

SA's Leading Past Year

Exam Paper Portal



You have Downloaded, yet Another Great  
Resource to assist you with your Studies 😊

Thank You for Supporting SA Exam Papers

Your Leading Past Year Exam Paper Resource Portal

Visit us @ [www.saexampapers.co.za](http://www.saexampapers.co.za)



**SA EXAM  
PAPERS**



# basic education

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

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS**

**MEMORANDUM**

**FEBRUARY/MARCH 2014**

**MARKS: 300**

**This memorandum consists of 27 pages.**

**SECTION A (COMPULSORY)****QUESTION 1 LO1 – LO4**

1.1 Various options are provided as answers to the following questions.

- 1.1.1 A ✓✓ (individuals)
- 1.1.2 B ✓✓ (waves)
- 1.1.3 C ✓✓ (balance of payments)
- 1.1.4 C ✓✓ (taker)
- 1.1.5 A ✓✓ (private)
- 1.1.6 B ✓✓ (non-excludability)
- 1.1.7 C ✓✓ (capital)
- 1.1.8 A ✓✓ (consumer price index – CPI)
- 1.1.9 B ✓✓ (incentives and subsidies)
- 1.1.10 A ✓✓ (decrease)
- 1.1.11 B ✓✓ (eco)
- 1.1.12 C ✓✓ (non-renewable) (12 x 2) (24)

1.2 Give ONE term for each of the following descriptions by choosing a term from the list.

- 1.2.1 Business cycle ✓✓
- 1.2.2 Cost-benefit analysis ✓✓
- 1.2.3 Market ✓✓
- 1.2.4 Economic growth ✓✓
- 1.2.5 Cost-push/ cost inflation ✓✓ (5 x 2) (10)

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- 1.3.1 B ✓✓ (expresses a country's export prices in terms of its import prices)
- 1.3.2 C ✓✓ (the distribution of income amongst sections of the population)
- 1.3.3 G ✓✓ (the change in total cost when production is increased by one more unit)
- 1.3.4 A ✓✓ (authorises and prohibits large mergers and takeovers)
- 1.3.5 D ✓✓ (the process by which the whole world becomes a single market)
- 1.3.6 H ✓✓ (spatial areas that link one area to another and offers advantages to mining, manufacturing and other businesses)
- 1.3.7 E ✓✓ (heat trapped within the atmosphere)
- 1.3.8 F ✓✓ (a conference focusing on climate change) (8 x 2) (16)

**TOTAL SECTION A: 50**

**SECTION B**

Answer any THREE of the five questions in this section in the ANSWER BOOK.

**QUESTION 2 LO1 AS1 – AS4 MACROECONOMICS**

2.1 Choose the correct word from those given in brackets:

2.1.1 Production ✓✓

2.1.2 Peak ✓✓

2.1.3 Three ✓✓

2.1.4 Higher ✓✓ (4 x 2) (8)

2.2 List any THREE indicators underpinning forecasting business cycles

- Leading indicators ✓✓
- Lagging indicators ✓✓
- Coincident indicators ✓✓
- Length ✓✓
- Amplitude ✓✓
- Trend ✓✓
- Extrapolation ✓✓
- Moving averages ✓✓ (Any 3 x 2) (6)

2.3 Study the extract and graph and answer the questions that follow:

2.3.1 Define the term exchange rate.

The price of one currency in terms of another country's currency ✓  
e.g. \$1 = R9,00 ✓ (2)

2.3.2 Explain the negative impact of strikes on the South African economy.

- Loss of labour hours ✓✓
  - Loss of production ✓✓
  - Loss of income ✓✓
  - Decrease in exports/Balance of Payment problems ✓✓
  - Job losses ✓✓
- Any other relevant answer (4)

2.3.3 Do you think South Africa will attract more direct foreign investment during March 2011? Motivate your answer.

No✓ The exchange rate is not favourable / rand is stronger ✓✓  
and therefore you get less value for their currency.✓  
(Any other relevant answer) (4)

**2.4 Study the cartoon and answer the questions that follow.****2.4.1 What is the purpose of the annual budget?**

Gives effect to the government's fiscal policy. ✓✓

Guides government to achieve its macroeconomic objectives. ✓✓

(Any other relevant answer) (1 x 2) (2)

**2.4.2 Government has spent considerable amounts of money on the implementation of e-tolls in South Africa. Suggest ways in which government can recoup this money spent.**

