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# **basic education**

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

## **SENIOR CERTIFICATE EXAMINATIONS**

**ECONOMICS PAPER 1**

**JUNE 2018**

**MARKING GUIDELINES**

**MARKS: 150**

**These marking guidelines consist of 16 pages.**

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

- 1.1.1 B - dumping ✓✓
- 1.1.2 A - investments ✓✓
- 1.1.3 D - demand-and-supply side ✓✓
- 1.1.4 C - ad valorem ✓✓
- 1.1.5 C - economic growth ✓✓
- 1.1.6 B - globalisation ✓✓
- 1.1.7 A - employment rate ✓✓
- 1.1.8 D - industrial ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 E - Approach taken by a country's central bank to influence spending in the economy ✓
- 1.2.2 I - Proportion of their disposable income that households spend ✓
- 1.2.3 A - Compares export prices with import prices by means of indexes ✓
- 1.2.4 H - Trade policy that promotes the manufacturing of local products for foreign markets ✓
- 1.2.5 D - Buying and selling of government securities to influence the money supply ✓
- 1.2.6 G - Strategies used to encourage production ✓
- 1.2.7 C - Removal of trade barriers ✓
- 1.2.8 F - Measures headline inflation ✓ (8 x 1) (8)

**1.3 GIVE THE TERM**

- 1.3.1 Money ✓
- 1.3.2 Recession ✓
- 1.3.3 Protectionism ✓
- 1.3.4 Employment Equity ✓
- 1.3.5 Fiscal ✓
- 1.3.6 Urbanisation ✓ (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2: MACROECONOMICS**

2.1 Answer the following questions.

2.1.1 Name any TWO member countries of the BRICS trade protocol.

- Brazil ✓
- Russia ✓
- India ✓
- China ✓
- South Africa ✓

(2 x 1) (2)

2.1.2 How can indirect subsidies benefit the export producer?

The export producer can benefit by receiving

- refunds on import tariffs ✓✓
- tax rebates / tax concessions ✓✓
- production cost will decrease / increased profits ✓✓
- increased ability to compete in foreign markets / increased exports ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify the trend line in the business cycle.

K ✓

(1)

2.2.2 Which letter represents a trough in the diagram?

D ✓

(1)

2.2.3 Briefly describe the term *business cycle*.

Successive periods of expansion and contraction ✓ in economic activities ✓

(Accept any other correct relevant description)

(2)

**2.2.4 Explain economic activity during phase EF in the business cycle.**

- Economy is growing and improving rapidly ✓✓
  - More businesses open up and more workers are hired ✓✓
  - Increased demand for credit which increases interest rates ✓✓
  - Higher demand and higher prices for capital goods ✓✓
  - Profits and salaries increase ✓✓
  - Higher inflation ✓✓
- (Accept any other correct relevant response)

(2)

**2.2.5 How can the length (BF) be used in forecasting of business cycles?**

- Because the length remains relatively constant, one can forecast that the next cycle will be of a similar length ✓✓
  - If a business cycle has a length of 12 years, it can be predicted that 12 years will pass between successive peaks or troughs or that it will take 6 years for the economy to pass through a recession ✓✓
  - Longer cycles show strength which will indicate that the next cycle will also be strong (or vice versa) ✓✓
- (Accept any other correct relevant response)

(2 x 2)

(4)

**2.3 DATA RESPONSE**

**2.3.1 Identify the base year currently used by the SARB above.**

2010 ✓

(1)

**2.3.2 Which sector contributed most towards the *Gross Domestic Product* of South Africa?**

Tertiary sector ✓

(1)

**2.3.3 Briefly describe the term *Gross Value Added (GVA) at constant prices*.**

GDP where the effect of inflation on the nominal GDP has been taken into account ✓ and the figure has been changed by deflating the index ✓

(Accept any other correct relevant response)

(2)

**2.3.4 How would GDP at market prices be converted to GNP at market prices?**

GNP = GDP plus primary income from the rest of the world minus primary income to the rest of the world / GDP plus nett primary income ✓✓

(2)

**2.3.5 Calculate the Gross Domestic Product at market prices (A).  
(Show all calculations)**

Gross value added at basic prices	2 794 601	
Plus: Taxes	(+) 30 600	✓
Min : Subsidies	(-) 5 900	✓
<b>GDP at market prices</b>	<b>2 819 301</b>	✓✓

