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GRADE 12

SEPTEMBER 2021

**ECONOMICS P2
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 19 pages.

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

- | | | | | |
|-------|---|----|--------------------------------------|--------------|
| 1.1.1 | B | ✓✓ | implicit costs | |
| 1.1.2 | C | ✓✓ | differentiated | |
| 1.1.3 | C | ✓✓ | all factors of production can change | |
| 1.1.4 | A | ✓✓ | private | |
| 1.1.5 | D | ✓✓ | government spending | |
| 1.1.6 | A | ✓✓ | outbound | |
| 1.1.7 | B | ✓✓ | renewable | |
| 1.1.8 | D | ✓✓ | fiscal | (8 x 2) (16) |

1.2 MATCHING ITEMS

- | | | | | |
|-------|---|---|---|-------------|
| 1.2.1 | G | ✓ | No major government influence and control | |
| 1.2.2 | E | ✓ | Investigates restrictive business practices | |
| 1.2.3 | D | ✓ | Organisation of businesses that come into existence to form a collective monopoly | |
| 1.2.4 | I | ✓ | Incurred by businesses when producing goods and services | |
| 1.2.5 | B | ✓ | Takes into account the effects of inflation on gross domestic product | |
| 1.2.6 | C | ✓ | Enjoyment and appreciation of undisturbed nature | |
| 1.2.7 | H | ✓ | Created in production | |
| 1.2.8 | F | ✓ | Obtained from the use of water, tides, the sun and wind | (8 x 1) (8) |

1.3 GIVE ONE TERM

1.3.1 Normal profits ✓

1.3.2 Market ✓

1.3.3 Non-rivalry ✓

1.3.4 Stagflation ✓

1.3.5 World Heritage Site ✓

1.3.6 Indigenous Knowledge System ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS**2.1 Answer the following questions.****2.1.1 List any TWO examples of collective goods.**

- Parks ✓
- Beach facilities ✓
- Pavements ✓
- Streets ✓
- Roads ✓
- Bridges ✓
- Public transport ✓
- Sewerage systems ✓
- Waste removal ✓
- Refuse removal ✓

(Accept any other relevant correct response)

(2)

2.1.2 Why is the demand curve of a perfect competitor horizontal?

The demand curve is horizontal because:

- the firm can sell any amount of goods at the prevailing market price, so even a small increase in price will lead to zero demand ✓✓
- this indicates that the firm has no control over the price ✓✓

(Accept any other relevant correct response)

(2)

2.2 DATA RESPONSE**2.2.1 Identify the shut-down point from the graph above.**

Point b ✓

(1)

2.2.2 Name the curve depicted by letter A.

Marginal Cost curve/MC ✓

(1)

2.2.3 Briefly describe the concept *shut-down point*.

- Shut-down point is the point where the firm cannot meet its average or total variable costs ✓✓
- Shut-down occurs when the lowest point of the AVC curve is greater than the market price (AR) ✓✓

(Accept any other relevant correct response)

(2)

- 2.2.4 **Describe the nature of the products in perfect competition.**
- Products are homogenous ✓✓
 - They are similar or identical to ensure that no seller can distinguish his product from his competitors which would allow him to charge a higher price ✓✓
 - Products are the same in terms of quality, texture etc. ✓✓
(Accept any other relevant correct response)
- (2)

- 2.2.5 **What effect does the entrance of new firms have on the perfect market?**
- As new firms enter, the supply curve shifts to the right increasing the quantity supplied in the industry ✓✓
 - Prices of goods fall as well as profits ✓✓
 - As firms continue to enter the industry economic profits fall to zero and only normal profits will be experienced by producers ✓✓
 - Some firms in the industry will experience economic losses, and will leave the industry ✓✓
 - The supply curve shifts to the left, increasing price and reducing losses ✓✓
(Accept any other relevant correct response)
- (4)

2.3 **DATA RESPONSE**

- 2.3.1 **Identify the type of negative externality depicted by the picture above.**
- Air pollution ✓
- (1)

- 2.3.2 **Name any ONE method used by government to reduce negative externalities.**
- Carrying campaigns to persuade people from causing externalities ✓
 - Levying taxes on goods that cause negative externality ✓
 - Passing laws and regulation ✓
- (1)