- e-toll fees ✓✓
- increase in license fees ✓✓
- portion of the road accident fund ✓✓
- increase in road fines ✓✓
- increase in fuel levies ✓✓

(Any other relevant answer) (2)

**2.4.3 What can employers do to reduce the negative impact of strikes on production?**

- Offer wage increases ✓✓
- Better working conditions ✓✓
- Better services ✓✓
- Promotions ✓✓

(Any other relevant answer) (1 x 2) (2)

**2.4.4 Do you think that the minister can stop the rocket that is headed his way? Motivate your answer**

No ✓✓, the expenditure of the government (rocket) is far greater than the revenue (little shield). ✓✓

The minister says that he has his people covered ✓✓ but the rocket is far bigger than his protection. ✓✓

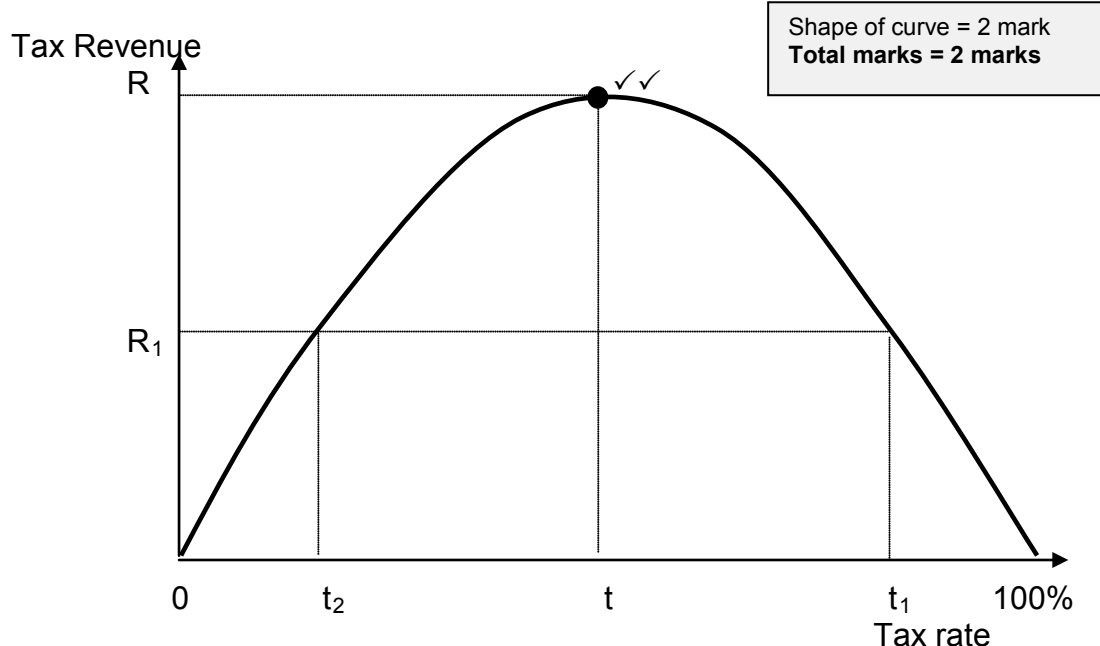
Yes ✓✓ the minister can use the MTEF to address the economic challenges ✓✓

(Any other relevant explanation) (2 x 2) (4)

**2.5 Discuss privatisation as a problem of public sector provisioning.**

- Privatisation refers to the transfer of functions and ownership from the public to the private sector ✓✓
  - Privatisation leads to higher prices ✓✓ which excludes people from its consumption ✓✓
  - State-owned enterprises are sometimes bureaucratic, inefficient, and unresponsive to consumer needs and therefore often a burden on the taxpayer ✓✓
  - Public enterprises do not pay tax; privatised enterprises must pay tax – therefore privatization will broaden the tax base ✓✓
  - Privatised enterprises will have greater access to investment, be more innovative and be able to adapt more easily to changing economic conditions ✓✓
  - Privatisation will give more people a share in the economy and general welfare and can serve as an instrument of black economic empowerment ✓✓
  - The proceeds will make funds available for spending on housing, education, health care and assistance to the poor ✓✓
  - The aim of privatisation is to reduce the relative size of the public sector ✓✓
  - Advantages of privatisation: privatization stimulates growth and improves the overall efficiency and performance of the economy ✓✓
  - Privatisation provides additional funds to the government ✓✓
  - Privatisation attracts foreign investment ✓✓
- (4 x 2)      (8)

