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Basic Education
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SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P2

2019

MARKING GUIDELINES

MARKS: 150

This marking guideline consists of 20 pages.

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

- 1.1.1 A – perfectly elastic ✓✓
- 1.1.2 C – fast food outlets ✓✓
- 1.1.3 B – supply of ✓✓
- 1.1.4 D – equal to 0 ✓✓
- 1.1.5 C – exchange rate depreciation ✓✓
- 1.1.6 B – a green economy ✓✓
- 1.1.7 A – inbound ✓✓
- 1.1.8 C – coal ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E – Sells homogenous goods ✓
- 1.2.2 D – A form of financial grant to support an economic activity ✓
- 1.2.3 H – The number of species within a community of organisms ✓
- 1.2.4 F – Charges higher prices and produce low quantities ✓
- 1.2.5 A – An engagement between government and businesses to reduce pollution ✓
- 1.2.6 I – A variety of designs in packaging of the same article ✓
- 1.2.7 B – Visiting natural and wilderness areas ✓
- 1.2.8 C – Excludes items from the average basket that have highly volatile prices ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Artificial ✓
- 1.3.2 Economies of scale ✓
- 1.3.3 Negative externality ✓
- 1.3.4 Marketable permits ✓
- 1.3.5 Transit / same day traveller ✓
- 1.3.6 Hyperinflation ✓ (6 x 1) (6)

TOTAL SECTION A: [30]

SECTION B**QUESTION 2: MICROECONOMICS****2.1 Answer the following questions.****2.1.1 Name any TWO characteristics of monopolistic competition.**

- Large number of producers ✓
- Differentiated product ✓
- Free market entry ✓
- Producers have little control over price / price setter ✓
- Incomplete market information ✓
- Non-price competition and branding ✓
- Collusion not possible ✓
- Hybrid market structure ✓

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

2.1.2 Why would a lack of information to entrepreneurs lead to market failure?

A lack of information regarding cost and availability of the factors of production will result in a misallocation of resources / will result in inefficiency in production ✓✓

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

2.2 DATA RESPONSE**2.2.1 Identify the quantity the firm will produce at equilibrium point.**

180 ✓ (1)

2.2.2 What curve represents the market price for the perfect competitor?

AR/MR/dd ✓ (1)

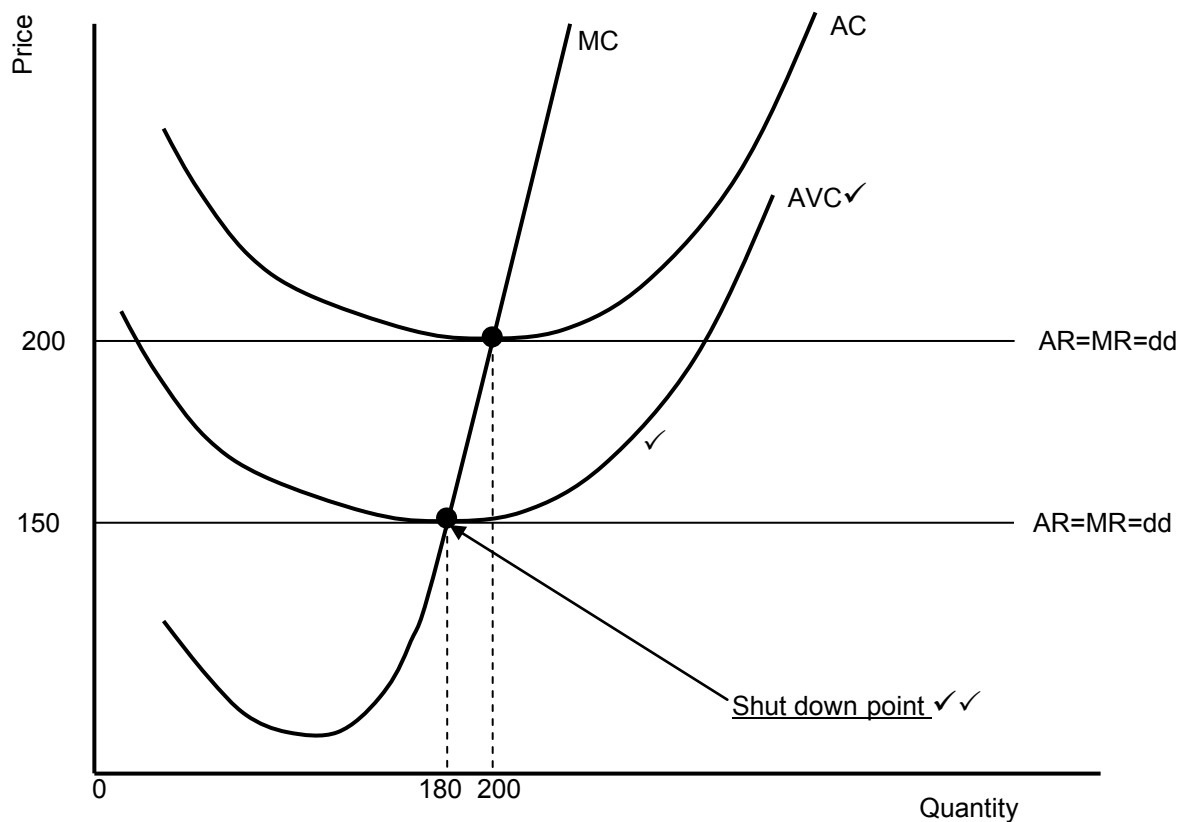
2.2.3 Briefly describe the term *normal profit*.