- 2.3.3 **Briefly describe the concept *negative externality***
- Negative externality is a cost to a third party which is not included in a market price of a good/product ✓✓
(Accept any other relevant correct response)
- (2)

- 2.3.4 **Explain how demerit goods cause market failure.**
- Demerit goods are those goods that are determined to be harmful to society and are over-consumed like cigarettes, alcohol and drugs ✓✓
 - More of the good is produced than is desirable ✓✓
 - The government bans or reduce the consumption of these goods through taxation, and provides information to the population on their harmful effects ✓✓
(Accept any other relevant correct response)
- (2)

2.3.5 Why would the government intervene in the operation of markets?

The government intervene in markets because:

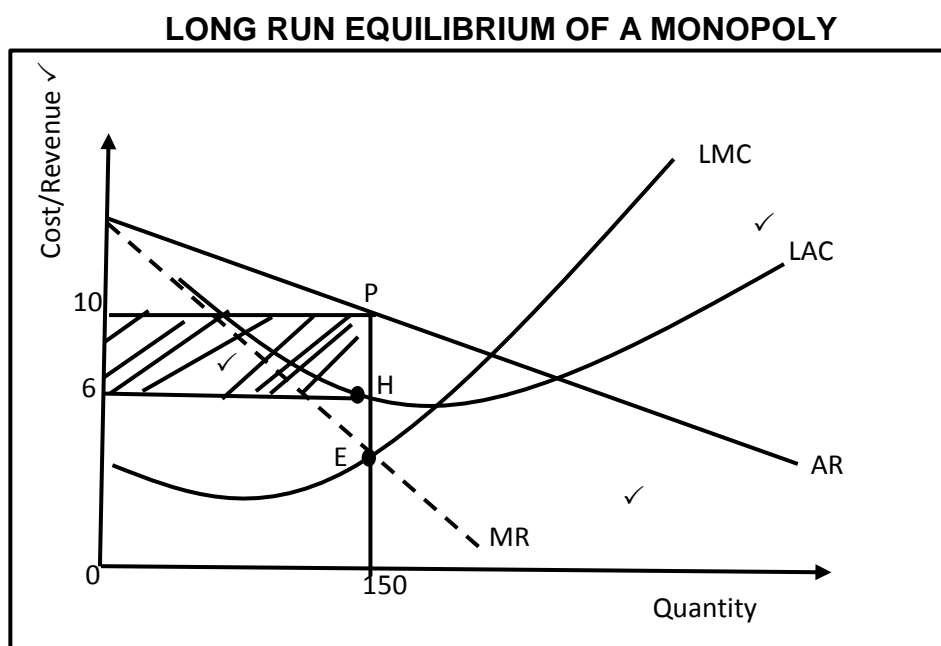
- markets may inefficiently allocate resources which may lead to inequities in the economy ✓✓
- the government would intervene to promote social welfare, for example, breaking up monopolies and regulating negative externalities ✓✓
- there could be an inequitable distribution of income and wealth which the government needs to correct ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.4 Briefly explain the long run equilibrium position of a monopolist with the aid of a fully labelled graph.



Mark allocation

Labelling of the axis	1 mark
Correct position and labelling of revenue curves	1 mark
Correct position and labelling of cost curves	1 mark
Correct area of economic profits	1 marks

Maximum = 4 marks

Explanation:

- In the long run the monopolist makes economic profits ✓✓
- The LMC curve intersects the LAC curve at its minimum point ✓✓
- Profit maximisation is at point E where $MR=MC$, with quantity 150 produced at a price of R10 per quantity, and the average cost is R6 ✓✓
- The monopolist is making a profit of R4 per unit (total economic profit is R600) ✓✓
- The total economic profit is represented by the shaded area ✓✓
- The monopolist will produce where the $MR=MC$ ✓✓

(Accept any other relevant correct response)

Max. 4 marks

(8)

2.5 Why does the government provide merit goods and services?

The government provides merit goods and services because:

- merit goods are goods and services that are deemed to be socially desirable and therefore the government feels that its consumption should be encouraged. ✓✓
- there are substantial positive externalities involved in their consumption and if they are left to the market, only private benefits and private costs would be reflected in the price paid by consumers. ✓✓
- they are likely to be under-produced and under-consumed through the market mechanism and social welfare will not be maximised ✓✓
- imperfect information about merit goods may lead to individuals not acting in their best interest ✓✓
- equity considerations demand that merit goods such as education and health be provided on the basis of need rather than on the basis of the individual's ability to pay ✓✓
- for example, the market is unlikely to provide the optimal quantity of health care when consumers actually need it, because they may be short of the necessary finance to pay the market price. ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