**OR**  $2\,794\,601 + 30\,600 \checkmark - 5\,900 \checkmark = 2\,819\,301 \checkmark\checkmark$  (4)

2.4 Briefly explain the measures to reduce a *deficit on the balance of payments*.

- Borrowing money from the IMF ✓✓
- Import substitution will reduce imports of goods because it will be produced in the country ✓✓
- Export promotion will increase in aggregate supply and reduce prices. Exports are promoted through cheaper prices ✓✓
- Higher interest rates help to decrease spending on imports ✓✓
- An increase in import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls.(Trade liberalisation) ✓✓
- Exchange control allows central banks to ration foreign exchange ✓✓
- Reduction of foreign reserves by SARB to correct deficits if we adopted a managed floating exchange rate ✓✓
- Changes in exchange rate, i.e. currency depreciation/devaluation makes imports expensive (reduction) and exports cheaper for foreign countries (increase exports) ✓✓
- An increase in tax reduces disposable income which decreases demand in imports ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples) (4 x 2) (8)

## 2.5 Why should South Africa follow a policy of free trade?

A policy of free trade should be followed by:

- allowing specialisation which reduces the cost per unit of a product (economies of scale) ✓✓
- improving sales locally and abroad leading to increased profits ✓✓
- ensuring a variety of goods which increases the choices of consumers and increase J'x✓
- accelerating economic growth which promotes greater savings and investment ✓✓
- allowing developing countries to take advantage of foreign expertise which may be unavailable domestically ✓✓
- promoting increased efficiencies, product improvement and technological advancement ✓✓
- promoting competition and improving resource allocation ✓✓

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

(Accept any other correct relevant response)

(8)  
[40]

**QUESTION 3: ECONOMIC PURSUITS****3.1 Answer the following questions.****3.1.1 Name any TWO social indicators.**

- Demographics ✓
- Nutrition and health ✓
- Education ✓
- Services ✓
- Housing and urbanisation ✓

(2 x 1) (2)

**3.1.2 What can government do during a period of recession to stimulate the economy?**

The government can

- apply an expansionary fiscal policy ✓✓
  - reduce taxes / lower personal income tax ✓✓
  - increase government spending ✓✓
  - provide new infrastructure ✓✓
  - support SMME's and informal sector activities ✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

**3.2 DATA RESPONSE****3.2.1 Name ONE vehicle manufacturer, which have production plants in South Africa.**

- BMW ✓
- Ford ✓
- Volkswagen ✓

(1)

**3.2.2 Identify ONE advantage of vehicle production plants located in South Africa in the extract.**

- Diversified manufacturing ✓
- Compete in the global economy ✓
- Accelerate growth and development ✓
- Investment opportunities ✓
- Enjoys production advantages ✓
- Lead to trade agreements ✓

(1)

**3.2.3 Briefly describe the term *free trade area*.**

A free trade area is where restrictions such as tariffs and quotas have been removed ✓✓

(2)

3.2.4 **What is the purpose of the Southern African Development Community?**

Further socio-economic cooperation and integration as well as political and security cooperation amongst Southern African states ✓✓

(Accept any other correct relevant response) (2)

3.2.5 **How could the government address poverty in South Africa through the manufacturing sector?**

Government could address poverty by:

- encouraging industrial development through effective industrial policies that will encourage labour intensive production processes ✓✓
  - contributing in paying direct and indirect subsidies to limit the cost of production and favour the end consumer (lower prices) ✓✓
  - paying concessions to manufacturers to ensure affordable end products ✓✓
  - paying incentives to ensure diverse production with a bigger choice for the consumer ✓✓
  - creating a positive climate for investment in mostly labour intensive production processes ✓✓
  - applying macro-economic policies that encourage production of a large component of the final product domestically to limit unemployment ✓✓
  - supporting the establishment of SMME's ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **When, according to the graph was unemployment at its highest level?**

Second Quarter 2017 ✓ (1)

3.3.2 **Which institution compiled the unemployment figures?**

StatsSA ✓ (1)

3.3.3 **Briefly describe the term *unemployment*.**

Unemployment refers to those people within the economically active population who are willing and able to work ✓ but cannot find a job ✓

(Accept any other correct relevant response) (2)



**3.3.4 What is the negative impact of high unemployment on the youth?**

- It limits their future growth and development ✓✓
- It will discourage them to further their studies or look for decent employment ✓✓
- It will affect their humanity and well-being ✓✓  
(Accept any other correct relevant response)

(2)

**3.3.5 How can the government reduce unemployment in the economy?**

The government can reduce the level of unemployment by

- applying the skills development programmes to ensure better remuneration that will stimulate demand and production ✓✓
- incentivising business communities to absorb youths and provide them with relevant training and skills/internships required to utilise the latest technology required in production processes ✓✓
- incentivising youth participation in the economy through tax rebates and tax cuts ✓✓
- providing employment through the EPWP ✓✓  
(Accept any other correct relevant response)

