguments in favour of a free-trade policy.** **(10 marks)**
- [40]**

INTRODUCTION

- Export promotion involves providing incentives to encourage local businesses to produce goods for export ✓✓
- When government pay incentives to encourage the production of goods that can be exported ✓✓

(Accept any other correct relevant introduction)

Max (2)

MAIN PART**Reasons for export promotion**

- The country achieves significant export-led economic growth ✓✓
- Export promotion enlarges the production capacity of the country ✓✓
- Export markets are much bigger than local markets ✓✓
- Larger production units creates more job opportunities ✓✓
- It leads to lower retail prices ✓✓

Methods of export promotion:

- Incentives: ✓
 - The government supplies information on export markets in order to stimulate exports ✓✓
 - Other examples are research on new markets, concessions on transport charges, export credit ✓
- Subsidies: ✓
 - Incentives which encourage exporters to increase the amount of their production ✓✓
 - It includes direct and indirect subsidies:
 - Direct subsidies: Cash payments to exporters ✓✓
 - Indirect subsidies: Refunds on import tariffs and general tax rebates ✓✓
- Trade neutrality: ✓
 - Subsidies, equal in size to import duties, are paid ✓✓
 - Neutrality can be achieved through trade liberalisation ✓✓

Disadvantages of export promotion

- The real cost of production is hidden: ✓
 - It reduces the total costs by subsidies and incentives ✓✓
 - The real cost of production is concealed by the subsidies ✓✓
 - The product may thus never be able to compete in the open market ✓✓
 - Lack of competition: ✓
 - Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market ✓✓
 - Total potential trade is therefore reduced with subsidies rather than without subsidies ✓✓
 - Increased tariffs and quotas: ✓
 - Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production ✓✓
 - Powerful overseas businesses can afford to offer similar products at much lower prices ✓✓
 - Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business who received the subsidy ✓✓
 - Protection of labour-intensive industries: ✓
 - Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
 - Export promotion results in the protection of labour-intensive industries by developed countries ✓✓
- (Allocate a max of 8 marks for mere listing of facts/examples) Max (26)

ADDITIONAL PART

- Specialisation: The theory of comparative advantage shows that world output can be increased if countries specialise in what they are relatively best at producing ✓✓
 - If countries specialise in producing goods for which they have a comparative advantage, world trade and consumption will be maximised ✓✓
 - Trade allows economies of scale to be maximised and thus unit costs are reduced ✓✓
 - Economies of scale are a source of comparative advantage ✓✓
 - Free trade gives consumers the choice of what to buy from the whole world and not just from what is produced domestically ✓✓
 - Consumers' welfare is thus increased because some consumers will prefer to buy foreign goods rather than domestic goods ✓✓
 - Choices is enlarged ✓✓
- (Accept any other correct relevant response) (Max 10)

CONCLUSION

In the light of the negative impact of free trade it is critically important to protect smaller developing economies against uneven competition from the developed economies ✓✓

(Accept any other correct relevant higher order response) (Max 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

In order to achieve economic growth and development the right approach is required.

- Examine the *demand-side approach* to growth and development in South Africa. (26 marks)
- Evaluate the success of AsgiSA and Black Economic Empowerment (BEE) as government initiatives to promote growth and development. (10 marks) [40]

INTRODUCTION

The **demand-side approach** emphasises the fact that for a country to have growth, there is a need to increase aggregate demand by making discretionary changes to the monetary and fiscal policies of the country ✓✓

(Any other relevant introduction)

Max (2)

MAIN PART

- A demand-side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand. ✓✓
- **Monetary policy** is driven by the South African Reserve Bank (SARB) ✓✓
- It aims to stabilise prices by managing inflation ✓✓
- **Fiscal policy** is driven by the Department of Finance. ✓✓
- It aims to facilitate government, political and economic objectives ✓✓
- A demand-side approach to economic growth and development does not only depend on fiscal and monetary policy. ✓✓
- It is dependent on all components of aggregate demand, that is C, I, X and G. ✓✓

1. MONETARY POLICY: ✓

The South African Reserve Bank (SARB) as the central bank in South Africa formulates the monetary policy. ✓✓