- 3.1 3.1.1 **List any TWO approaches to devising command and control**
- Quantity standards ✓
 - Quality standards ✓
 - Social impact standards ✓
- (Accept any other relevant correct response) (2)
- 3.1.2 **What is the impact of COVID 19 on foreign tourists into South Africa?**
- There has been a decline in international tourists of about 40% to 6,1 million for the year due to COVID 19 restrictions on inter-cross border travels ✓✓
 - Flights to South Africa had been suspended and that led to "O" based arrivals between April and September 2020 ✓✓
- (Accept any other relevant correct response) (2)
- 3.2 **DATA RESPONSE**
- 3.2.1 **Identify, from the extract, the most emitted greenhouse gas in South Africa**
- Carbon dioxide (CO₂) ✓ (1)
- 3.2.2 **State the industry that contributes most to global warming.**
- Energy industry ✓ (1)
- 3.2.3 **Briefly describe the concept *renewable resources*.**
- Renewable resources are the resources that are able to reproduce themselves and can be used again and again ✓✓
- (Accept any other relevant correct response) (2)
- 3.2.4 **Explain *voluntary agreements* as means by the government to sustain the environment.**
- The government concludes agreements with businesses on voluntary basis to cut pollution ✓✓
 - The government seeks to enter into voluntary agreements rather than posing laws and regulations with businesses ✓✓
 - Such agreements may involve a formal contract which would be legally binding ✓✓
 - Businesses prefer voluntary agreements than regulations because they can negotiate such agreements to suit their own particular circumstances and build them into their planning ✓✓
- (Accept any other correct relevant response) (2)

3.2.5 How would consumers contribute in reducing climate change?

Consumers would contribute by:

- Investing in energy efficient appliances to promote green economy and green technology ✓✓
- using solar panels or a wind turbine, for a clean-energy economy ✓✓
- using public transport / driving a fuel-efficient vehicle so as to reduce carbon dioxide emissions ✓✓

(Accept any other relevant correct response)

(4)

3.3 DATA RESPONSE**3.3.1 Name ONE marketing campaign that has contributed in growth in domestic tourism.**

Shot' left ✓

(Accept any other relevant correct response).

(1)

3.3.2 State any ONE World Heritage attraction in South Africa.

- Kruger National Park ✓
- Robben Island ✓
- Isimangaliso Wetland Park ✓
- Table Mountain ✓

(Accept any other relevant correct response)

(1)

3.3.3 Briefly describe the concept *domestic tourism*.

Domestic tourism is traveling by the residents within the borders of the country ✓✓

(Accept any other relevant correct response)

(2)

3.3.4 Explain the negative effects of tourism on the local community.

- Tourism can lead to increased inequalities between groups in the country because rural people do not always benefit fully from it ✓✓
- Less educated people seldom experience benefits of tourism ✓✓
- Local prices can increase because tourists often pay more for goods and services which is often beyond what the locals can afford ✓✓
- High levels of tourism can lead to traffic congestion, pollution, litter, crime, increased carbon dioxide emissions etc. ✓✓

(Accept any other relevant correct response)

(2)

3.3.5 How does tourism differ from other service industries?

Tourism differs from other service industries in that:

- Tourism can impact positively and negatively on indigenous community ✓✓
- Some inputs of tourism often involve non-price elements such as viewing scenic beauty, a stroll on the beach which is not the case with other service industries ✓✓
- Tourism is a very broad and complex concept which is a combination of several industries because it includes a range of services and service providers like travel agencies, tour operators, taxi and shuttle services etc. ✓✓

(Accept any other relevant correct response)

(4)

3.4 Explain the Kyoto Protocol as a major international protocol and agreement on sustainable development.

- Kyoto Protocol is an international agreement between countries around the globe to reduce emission of greenhouse gases ✓✓
- It came into force in 2005 and was first open for signature to countries to participate in 1997 ✓✓
- Kyoto Protocol established legally binding obligations whereby industrialised countries agreed to reduce their emissions of six greenhouse gases ✓✓
- It only binds developed countries because it recognises that they are largely responsible for the current high levels of GHG emissions in the atmosphere ✓✓
- Each industrialised country was given a specific target of about 5.2% to reduce its emissions ✓✓
- If they are unable to do so they must purchase emission credits from countries that are below those levels ✓
- The protocol established a monitoring, review and verification system as well as a compliance system to ensure transparency and hold parties accountable ✓✓