The minimum earning required to prevent an entrepreneur from leaving the market / where total cost is equal to total revenue ✓✓
(Accept any other correct relevant response) (2)

2.2.4 What would the impact on the market be if many firms leave this industry?

- The supply curve in the market will shift to the left / decrease in supply ✓✓
 - Market price will increase ✓✓
- (Accept any other correct relevant response) (2)

2.2.5 Redraw the above graph and insert the average variable cost curve (AVC) to clearly indicate the shut-down point.



Marking grid

- Correct drawing and labelling of AVC curve = 2 marks
 - Correct labelling of the shutdown point = 2 marks
- Maximum 4 marks**

2.3 DATA RESPONSE

- 2.3.1 **In which sector is the cost benefit analysis generally used?**
Public ✓ (1)
- 2.3.2 **Give any ONE redress method used by government to enforce redistribution of income.**
- BEE ✓
 - Affirmative action ✓
 - Empowerment ✓
 - Land restitution ✓
 - Land redistribution ✓
 - Property subsidies for RDP houses ✓
- (Accept any other correct relevant response) (1)
- 2.3.3 **Briefly describe the term *cost benefit analysis***
A technique used to compare social cost and benefit of undertaking a project ✓✓
(Accept any other correct relevant response) (2)
- 2.3.4 **Why is it necessary to do a cost benefit analysis for large projects?**
A cost benefit analyses will ensure:
- efficient allocation of scarce resources ✓✓
 - objectivity in decision making process / evaluate social costs and benefits of the project ✓✓
 - the elimination of subjectivity in the absence of price signals ✓✓
- (Accept other correct relevant responses) (2)
- 2.3.5 **Why are some projects undertaken although the financial cost is very high?**
- Government is concerned about efficient public service rather than private cost ✓✓
 - The long-term social benefit is of greater importance than the initial money spent ✓✓
 - The focus is on whether a project will benefit the country as a whole ✓✓
- (2 x 2) (4)
(Accept any other correct relevant response)

2.4 Use the graph below to explain the effect of positive externalities in the market.

- If, for example, the cost of school fees is at P, many learners will not be able to afford quality education ✓✓
- Q represents what the market provides, and Q_1 represents a growing demand for quality education (what society requires) ✓✓
- Therefore the market is under-producing ✓✓
- A subsidy is given which enable parents to afford quality education therefore the demand curve shifts to the right (D_1) ✓✓
- More learners (Q_1) will receive quality education without having to pay more ✓✓
- The welfare gain (positive externality) is indicated by the shaded area ✓✓