They use the following instruments:

- Interest rate changes ✓
 - It is used to influence credit creation by making credit more expensive or cheaper. ✓✓
 - The exchange rate is stabilised by encouraging inflow or outflows ✓✓
- Open market transactions ✓
 - To restrict credit the SARB sells securities. ✓✓
 - When banks buy these securities money flows from banks to the SARB. ✓✓
 - The banks have less money to lend and cannot extend as much credit as before. ✓✓
 - To encourage credit creation the SARB buys securities. ✓✓
 - Money flows into the banking system. ✓✓
- Moral suasion ✓
 - The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions ✓✓
- Cash reserve requirements ✓
 - Banks are required to hold a certain minimum cash reserve in the central bank. ✓✓
 - Banks have a limit amount to give out as credit ✓✓

2. FISCAL POLICY: ✓

South Africa's fiscal policy is put into practice through the budgetary process ✓✓

The main purpose of fiscal policy is to stimulate macroeconomic growth and employment, and ensure redistribution of wealth. ✓✓

The following instruments are used:

- Progressive personal income tax ✓
 - Higher income earners are taxed at higher tax rates. ✓✓
 - These taxes are used to finance social development. ✓✓
 - The poor benefit more than those with higher incomes ✓✓
- Wealth taxes ✓
 - Properties are levied (taxed) according to their market values. ✓✓
 - Transfer duties are paid when properties are bought. ✓✓
 - Securities (shares and bonds) are taxed when traded. ✓✓
 - Capital gains tax is levied on gains on the sale of capital goods (e.g. properties, shares) ✓✓
 - Estate duties are paid on the estates of the deceased ✓✓
 - These taxes are used to finance development expenditures which benefit the poor more often ✓✓
- Cash benefits ✓
 - Old age pensions, disability grants, child support and unemployment insurance are cash grants ✓✓
 - These are also known as social security payments ✓✓
- Benefits in kind (in natura benefits) ✓
 - These include the provision of healthcare, education, school meals, protection ✓
 - When user fees are charged, poor or low income earners pay less or nothing. Limited quantities of free electricity and water are provided ✓✓
- Other redistribution ✓
 - Public works programmes, e.g. the Strategic Integrated Projects (SIP), provides employment subsidies and other cash and financial benefits such as training, financing and export incentives ✓✓
- Land restitution and land redistribution ✓
 - Land restitution is the return of land to those that have lost it due to discriminatory laws in the past ✓✓
 - Land redistribution focuses on land for residential (town) and production (farm) for previously disadvantaged groups ✓✓
 - The money for these programmes is provided in the main budget ✓✓
- Subsidies on properties ✓
 - It helps people to acquire ownership of fixed residential properties ✓✓
 - e.g. government's housing subsidy scheme provides funding to all people earning less than R3 500 per month ✓

(Allocate a max of 8 marks for mere listing of facts/examples)

Max (26)

ADDITIONAL PART**AsgiSA managed to:**

- create more employment which led to increased wages and consumption ✓✓
- improve the standard of living of some citizens ✓✓
- slightly reduce unemployment rate levels through the Expanded Public Works Programme (EPWP) ✓✓

AsgiSA attempted to:

- increase economic growth although South Africa still experiences high levels of unemployment especially among the youth ✓✓

Black Economic Empowerment (BEE) managed to:

- empower some blacks through the system by being appointed into senior positions both in the public and private sectors ✓✓
- involve many previously disadvantaged people actively in the economy of the country ✓✓
- create opportunities for young upcoming entrepreneurs to enter the business world ✓✓
- offer accessibility of open business opportunities in the different sectors of the economy ✓✓

Black Economic Empowerment attempted to:

- Benefit all South Africans although the system was abused by a few with corrupt tendencies ✓✓
- Allocate valuable resources equitably however nepotism and widespread corruption have led to valuable resource wastage ✓✓

(Accept any other correct relevant responses)

(Max 10)

CONCLUSION

Clear policy directives and management can enhance clear-cut progressive growth and development of countries ✓✓

Max (2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C:	40
GRAND TOTAL:	150