(Accept any other relevant correct response)

(8)

3.5 Examine the negative effects of globalisation on environmental sustainability.

Globalisation negatively affects environmental sustainability because:

- Globalisation increases global consumer demand leading to an increase in production ✓✓ Increased production puts pressure on the environment and the faster depletion of natural resources. ✓✓
 - The increased economic activity leads to greater emissions of industrial pollutants and more environmental degradation. ✓✓
 - The pressure on international firms to remain competitive forces them to adopt cost-saving production techniques that can be environmentally harmful. ✓✓
 - The industrial waste, usually harmful chemicals, that is generated as a result of production has been dumped in oceans and that killed many underwater organisms ✓✓
 - Globalisation has also led to an increase in the transportation of raw materials and food from one place to another. ✓✓ The amount of fuel that is consumed in transporting these products has led to an increase in the pollution levels in the environment. ✓✓
 - Due to globalisation and industrialisation, various chemicals are being thrown into the soil which then results into the growth of many noxious weeds and plants. ✓✓
 - This toxic waste causes a lot of damage to plants by interfering in their genetic makeup and put pressure on the available land resources. ✓✓
- (Accept any other relevant correct response)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 Name any TWO criteria that an activity must satisfy to be a tourism activity.

- There must be a purpose for the visit ✓
- No remuneration must be earned ✓
- Minimum length of stay of one night ✓
- Maximum length of stay of one year ✓
- Travelling distance of more than 160 km ✓

(2)

4.1.2 What would happen if one firm in a perfect market decides to increase its selling price?

- The firm will lose customers as homogenous products are sold ✓✓
- Lesser profits will be made by the firm ✓✓

(2)

4.2 DATA RESPONSE

4.2.1 Identify the sector that contributed the least in GDP in 2017. Agriculture ✓

(1)

4.2.2 What was the total contribution of tourism to GDP in 2017? 2,8% ✓

(1)

4.2.3 **Briefly describe the concept *manufacturing*.**
Manufacturing is the process of transforming raw material into finished goods. ✓✓
(Accept any relevant correct description) (2)

4.2.4 **Explain how creative representative bodies distribute tourists effectively to tourist sites.**
• Creative representative bodies are formed by tourist-based industries then tourists easily access knowledge about all tourist destinations. ✓✓ (2)

4.2.5 **How does tourism contribute in boosting the economy?**
Tourism contribute in boosting the economy by:
• Creating thousands of jobs in many different areas ✓✓
• Improving the revenue of the country through spending and taxes paid by tourists ✓✓
• Allowing young entrepreneurs to establish new products and services that would not be sustainable on the local population alone ✓✓
• Planting a sense of cultural exchange between foreigners and residents through exhibitions, events etc. which will attract more tourists into the country ✓✓
(Accept any other relevant correct response) (4)

4.3 DATA RESPONSE

4.3.1 **Identify from the graph above the optimum output level.**
4 units ✓ (1)

4.3.2 **At which point from the graph above will the firm break-even?**
Point A ✓ (1)

4.3.3 **Briefly explain the concept *total cost*.**
Total costs are all the costs incurred by a business enterprise/the costs or remuneration for all the factors of production used in the production process ✓✓
(Accept any other relevant correct response) (2)

4.3.4 **Describe the marginal revenue curve (MR) of a monopoly.**
• Monopoly faces a downward sloping marginal revenue curve that is lower than the price, therefore it lies below the average revenue (AR) ✓✓
• It lies below the AR curve because each additional unit the firm sells brings in less revenue than the previous units sold ✓✓
(Accept any other relevant response) (2)

4.3.5 What is the significance of the South African Competition Act?

Competition Act is important in that:

- It promotes and maintain competition in order to achieve the objectives of promoting efficiency in markets, adaptability and development of the economy ✓✓
- Through competition, consumers will be provided with competitive prices ✓✓
- Employment will be promoted and there will be advancement of the social economic welfare ✓✓

(Accept any other relevant correct response)

(4)