OR

- DD represents the demand from individuals, that is, the private benefits gained from purchasing a particular good or service ✓✓
 - SS represents the direct cost of providing that good or service ✓✓
 - If it was possible to quantify the external benefits associated with the provision of this good or service, the social benefit accruing to society could be represented by D_1D_1 . ✓✓
 - If the external benefits were to be taken into consideration, output will increase to Q_1 and the price would be P_1 . ✓✓
 - In this case, freely operating markets were failing because they produce less than required of a socially useful good ✓✓
- (Accept any other example of a positive externality)
 (Accept any other correct relevant response) (4 x 2) (8)
 (Allocate a maximum of 4 marks for mere listing of facts or examples)

2.5 Discuss the challenges a monopolist will face if excessively high prices are charged for the products.

The monopolist would not charge very high prices because:

- increasing the price might reduce the demand for the product that will reduce revenue and decrease profits ✓✓
 - consumers with limited budgets might switch to substitutes even though substitutes might not be close to the product of the monopolist ✓✓
 - their price increases are sometimes restricted by regulatory bodies such as NERSA (price of electricity) ✓✓ if electricity becomes too expensive, consumers can switch to gas or firewood ✓
 - a business might close down due to a persistent reduced demand and the loss of revenue ✓✓
 - doing so could encourage other businesses to enter the market and provide cheaper alternatives but not of the same quality ✓✓
- (Accept other correct relevant response)
 (Allocate a maximum of 2 marks for mere listing of facts or examples) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 Answer the following questions.****3.1.1 Name any TWO types of pollution.**

- Air ✓
- Land / environment ✓
- Water ✓
- Noise ✓

(2 x 1) (2)

3.1.2 Why is international tourism important to the South African economy?

- Earns foreign exchange ✓✓
 - Contributes to the gross domestic product ✓✓
 - Creates more jobs in the service sector ✓✓
- (Accept any other correct relevant answer)

(1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 How many provinces showed a decline in domestic overnight trips?**

4 ✓

(1)

3.2.2 Which institution compiles the data above?

Statistics South Africa / StatsSA ✓

(1)

3.2.3 Briefly describe the term *domestic tourism*.

When people travel within the borders of their country ✓✓
(Accept any other correct relevant response)

(2)

3.2.4 How could households in rural areas benefit from tourism?

- Earn an income by rendering services such as cleaning of guest houses. ✓✓
- Offering their services as tour guides. ✓✓
- Production of arts and crafts for sale. ✓✓
- Improved infrastructure would not only benefit tourists but can also be utilised by local people ✓✓ e.g. roads, water and electricity ✓

(Accept any other correct relevant response)

(2)

3.2.5 Why is foreign tourism the fastest growing industry in South Africa?

- South Africa offers a world in one country (almost any experience available) ✓✓
- The weak exchange rate encouraged tourists to enjoy a relatively cheap holiday (value for money)
- South Africa experienced a smooth transition to democracy ✓✓
- Improved transport, communication and accommodation facilities ✓✓
- Increases in advertising and promotion / Global travel trends / well established San Parks ✓✓
- Ease of obtaining foreign exchange and making payments ✓✓
- Dramatic increase in the MICE (Meetings, Incentives, Conferences and Exhibitions) ✓✓
- Improved coordination with neighbouring countries ✓✓ (2 x 2)
(Accept any other correct relevant response)

(4)

3.3 DATA RESPONSE**3.3.1 Give an example of a business/industry that emits (releases) high levels of carbon.**

- Power stations ✓
 - Manufacturing plants ✓
 - Wine producers ✓
 - Taxi business ✓
- (Accept any other correct relevant response)

(1)

3.3.2 Why does the state discourage the use of plastic bags?

- Avoids pollution ✓
 - Plastic bags are not biodegradable ✓
 - Protect the environment ✓
- (Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *environmental sustainability*.