(2 x 2)

(4)

**3.4 Briefly discuss *demographics* as social indicator.**

- Government and businesses need to know the size of the country's population for their planning (population growth) ✓✓
- Governments need to know the infrastructure projects and social programmes they need to invest into as priority ✓✓
- Governments and businesses need to know about the availability of labour and the size of the population of their markets ✓✓
- Countries populations are counted when census are held according to different time periods ✓✓
- South Africa's population numbers 55 million and it is estimated that it will grow even more in 2021 ✓✓
- Life expectancy expresses the number of years a new-born infant will live if the prevailing patterns of mortality remains the same throughout his or her life ✓✓
- It is important for governments to know what the average life expectancy is because working humans require a range of social services and are simultaneously the tax base for the country ✓✓
- The Human Development Index is an indicator of human development where the standard of living, quality of health care and general standard of education is considered ✓✓

(4 x 2)

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples)

(8)

3.5 **How can the monetary policy be used to stimulate the economy of South Africa?**

The monetary policy should be used to **stimulate the economy** by:

- decreasing interest rates that will influence credit creation by making credit cheaper ✓✓
- stabilising the exchange rates by encouraging capital inflows in order to take care of a deficit on the current account of the balance of payments ✓✓
- applying open markets transactions where credit creation is encouraged by the SARB to buy securities in the open market and money as a result flows into the banking system ✓✓
- applying moral suasion where the SARB consults with banks and persuade them to act in a manner that is desirable in terms of the economic conditions that prevail at the time ✓✓

(Accept any other correct relevant response)

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

(8)  
**[40]**

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****4.1 Answer the following questions.****4.1.1 Name any TWO examples of indirect tax.**

- Value added tax (VAT) ✓
- Excise duties / sin tax ✓
- Custom duties ✓
- Fuel levy ✓

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

**4.1.2 What important role do small, micro and medium enterprises (SMME's) play in the economy?**

- It acquires and improves business management skills ✓✓
- Help to broaden the employment base ✓✓

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

**4.2 DATA RESPONSE****4.2.1 According to the extract what was the deficit in the balance of payments in 2016?**

R76 bn ✓ (1)

**4.2.2 Identify the term that calculates the difference between goods imported and goods exported.**

Balance of trade ✓ (1)

**4.2.3 Briefly describe the term *balance of payments*.**

A systematic record of all transactions between one country and other countries over a particular time period ✓✓  
(Accept any other correct relevant response) (2)

**4.2.4 What is the significance of the balance on the *current account*?**

It give an indication whether a country is living within its means (indicates a surplus or a deficit) ✓✓ (2)

**4.2.5 How can a surplus on the balance of payments affect the South African economy positively?**

The surplus of the balance of payments can affect the economy positively by

- reaching the production potential of the country ✓✓
  - building the reserves of the country due to a surplus ✓✓
  - investing more in infrastructure ✓✓
  - increased value of the rand ✓✓
  - attracting more foreign direct investment ✓✓
  - reducing the tax burden due to less money borrowed to pay off public debt ✓✓
  - stimulating economic growth and create job opportunities ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

**4.3 DATA RESPONSE**

**4.3.1 Which part of the north/south divide is reflected by the small fishes in the cartoon?**

The South ✓ (1)

**4.3.2 According to the information above, why is foreign direct investment (FDI) so important for development in countries?**

It is of critical importance to fast-track the improvement of developing countries / used for industrial development ✓ (1)

**4.3.3 What is the message in the cartoon?**

The North - through the mediation of the WTO - is offering the South (poor-developing countries) financial support, but the South are sceptical / afraid of the intention of the North ✓✓  
(Accept any other correct relevant response) (2)

**4.3.4 How does mass production by developed countries affect the environment negatively?**

They are mainly responsible for damage to the ozone layer, pollution and dumping toxic waste ✓✓  
(Accept any other correct relevant response) (2)

**4.3.5 How are developing countries disadvantaged by a lack of foreign direct investment?**

Developing countries will be disadvantaged by

- slow economic growth ✓✓
- lack in the growth of employment opportunities / high unemployment ✓✓
- no improvement in the quality of human life ✓✓
- a lack of economic integration and development ✓✓
- ineffective use of available resources ✓✓