4.4 Briefly explain the effects of tourism on employment and poverty.

Employment

- Tourism is the world generator of jobs because it is labour intensive with the lowest ratio of investment in employment creation ✓✓
- Directly and indirectly more than 9% of South Africans are employed in the tourism industry ✓✓
- A wide range of skills is required in the tourism industry, from accountants and hairdressers to tour guides and trackers – this makes it easier for a variety of people to find employment ✓✓
- Tourism provides entrepreneurial opportunities by accommodating informal sector enterprises, from craft and fruit vendors to pavement vendors, chair rentals and so forth ✓✓

Poverty

- Tourism offers opportunities to diversify sources of income for poor people by allowing them a stake, for example, to start and operate small scale tourism businesses around community assets ✓✓
- People are able to earn an income in their home areas resulting in a reduction in urbanisation and a more balanced population distribution ✓✓
- Tourism development in rural areas increases the number of available jobs in areas where there are not many jobs ✓✓
- The income that the tourism industry generates contributes to the country's economic growth and development which is essential for improving the standard of living and alleviating poverty ✓✓

(Accept any other relevant correct response)

(8)

4.5 Examine the effects of setting a maximum price on petrol in South Africa.

- Maximum price is set below the on-going market price to make goods more affordable ✓✓
 - In South Africa, the petrol price is controlled by the government at the maximum price ✓✓
 - The government intervenes and pass laws that suppliers may not charge more than the maximum price ✓✓
 - Setting the maximum price on petrol will make production costs more reasonable for producers which will be passed on to consumers ✓✓
 - The poor will have greater access to certain goods produced with using petroleum ✓✓
 - With affordable prices of petrol, the welfare of some consumers will be improved since goods will be produced and consumed at affordable prices ✓✓
 - Businesses will be able to increase their production thus creating employment in the economy and making more profits ✓✓
- (Accept any other relevant correct response)

(8)

TOTAL SECTION B: 80

SECTION C

QUESTION 5 MICROECONOMICS

- Discuss in detail, without the use of graphs, the characteristics of an oligopoly. (26 marks)
- Examine the negative impact of oligopolists behaviour on consumers. (10 marks)

INTRODUCTION

Oligopoly is a market structure in which a small number of large sellers dominate the market. An oligopoly exists when a small number of large companies are able to influence the supply of a product or service. ✓✓

(Accept any other relevant correct response) (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 monopolists do ✓✓
- 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 a 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 co-operate 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 ✓

- Any decision and actions of one will have a direct effect on the profits of the others who will retaliate by changing prices and output ✓✓
- In an oligopoly, a firm not only considers the market demand for its product, but also the reactions of other firms in the industry ✓✓
- No firm can ignore the possible reaction of other firms to its price and output policies ✓✓
- Firms are forced to change strategy in order to keep up with the manoeuvres of the competition ✓✓
- In an oligopolistic industry it is difficult to keep secrets because firms watch each other very closely ✓✓
- Mutual dependence makes policy decisions of businesses in an oligopoly market to be more complex than other market structures ✓✓

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

(Accept any other relevant correct higher order response)

(Max. 26)

ADDITIONAL PART

Negative impact:

- Through collusion by firms, consumers may end up paying higher prices ✓✓
- They will have to spend more to purchase products which should have been in lower prices ✓✓
- High concentration of businesses reduces consumer choice ✓✓
- Cartel like behaviour reduces competition and can lead to higher prices and reduced output which may limit a variety of goods for the consumer ✓✓
- Given lack of competition, producers may be free to engage in the manipulation of consumer decision making ✓✓
- Oligopolies may lead to a potential loss of economic welfare ✓✓

(Accept any other relevant correct higher order response)

(Max. 10)

CONCLUSION

Oligopolies play a very important role in the economy as most of the manufacturing industries in south Africa are oligopolistic in nature and produce the largest portion of the total output and worldwide, they are the common market structure of the modern economies ✓✓

(Accept any other relevant correct high order conclusion.)