The ability of the environment to survive its use for economic activity/environmental sustainability refers to the maintenance of factors and practices that contribute to the quality of the environment on a long term basis ✓✓
(Accept any other correct relevant response)

(2)

3.3.4 How could greenhouse gasses lead to climate change?

- The greenhouse gases destroy the ozone layer which allows more heat to penetrate to the earth ✓✓
- Greenhouse gases creates a blanket effect which traps heat resulting in extreme temperatures ✓✓
(Accept any other correct relevant response)

(2)

3.3.5 Explain the positive impact of carbon tax on the environment.

Carbon tax will impact positively on the environment by:

- requiring polluters to carry the external cost of their pollution ✓✓
- businesses exploring renewable sources of energy which are environmentally friendly ✓✓
- reducing the amount of damage to the ozone layer and eventually reducing global warming ✓✓
(Accept other correct relevant answers)

(2 x 2)

(4)

3.4 Differentiate between conservation and preservation of the environment**Conservation:**

- Conservation deals with the sustainable use and management of natural resources to ensure that they are available for use by future generations ✓✓
- Conservation aims to create continuity of the environment while ensuring that change is sympathetic to the quality of life ✓✓
- Human activities affect the environment not only because they cause pollution but also because they tend to over-utilize it ✓✓ (2 x 2)

Preservation

- Preservation concerns elements of the environment that are threatened with extinction ✓✓
- Preservation aims to protect and maintain these elements in their present condition (intact) ✓✓
- The weaknesses in market solutions require government to intervene to preserve environmental assets through buying or expropriation, subsidising and control ✓✓
- Helps to preserve biodiversity ✓✓ (2 x 2)
(Accept other correct relevant responses) (Max 2 x 4)
(Allocate a maximum of 4 marks for mere listing of facts)

(8)

3.5 Evaluate the South African government's policies to promote tourism.

Government's policies have been successful by:

- implementing tax policies to stimulate growth in tourism ✓✓
- targeting specific objectives for special favourable tax treatment in the form of tax holidays or rebates and tax credit schemes ✓✓
- encouraging ecotourism, encouraging tourism to selected regions, SMME involvement with an emphasis on the informal sector, and Black Empowerment initiatives ✓✓
- promoting tourism through ASGISA-Accelerated Shared Growth Initiative of South Africa. This initiative ensured that government, in partnership with the private sector, provided necessary infrastructure for tourism, that helped to keep the tourism industry growing and attracted more tourists ✓✓
- applying the domestic tourism growth strategy that aimed to increase expenditure on domestic tourism and reduce seasonability ✓✓
- launching the SA Tourism's Sho't Left campaign in August 2007, challenging South Africans to "see your world differently," even when only visiting family or friends. ✓✓ It aims to promote a culture of local holiday travel, targeting ordinary South Africans and their families who have a desire to see more of the country but don't know where to go ✓✓

Government's policies could be more successful if:

- special tax policies are applied to education and training programmes designed to overcome the lack of skills at various levels of the industry ✓✓
- there is a greater geographic spread of tourism which will increase the volume of domestic tourists ✓✓

(Accept other correct relevant higher order answer)

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

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 Answer the following questions.**

4.1.1 **State any TWO benefits to the government for levying taxes on tourists.**

- To recover external costs ✓
 - To earn revenue (to create jobs / to reduce poverty) ✓
 - To improve infrastructure ✓
- (Accept any other correct relevant responses) (2 x 1) (2)

4.1.2 **What impact do maximum prices have on the market?**

- Maximum prices create a shortage of goods in the market ✓✓
 - Producers can divert their products to the informal market (black market) ✓✓
 - Lower income earners can afford the product ✓✓ (1 x 2) (2)
- (Accept any other correct relevant responses)

4.2 DATA RESPONSE

4.2.1 **Identify the number of houses the market will provide if all resources were spent on houses.**

10 000 ✓ (1)

4.2.2 **How many schools should the government provide to reach the social optimum allocation?**

6 000 ✓ (1)