## 2.6 Explain the Laffer Curve with the aid of a graph.



- The Laffer curve shows the relationship between tax rates and tax revenue collected by the government ✓✓
- The curve shows that as tax increase government revenue increases up to a certain point (e.g.  $t_2$ ) ✓✓
- If the tax rate rises beyond 't', (e.g. at  $t_1$  there will be a decline in government revenue ✓✓
- When the tax rate is high people are less likely to work hard ✓✓
- If tax is 100% then nobody will work because all income would go to the government ✓✓
- Too high tax rates may lead to tax evasion and avoidance ✓✓
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest ✓✓
- If tax rate is zero, no government revenue will be raised ✓✓
- Economists use this to justify a reduction in the level of income tax ✓✓
- The apex of the curve shows the tax rate where government revenue can be maximized ✓✓
- This point can vary from country to country – the Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate ✓✓
- Evidence suggests that tax rates in most countries are below t. ✓✓

(Max 3 x 2)

(8)  
[50]

**QUESTION 3 LO2 AS1 – AS3 MICROECONOMICS**

3.1 Choose the correct word from those given in brackets:

3.1.1 Cost ✓✓

3.1.2 Interdependent ✓✓

3.1.3 More ✓✓

3.1.4 Free ✓✓ (4 x 2) (8)

3.2 List **THREE** examples of non-price competition for a monopolistic competitor.

- Product differentiation ✓✓
- Advertising ✓✓
- Branding ✓✓
- Extended shopping hours ✓✓
- Doing business over the internet ✓✓
- After-sales service ✓✓
- Loyalty rewards ✓✓

(Any other relevant example) (3 x 2) (6)

3.3 Study the extract and answer the questions that follow:

3.3.1 Define the term market failure

When firm do not produce the correct quantities of good as desired by the consumer/when resources are under-utilised or over-utilised in the production process/firms not achieving productive and allocative efficiency. ✓✓

Any other relevant answer (2)

3.3.2 Identify the cause of market failure as depicted in C

Imperfect markets ✓✓ (2)

3.3.3 Explain how negative externalities (pollution) lead to market failure.

- Pollution involves a social cost which is not included in the market price. ✓✓
- Therefore goods are often over-produced than is desired by the community. ✓✓ (2 x 2) (4)

3.3.4 What measure can government take to deal with the negative impact of demerit goods?

- Ban consumption ✓✓
- Increase taxation ✓✓
- Provide information about their harmful effects ✓✓ (1x2) (2)



**3.4 Study the graph and answer the questions that follow:****3.4.1 What quantity of goods will the individual firm produce? Give a reason for your answer.**

Q2 ✓✓ Because Marginal Cost = Marginal revenue which ensures profit maximization ✓✓

(4)

**3.4.2 Identify the profit depicted by A.**

Normal Profit ✓✓

(2)

**3.4.3 Explain the importance of point B in relation to production and costs**

Point B is referred to as shutdown point ✓✓

The firm will stop production because it will be unable to cover its average variable cost ✓✓

(4)

**3.5 Discuss TWO aims South Africa's competition policy.**

- **Improve the efficiency of markets** ✓✓ efficiency is important since resources are scarce and needs are unlimited ✓✓ only efficient producers will survive in a competitive market – those who make losses will be forced to leave the market ✓✓
- **Improve equity in markets** by ensuring access to those people who were previously denied an equal opportunity to participate in the economy ✓✓
- **Contribute to developmental objectives** ✓✓
- **Prevent the abuse of economic power** (e.g. the monopolist) ✓✓
- Regulate the growth of market power by means of takeovers and mergers ✓✓
- **Prevent restrictive practices**, especially by oligopolists, such as fixing of selling prices, collusion or price discrimination ✓✓ (Any 2 x 4)

(8)

**3.6 Explain how collusion can influence an oligopoly market.**

- No business is ever sure about the policy of competitors and function in an uncertain environment ✓✓
- To reduce uncertainty, oligopolists collude – they agree on prices and quantities they are going to produce – higher profits ✓✓
- Two forms: cartels: ✓✓ where collusion occurs openly and formally ✓✓ their aim is a collective monopoly ✓✓ frequent problems are members cheating by cutting prices and selling more than its quota ✓✓
- Price leadership: ✓✓ where collusion is forbidden by law ✓✓ the one business fixes the price and other act as price followers ✓✓ the price leader is usually the largest or dominant business in the industry with the lowest production costs ✓✓
- Collusion is more successful when a small number of firms are involved, which makes communication more effective ✓✓ it firms face more or less the same cost of production ✓✓ if the product is homogeneous ✓✓ if there are barriers to entry ✓✓ if the government does not interfere ✓✓