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

4.4 Differentiate between *endogenous* and *exogenous* approaches to business cycles.

Endogenous	Exogenous
Factors that will affect the economy from <u>within</u> the market system ✓	Factors that will affect the economy from <u>outside</u> the market system ✓
Markets are <u>inherently unstable</u> ✓	Markets are <u>inherently stable</u> ✓
<u>Government intervention is needed</u> ✓	<u>Government should not intervene</u> ✓
Also known as the <u>Keynesian</u> explanation ✓	Also known as the <u>Monetarist</u> explanation ✓
<u>Price mechanism gives rise to</u> upswings and downswings ✓	Monetarists believe that disequilibrium is caused by <u>incorrect use of policies</u> e.g. monetary policy ✓
For example: changes in patterns of consumer spending, investment spending ✓ (Max. 4)	For example: Natural Disasters / War / Terrorism ✓ (Max. 4)
(Accept any other correct relevant response) (Allocate a maximum of 4 marks for the mere listing of facts/examples)	

(8)

4.5 How effective is *productivity* as an economic indicator?

*Productivity* as an economic indicator is effective by:

- using a productivity index that shows outputs relative to inputs – the higher the outputs relative to inputs, the more productive an economic unit ✓✓
- using a more productive economic unit that is more competitive and has a better chance of being profitable and succeeding ✓✓
- forcing productivity to keep up with increases in labour cost, or otherwise it will lead to a country that is less competitive ✓✓
- helping countries to invest in policies that will improve their productivity ✓✓
- focusing more on higher education and training ✓✓ goods market and labour market efficiency ✓✓ financial market development ✓✓ and technological readiness in South Africa ✓✓

(Accept any other correct relevant response)

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

(8)  
[40]

TOTAL SECTION B: 80

**SECTION C**

Answer any ONE of the two questions in this section in the ANSWER BOOK.

**QUESTION 5: MACROECONOMICS**

- **Discuss the macro-economic objectives of the state.** (26 marks)
- **How successful has the South African government been in reaching its macro-economic objectives?** (10 marks) [40]

**INTRODUCTION**

The government provides goods and services that are under-supplied by the market and therefore plays a major role in regulating economic activity and guiding and shaping the economy ✓✓ (Max 2)

**BODY: MAIN PART****Objectives**

- **Economic growth** ✓
  - Refer to an increase in the production of goods and services ✓✓
  - Measured in terms of real GDP ✓✓
  - For economic growth to occur, the economic growth rate must be higher than population growth ✓✓
  - Growth and development in a country benefit its citizens because it often leads to a higher standard of living ✓✓
- **Full employment** ✓
  - It is when all the people who want to work, who are looking for a job must be able to get a job ✓✓
  - High levels of employment is the most important economic objective of the government ✓✓
  - The unemployment rate increased over the past few years ✓✓
  - Informal sector activities must be promoted because it is an area where employment increase ✓✓
- **Exchange rate stability** ✓
  - The economy must be managed effectively and effective fiscal and monetary policy must be used to keep the exchange rate relatively stable ✓✓
  - Depreciation and appreciation of the currency create uncertainties for producers and traders and should be limited ✓✓
  - The SARB changed the exchange rate from a managed floating to a free floating exchange rate ✓✓
- **Price stability** ✓
  - Stable price causes better results in terms of job creation and economic growth ✓✓
  - The government's inflation target is 3% - 6% and they are successful in keeping inflation within this target ✓✓
  - Interest rates, based on the repo rate are the main instruments used in the stabilisation policy ✓✓
  - The stable budget deficit also has a stabilizing effect on the inflation rate ✓✓

- **Economic equity ✓**

- Redistribution of income and wealth is essential to reduce poverty ✓✓
- South Africa uses a progressive income tax system where the higher income earners pay more tax ✓✓
- Taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services ✓✓
- Free social services are basic education; primary health and financing basic economic services ✓✓
- Cash grant to the poor/vulnerable, for example child grants and disability grants ✓✓

(Max. 26)

(Accept any other correct relevant response)

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

**BODY: ADDITIONAL PART**

- Learner responses can be positive or negative
- Follow the argument and see if the candidate can produce enough evidence to support his/her answer

**The government is successful in reaching these goals by:**

- reducing unemployment through the EPWP. If it was not for the programme, the unemployment rate would have been even higher ✓✓
- managing to keep inflation within the 3–6% target ✓✓
- improving economic equity (BEE through affirmative action, gender equity) ✓✓
- operating on a free floating exchange rate system in line with international benchmarks ✓✓

**The government is not successful in reaching its goals through:**

- a decreasing economic growth rate; in the last 5 years the average real gross domestic product growth has been below 2% ✓✓
- increasing unemployment rates - unemployment rate have increased to 27.7 in 2017 which was the highest since 2009 ✓✓
- fluctuating value of the rand - in the past 5 years the value of the rand fluctuated against the major trading partners' currencies ✓✓
- BEE only benefitting a few individuals due to corruption and misrepresentations such as fronting ✓✓