4.2.3 **Briefly describe the term *market failure*.**

When the free market is unable to allocate resources efficiently / the best production outcome has not been achieved ✓✓
(Accept any other correct relevant response) (2)

4.2.4 **Why are markets reluctant to produce public goods such as roads?**

- It requires a huge capital outlay which is challenging for the private sector ✓✓
 - It is difficult to charge higher prices and therefore profits are compromised ✓✓
 - The nature of the goods are non-rival (consumption by one does not reduce the amount available for somebody else) ✓✓
 - Some of the goods are non-excludable (difficult to prevent people from using the good) ✓✓
- (Accept any other correct relevant response) (2)

4.2.5 How can government ensure macroeconomic stability through their involvement in production?

Government can ensure macroeconomic stability in production by:

- using the monetary and fiscal policy through interest rates and corporate taxes ✓✓
- using the supply-side approach by applying policy to increase the flexibility of factors of production and infrastructure ✓✓
- producing goods (missing markets) not provided by the market ✓✓

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

4.3 DATA RESPONSES

4.3.1 Name any ONE other World Heritage Site.

- Mapungubwe ✓
- Vredefort Dome ✓
- Sterkfontein Caves (Cradle of Human Kind) ✓
- Robben island ✓
- Richtersveld cultural and botanical landscape ✓

(Accept any other correct relevant response) (1)

4.3.2 What type of tourism is indicated in the data above?

Cultural ✓ (1)

4.3.3 Briefly describe the term *indigenous knowledge system (IKS)*.

Knowledge that has practical application for daily survival for local communities/the history and uniqueness of certain destinations in a country/the local knowledge that is unique to a given society or culture ✓✓

(Accept any other correct relevant response) (2)

4.3.4 In what way can businesses use the knowledge of indigenous people to benefit tourism?

- They could create a cultural village for tourists to visit ✓✓
- Tours into the area to observe the way of life, for example the hunting methods of the San people ✓✓
- Use of plants and herbs for medicinal purposes ✓✓

(Accept any other correct relevant responses) (2)

4.3.5 Why is infrastructure development important in promoting tourism?

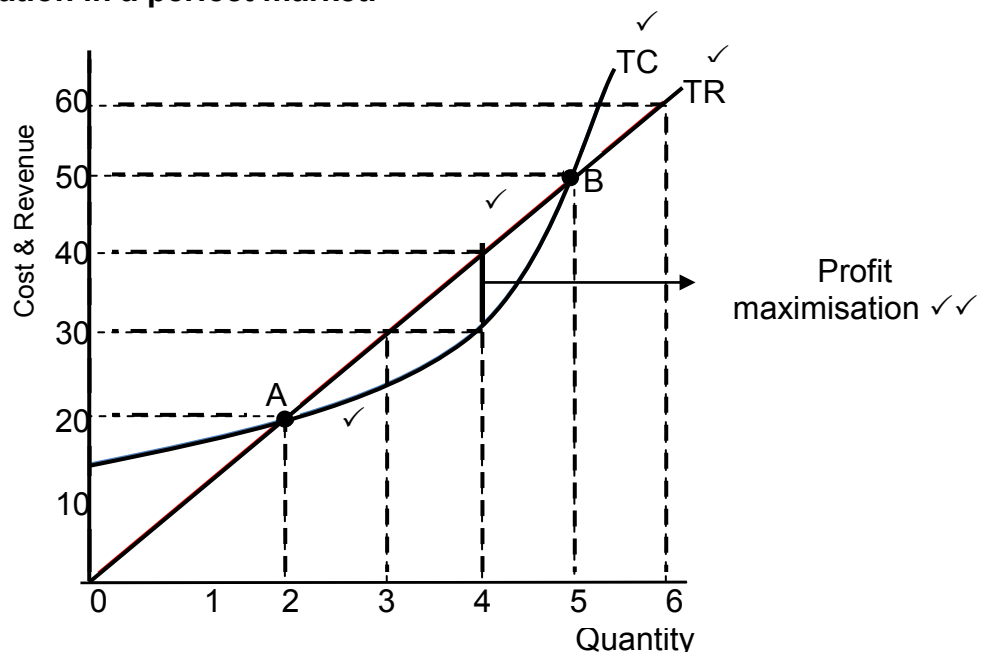
- Tourists require basic services such as good roads and a communication network to ensure an enriching experience ✓✓
- Rural communities that have unique lifestyles require good infrastructure to benefit from tourism ✓✓
- Basic infrastructure development could lead to an increase in social infrastructure such as clinics and hospitals that will benefit tourism ✓✓