(8)

**[50]**



**4.4 Study the table below and answer the questions that follow:****4.4.1 Define the term Per Capita Real Gross Domestic Product.**

The average amount of goods and services produced per person in a country ✓✓ /

To calculate this figure, the Real GDP figure is divided by the population number ✓✓

(2)

**4.4.2 What measures can the South African government take to reverse the increase in unemployment?**

- create jobs ✓✓
- develop skills ✓✓
- provide public works programmes ✓✓
- initiate youth wage subsidies ✓✓

(Any other relevant answer)

(Any 2 x 2)

(4)

**4.4.3 Why is the GDP indicator expressed in real values instead of nominal values?**

- Real values take into account inflation which will give more accurate growth rate. ✓✓
  - Expressing the GDP figures in nominal values will give a skewed interpretation of production in the economy. ✓✓
  - This can influence growth policies in the wrong direction ✓✓
- (Any other relevant answer)

(Any 2 x 2)

(4)

#### 4.5 Explain Spatial Development Initiatives in South Africa.

- SDI Programme attracts infrastructure and business investments to underdeveloped areas with the primary aim of creating employment. ✓✓
  - Department of Trade and Industry is driving force behind industrial and spatial development. ✓✓
  - DTI plans together with central, provincial and local government, IDC, parastatals and research institutions. ✓✓
  - Industrial Development Policy Programme (Spatial Development) has 2 focus points: spatial development initiative (SDI) and financial incentives ✓✓
  - SDI refers to national government initiative programme aimed at unlocking inherent and under-utilized economic development potential of certain specific spatial locations in SA. ✓✓
  - **Key objectives**
    - ✚ stimulate economic activity in selected strategic locations. ✓✓
    - ✚ generate economic growth and sustainable industrial development; ✓✓
    - ✚ develop projects of infrastructure in certain areas and finance them through lending and private sector investment ✓✓
    - ✚ establish private-public partnerships (PPP's) ✓✓
  - In areas with high poverty and unemployment, SDI focuses on:
    - ✚ high-level support in areas where socio-economic conditions require concentrated government assistance ✓✓
    - ✚ where inherent economic potential exists. ✓✓
  - The approach is towards international competitiveness, regional cooperation and a more diversified ownership base. ✓✓
  - **Some of the main focus points of the SDI Programme are:**
    - ✚ Lubombo Corridor (agro-tourism, education, craft, commercial and agricultural sectors); ✓✓
    - ✚ KwaZulu-Natal (ports of Durban and Richards Bay); ✓✓
    - ✚ West Coast SDI (fishing and industrial ports); ✓✓
    - ✚ Coast-2-Coast Corridor with agro-tourism. ✓✓
- (Any 4 x 2) (8)

#### 4.6 Briefly discuss the uses of per capita figures.

- indicate economic development ✓✓ countries in which economic development is important need to increase their per capita real income ✓✓
  - compare living standards ✓✓ it is customary to compare living standards of countries in terms of per capita GNI – figures for comparison are converted to the US Dollar ✓✓
  - indicate living standards ✓✓ it expresses the income accruing to the residents of a country irrespective of geographical boundaries ✓✓
- (Any other relevant answer.) (2 x 4) (8)
- [50]**

**QUESTION 5 LO4 AS1 – AS4 CONTEMPORARY ECONOMIC ISSUES**

**5.1 Choose the correct word from those given in brackets:**

5.1.1 Demand ✓✓

5.1.2 Statistics South Africa ✓✓

5.1.3 Domestic ✓✓

5.1.4 Pollution ✓✓ (4 x 2) (8)

**5.2 List any THREE examples of administered prices goods and services.**

- Electricity ✓✓
- Fuels ✓✓
- Paraffin ✓✓
- Medicines ✓✓
- Public hospitals ✓✓
- Telephone and cell phone call rates ✓✓
- Telephone line rental ✓✓
- Telephone installations ✓✓
- Postage ✓✓
- Television and radio licenses ✓✓
- Bus fares ✓✓
- Train fares ✓✓
- Licenses ✓✓
- Registration of transport ✓✓
- School and university boarding fees ✓✓
- Assessment rates and property taxes ✓✓
- Sanitary services ✓✓
- Refuse removal ✓✓
- Water ✓✓