(Accept any other correct relevant response)

(Any 5 x 2) (Max.10)

**CONCLUSION:**

While government has achieved some successes, the fulfilments of some of the objectives are compromised by factors like lack of accountability, corruption, budgeting, nepotism and incompetence ✓✓

(Accept any other correct and relevant higher order response)

(Max. 2)

**[40]**

**QUESTION 6: ECONOMIC PURSUITS**

- Discuss in detail the following as South Africa's initiatives in regional development:
  - Special Economic Zones (8)
  - Corridors (8)
  - Spatial Development Initiatives (10) (26 marks)
- How effective is South Africa's regional development policies in terms of international benchmarking? (10 marks) [40]

**INTRODUCTION**

This is the promotion of economic development in areas where poverty, unemployment and income inequality are high in order to uplift them ✓✓  
(Accept any other correct relevant introduction) Max (2)

**BODY: MAIN PART****SPECIAL ECONOMIC ZONES (SEZ's)**

- These are geographical areas of a country set aside for specifically targeted economic activities ✓✓
- These activities are supported through special arrangement that may include laws and support systems that promote industrial development ✓✓
- They are meant to expand the manufacturing sector ✓✓
- Create additional industrial hubs so that the national industry base will be regionally diversified ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development ✓✓
- There are plans to reduce tax to 15% as an incentive to attract new industries ✓✓
- The aim of creating SEZ is to attract :
  - only new business ✓
  - business which are developing a new product line ✓
  - business which are expanding their volume ✓
- The DTI has indicated that the existing IDZs where special tax incentives do not apply, would be graduated into SEZs ✓✓
- It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment ✓✓ (Max 8)

**CORRIDORS**

- Corridors in South Africa are spatial areas that offer specific advantages to mining, manufacturing and other businesses ✓✓
- The advantages also include the presence of existing infrastructure and the specialisation of products or services ✓✓
- These corridors are development areas within South Africa and are the development priorities of all development agencies ✓✓
- The DTI provides help in support of the development corridors ✓✓
- the Maputo corridor, that starts in Gauteng and extends through Mpumalanga to the Maputo port, offers opportunity to the transport industry or the Phalaborwa sub-corridor in the Limpopo Province offers opportunities for mining and related activities ✓✓ (Max 8)



**SPATIAL DEVELOPMENT INITIATIVES (SDI's)**

- This is an area with high levels of unemployment and poverty that has been identified by the government for a co-ordinated effort to develop the economic potential of the area ✓✓
- The area chosen for an SDI must be under-developed and have the potential for sustainable growth ✓✓
- The development focuses on high level support in areas where socio-economic conditions need concentrated government assistance ✓✓
- These initiatives help to spread economic activities equally in the country ✓✓
- All investment is based on public-private partnerships ✓✓
- It is a government strategy of investment that involves the department of trade and industry (DTI) and transport (DoT) ✓✓
- It focuses on government attention across national, provincial and local government levels to ensure that investment are fast-tracked ✓✓ and that the maximum synergy between the various types of investments ✓✓
- These projects are expected to create new jobs well into the future ✓✓
- The success of these projects relies on a strong move towards international competitiveness, regional cooperation and a more diversified ownership base ✓✓  
(Accept any other correct relevant response) (Max 10)  
(Allocate a maximum of 8 marks for the mere listing of facts/examples) (Max 26)

**ADDITIONAL PART**

**South Africa's regional development policies is effective in complying with international benchmarks by:**

- effectively managing strategies free of corruption through good governance ✓✓
- effectively integrating between different areas by means of spill-over benefits to other industries ✓✓
- building partnerships between central government, local authorities, civil society and special interest groups and the private sector ✓✓
- providing sufficient resources in resource-poor areas e.g. infrastructure ✓✓
- establishing competitive businesses not in need of ongoing financial aid from government ✓✓
- involving people from the region in training, education, improving productivity and providing essential goods and services to the region ✓✓
- concentrating on issues at grass roots level, to ensure that development starts from below ✓✓
- focusing on total development covering all human life, e.g. education, health and nutrition ✓✓ (Max 10)

(Accept any other correct relevant higher order response)

(Marks should be awarded if development policies do not comply with benchmarks)

**CONCLUSION**

Economic decentralisation would guarantee that greater emphasis of the development of the country and comprehensive use of resources are used effectively for the improvement of the well-being of the country ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

**[40]**

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**