(Accept any other correct relevant responses)

(2 x 2)

(4)

4.4 Use a graph of Total cost (TC) and Total Revenue (TR) to explain profit maximisation in a perfect market.



Marking grid

1. Correct positioning of TC curve = 1 mark
2. Correct labelling of TC curve = 1 mark
3. Correct positioning of TR curve = 1 mark
4. Correct labelling of TR curve = 1 mark
5. Correct indication of profit maximization = 2 marks

- The firm will make profits between points A and B (TR and TC) where the total revenue exceeds the total cost ✓✓
 - Profit is maximised when the gap between TR and TC is the greatest ✓✓
 - This occurs at 4 units of production at a cost of R40 ✓✓
 - Breakeven points will occur at points A and B ✓✓
- (Accept any other correct relevant response).

(8)

4.5 Critically discuss the challenges countries face in reducing the production of hazardous waste.

Countries worldwide find it difficult to decrease the production of hazardous waste by:

- producing goods in modern economies which automatically leads to chemical waste as by-product ✓✓ this will mean that hazardous waste could only be reduced if production decreases which would contribute to more unemployment ✓✓
- exporting hazardous waste to developing countries at a price ✓✓ this gives them an opportunity to get rid of excess waste ✓✓ because many African countries like the Ivory Coast allows this activity as it is a source of income ✓✓
- increasing economic activities such as manufacturing and agricultural production that exceed the measures used by government to restrict or dispose of hazardous waste ✓✓ more research should be done on using non-hazardous materials and alteration of product composition to reduce waste ✓✓
- businesses not handling the hazardous waste by following the regulations put in place ✓✓ where handling of chemicals requests precaution to be disposed in designated areas (for the sake of saving money) many firms often dump these chemicals in the environment ✓✓
- generating hazardous waste is also found in households although on a much smaller scale such as left over paints ✓✓ the big challenge remains to change the mindset of people by educating households to reduce the usage of products that is regarded as hazardous waste like e-waste where computers are sold in developing countries (that should have been hazardous waste in the country of origin) ✓✓
(Accept other correct relevant higher order response)
(Allocate a maximum of 2 marks for mere listing of facts or 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: MICROECONOMICS

- Discuss in detail, without the use of graphs, the market structure of an oligopoly. (26 marks)
- How effective is the competition policy in regulating mergers and takeovers in South Africa? (10 marks) [40]

INTRODUCTION

An oligopoly exists when a small number of large companies are able to influence the supply of a product or service to a market ✓✓
(Accept any other correct relevant introduction) Max (2)

MAIN PART**Number of businesses ✓**

- The market consists of few firms that dominate the market ✓✓ e.g. banks ✓
- Each firm is aware of the actions of the others in the market and this has an impact on decision-making ✓✓
- This means each producer not only influences others but he also has to consider them ✓✓
- If there is two firms in the market, it is called a duopoly ✓✓

Nature of the product ✓

- Products sold may be homogeneous or heterogeneous ✓✓
- When product are homogenous, the market is called a pure oligopoly ✓✓ e.g. petrol ✓
- When products are different, the market is referred to as a differentiated oligopoly ✓✓ e.g. motor cars ✓

Entry into the market ✓

- It is difficult to enter the market due to various barriers ✓✓
- A large amount of capital is usually required to enter the market ✓✓
- It is often difficult to overcome barriers imposed by consumer preferences brands ✓✓
- Firms usually spend a lot of money on advertising to create brand loyalty ✓✓
- The existing firms may often be enjoying economies of scale and this may be a further barrier ✓✓