(2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Examine in detail the consequences of inflation** (26 marks)
- **Why is high inflation rate a concern for business performance?** (10 marks)

INTRODUCTION

The influence of inflation in the economy is not always obvious as it does not affect everyone in the same way ✓✓

The effects of inflation may not be noticeable in the short term but may be very harmful in the long term ✓✓

(Accept any correct relevant introduction)

(2)

MAIN PART**Debtors and creditors** ✓

- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓
- Inflation harm creditors as they lose due to a fall in the real value of money ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods ✓✓

Wage and salary earners ✓

- Real wages fall sharply during periods of high inflation as a result of a decline in capital stock and a shift in relative prices ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages ✓✓
- Relative wages are the important component of wealth, they constitute the main source of income for many households, especially for the less well-off ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty ✓✓
- Wage earners suffer during inflation, despite the fact that they obtain a wage rise to counter the rise in the cost of living, because wages do not rise as much as the rise in prices of those commodities which workers consume ✓✓
- Inflation most negatively affects those people who earn an income that grows more slowly than the general increase in the prices of goods, e.g. pensioners and those dependent on fixed income such as rentals ✓✓
- Most pensions are paid a fixed amount that is often determined months or years in advance ✓✓
- If no provision has been made for inflation, and with the erosion of spending power, they will eventually earn too little to survive ✓✓

Investors and savers ✓

- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings ✓✓
- Investors in assets with flexible market value (e.g. shares and fixed property) usually gain from price increases because the nominal values of these assets tend to increase at least proportionally more rapidly than increases in general price levels ✓✓ in the case of inflation wealth is created to the advantage of those holding such assets ✓✓
- Investment in assets with fixed nominal value will give a fixed return if assets are held until maturity ✓✓ because their nominal values remain constant and will decrease as prices increase thus reducing their real value ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds ✓✓
- Inflation leads to a decrease in the value of money which means long term savings lose their real value ✓✓

Tax payers ✓

- With higher inflation, tax payer's nominal income rise when their real income remain unchanged ✓✓ because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payer ✓✓
- If the income tax schedule remains unchanged, inflation will increase the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before ✓✓
- This means that marginal and average tax rates increase in harmony with the income levels ✓✓
- The phenomenon, known as a bracket creep leads to a redistribution of income from tax payers to the government ✓✓

Industrial peace ✓

- Wage bargaining is often accompanied by strikes and mass actions ✓✓
- These actions can sometimes spill over into violence which affects society at large ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow ✓✓

Balance of payments problems ✓

- Inflation has an adverse effect on a country's balance of payments ✓✓
- Inflation makes domestic prices to increase and this makes domestic exports uncompetitive on the international markets and South African exporters may lose major trading partners ✓✓
- The high prices of exports will discourage foreign businesses from buying South African goods resulting in decrease in exports and a loss of foreign exchange earnings ✓✓

Psychological influence ✓

- Inflation impacts negatively on economic growth ✓✓
- Inflation creates a negative sentiment ✓✓
- This means that there is an unfavourable psychological climate for economic activities and people are so uncertain about future prices and values ✓✓

Poverty levels and unemployment

- Increase in prices of basic food and services affect the poor the most as a result poverty levels increase ✓✓
- Social grants have to increase at the inflation rate, which is costly to taxpayers ✓✓
- Employers often react to increasing costs by dismissing low-paid employees ✓✓

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

(Accept any other relevant correct response)

(Max. 26)

ADDITIONAL PART

High inflation rate is a concern for business performance because:

- Rising costs for businesses could result in larger production spending on inputs and falling profitability ✓✓
- Businesses will therefore be forced to increase the prices to supplement the high costs ✓✓
- For this they will receive a negative response from consumers which will affect the level of production and will end up selling fewer quantities ✓✓
- Expectation of high inflation and feeling of uncertainty will result from the consumer overspending, and money hoarding in a time of inflation, thus affecting the profits of businesses when inflation rise ✓✓
- Consumers may hold back on spending until they enter a safer economic climate, again lowering business profits ✓✓
- With consumers holding back on spending, businesses can unfortunately feel the brunt of this with a potential reduction of sales ✓✓
- The effect of inflation can be detrimental to business stability, disrupt business planning and lead to lower investment ✓✓
- If costs are rising due to inflation, producers may not be able to pass them to consumers ✓✓

(Accept any other relevant correct higher order response)

(Max. 10)

CONCLUSION

It is important for the government to take specific actions to keep inflation under control as high inflation rates can have serious social, economic and political consequences ✓✓

As an economic measure, inflation inform people how well the stability of prices is achieved so that they plan well for the future ✓✓

(Accept any other relevant correct higher order response)

(2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150