Control over price ✓

- Oligopolists have influenced the price but not as much as the monopolist does ✓✓
- Price wars is often a feature when the existing firms want to limit entrance in the market ✓✓

Demand curve of the oligopoly ✓

- An oligopoly faces a kinked demand curve. This demand curve consists of two sections ✓✓
- The top section that relates to high prices has a very elastic slope (i.e. demand is very sensitive to 'n price change) ✓✓
- The bottom section that relates to lower prices is very inelastic (i.e. demand is not sensitive to a price change) ✓✓

Collusion ✓

- Firms often cooperate instead of competing with one another ✓✓
- This may be by forming cartels (explicit collusion), which are formal agreements for firms to work together ✓✓
- At times collusion can be in the form of price leadership, which is an unspoken agreement among firms ✓✓
- Price leadership (tacit/implicit collusion) involves one firm serving as a price leader while others follow ✓✓
- When the price leader changes its price the other do the same ✓✓
- Collusion is illegal in South Africa, may not negotiate agreements that can limit competition. Behaviour is liable to large fines by the Competition Commission ✓✓

Market information ✓

- Buyers and sellers have incomplete information about market conditions ✓✓
- Even though the oligopolists monitor one another's actions, they do not always know how the competitor will react to their actions ✓✓

Price and profits ✓

- Prices are higher in general than under perfect competition ✓✓
- Oligopolists develop brand loyalty among consumers to generate economic profit ✓✓

Mutual dependence ✓

- There are only a few businesses that sell that particular product – each business is influenced by the action of others ✓✓
(Accept other correct relevant responses) (Max 26)

ADDITIONAL PART

The competition policy is effective in:

- putting in place the competition commission, competition tribunal and competition appeal court to investigate and approve mergers and takeovers, investigating whether it is going to substantially prevent or lessen competition ✓✓
 - taking into account the public interest effects such as its impact on employment ✓✓
 - considering the ability of small businesses owned by disadvantaged to become competitive ✓✓
 - the merger of Massmart and Walmart where they ensured that no job losses will occur for a certain period of time ✓✓
 - providing services to local businesses to ensure sustainability of local producers ✓✓
 - ensuring that mergers are not for the sake of creating market power ✓✓
 - looking into the details of each case and come to a suitable decision ✓✓
 - declining the merger where Air Link wanted to acquire SAfair in 2018, to limit competition due to a few firms in that market ✓✓
 - approving mergers with conditions, e.g. between Regent and Hollard insurance companies in 2017 ✓✓ The condition was that no employees may be retrenched for a period of 3 years after the merger ✓✓
 - approving a successful merger with no conditions attached, in the Mondi acquiring Excelsior technologies in 2017 ✓✓ (Max 10)
- (Accept other correct relevant higher order response)
(Allocate a maximum of 2 marks for mere listing of facts or examples)

CONCLUSION

The correct application of the Competition Policy is crucial for ensuring that imperfect markets such as oligopoly operate fairly ✓✓ Max (2)
(Accept other correct relevant higher order responses)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Discuss in detail the causes of demand-pull inflation.** (26 marks)
- **How effective has the Monetary Policy Committee of the Reserve Bank been to ensure price stability?** (10 marks) [40]

INTRODUCTION

Inflation is a sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money / a general increase in prices caused by the level of aggregate demand being in excess of the supply potential of the economy ✓✓ (Max 2)

BODY: MAIN PART

Demand-pull inflation can be caused by any (or a combination) of the various components of aggregate demand.

Increases in consumption (C) ✓

The disposable income of households can increase at a faster rate than aggregate supply for three reasons: ✓✓

- Less savings ✓ If consumers change their savings habits and start spending their current and accumulated savings, growth in aggregate demand can outstrip growth in aggregate supply ✓✓
- Reduction in taxes ✓ This applies more to personal income tax than indirect taxes. ✓✓
- Access to credit. ✓ There is greater availability of consumer credit (by means of credit cards) or the availability of cheaper credit as a result of decreases in lending rates. ✓✓ As new credit is extended the credit multiplier kicks in and more credit is created. ✓✓

Investment spending (I) ✓

- Lower interest rates may result in an improvement in the sentiment and profit expectations of businesses. ✓✓
- Businesses invest more and this may lead to an increase in the demand for the goods and services that are part of the investment (for example, a new building requires cement, bricks and labour). ✓✓
- If aggregate demand increases at a faster rate than aggregate supply, price increases will follow. ✓✓

Government spending (G) ✓

- An increase in a governments spending without a corresponding rise in aggregate supply, leads to increases in prices ✓✓
- If increases in government spending are financed by borrowing from the banking system, large sums of money come into circulation and the money multiplier starts to operate - aggravating the demands on the economy's real capacity ✓✓

- Government can use the following channels to increase spending:

- Infrastructure ✓

A government may embark on capital projects, such as roads, housing, water and electricity, whose sizes outstrip the economy's immediate capacity. ✓✓
Prices are bound to increase.

- Consumption spending ✓

Most governments will at times increase expenditures on education, health, protection and safety (for example, military equipment such as bomber jets and submarines). ✓✓

- Social spending ✓

Governments sometimes feel they have to do something substantive about unemployment and poverty. ✓✓

They borrow money and spend it on public works programmes or raise the level of social grants year after year at a higher rate than the inflation rate. ✓✓
Such expenditures invariably lead to inflation because they add to aggregate demand without adding anything to aggregate supply. ✓✓

Export earnings (X) ✓ can come from various sources:

- Foreign growth ✓

Growth of the economies of trading partner countries may create a demand for a variety of locally produced goods. ✓✓ The sales of exports bring money into the country and reduce the amount of goods available locally. ✓✓ Demand increases without a corresponding increase in supply, resulting in an increase in prices. ✓✓

- Commodities demand ✓

The world's demand for commodities expands and contracts like business cycles do. ✓✓ During an expansionary period, foreign demand increases and this leads to greater volumes of exports. ✓✓ The income earned from these exports adds to aggregate demand, and prices increase ✓✓

Max (26)

ADDITIONAL PART

The Monetary Policy Committee of the SARB has been effective in the following ways:

- The CPI breached the upper range of the inflation target during 2016. SARB has increased interest rates to bring the inflation rate back into lower ranges, thus stabilising prices. ✓✓
- Setting the inflation target of 3 – 6% as a major initiative by the state has improved price stability ✓✓
- A consequent decline in Headline CPI to below 4% allows the Reserve Bank to reduce the repo rate in order to stimulate the SA economy ✓✓
- A decline in international crude oil prices in recent months suppressed global inflationary pressures. ✓✓
- This contributed largely to lower domestic inflation - favourably affecting producer price inflation ✓✓
- Due to this the Reserve Bank was able to keep the repo rate unchanged ✓✓
- PPI for intermediate manufactured goods has a positive impact on the stabilising of prices ✓✓

However, the MPC was not as effective:

- in stabilizing prices, due to certain external factors which influenced the global economy ✓✓
- like the World recession that impacted negatively on the SARB efforts in stabilizing prices ✓✓
- due to poor governance which led to an unstable economic environment in the country ✓✓
- and led to disinvestment resulting in a sharp decline in stability which hampered the stabilizing effects of SARB ✓✓
- due to the poor value of the Rand on international markets because of the major dependency on imports ✓✓
- political uncertainty, poor policy orientation and implementation and strategies to stabilise the economy ✓✓
- interference in state-owned institutions destabilised various sectors in the economy ✓✓

(Accept any other correct relevant higher order response)

(Allocate a maximum of 2 marks for mere listing of facts / examples) (Max 10)

CONCLUSION

To support the monetary policy, additional information on the fiscal policy could also be applied by the minister of finance to ensure that the inflation rate stays within the target range, by adjusting taxes and government expenditure ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150