(Any 3 x 2) (6)

**5.3 Study the extract and answer the questions that follow.**

**5.3.1 Give another term for the unadjusted CPI inflation rate.**

Headline inflation ✓✓ (2)

**5.3.2 Sometimes certain goods are excluded from calculating a certain type of inflation. Name ONE good that will be excluded from the CPI basket in future.**

- Mustard ✓✓
- Calculators ✓✓
- Fish paste ✓✓
- Viennas ✓✓

(2)

**5.3.3 Why will workers tend to claim higher wages when the official rate of inflation goes up?**

To enjoy the same standard of living ✓✓  
(Any other relevant fact)

(2)

**5.3.4 Why do you think it was necessary to adapt the CPI-basket?**

- These are products currently being used by households ✓✓
  - Most SA households are using the newly added products ✓✓
- (Any other relevant answer)

(4)

**5.4 Study the extract and answer the questions that follow.**

**5.4.1 In which province is Mapungubwe situated?**

Limpopo ✓✓

(2)

**5.4.2 List any ONE valuable golden item found at Mapungubwe.**

- golden rhino ✓✓
- golden sceptre ✓✓
- golden bowl ✓✓

(Any 1 x 2)

(2)

**5.4.3 How can households benefit from this World Heritage Site (Mapungubwe)?**

- **Income:** Job creation in surrounding villages or at the site ✓✓
  - **Infrastructure:** tourists and local people will benefit from better roads, hotels, telephones and water ✓✓
  - **Skills:** learners have the advantage to be taught Tourism as subject ✓✓
- (Any other relevant fact)

(Any 2 x 2)

(4)

**5.4.4 Name any other World Heritage Site to be found in South Africa.**

- Isimangaliso ✓✓
- Cape Fynbos Region ✓✓
- uKhahlamba Drakensberg Park ✓✓
- Richtersveld ✓✓

(1 x 2)

(2)

## 5.5 Distinguish between the consumer and producer price index.

Consumer Price Index	Producer Price Index
Pertains to cost of living ✓	Pertains to cost of production ✓
Basket consists of consumer goods and services ✓	Basket consists of goods only ✓
Capital and intermediate goods are excluded ✓	Capital and intermediate goods are included ✓
Prices include VAT ✓	Prices exclude VAT ✓
Interest rates are taken into account ✓	Interest rates are excluded ✓
Prices of imported goods are not shown explicitly ✓	Prices of imported goods are shown explicitly ✓

(2 x 4)

(8)

## 5.6 Discuss the South African government's policy on the preservation of environmental assets.

- Weaknesses in the market solutions required that the government intervenes in order to preserve environmental assets ✓✓
- Government can **buy or expropriate** ✓✓ under government control social welfare may be costly – in some instances such assets are simply closed for human use e.g. indigenous forests ✓✓
- Government can **subsidize** ✓✓ river mouth ecosystems can be left to private ownership by subsidizing through maintenance grants ✓✓
- Government **controls** ✓✓ government can compel the owner to apply control measures e.g. number of visitors allowed per day ✓✓

(Any 4 x 2)

(8)

**[50]**

**QUESTION 6 LO1 & LO2 AS1 – AS4 MACRO & MICROECONOMICS**

6.1 Choose the correct word from those given in brackets:

6.1.1 Dumping ✓✓

6.1.2 Public ✓✓

6.1.3 Negative sloping ✓✓

6.1.4 Consumer ✓✓ (4x2) (8)

6.2 List the **THREE** main characteristics of fiscal policy.

- Biased ✓✓
- Cyclical ✓✓
- Demand-based ✓✓ (3x2) (6)

6.3 Study the diagram below and answer the questions that follow.

6.3.1 Define the term **Balance of Trade**.

Difference between merchandise exports and imports. ✓✓ (2)

6.3.2 Describe the general trend of the balance on the current account between 2006 and 2011.

Every year indicates a deficit. ✓✓ (2)

6.3.3 Name **ONE** item that appears in the financial account of the balance of payments.

Direct investments ✓✓  
Portfolio investments ✓✓  
Other investments ✓✓  
(Accept if specified) (Any 1 x 2) (2)

6.3.4 Suggest **TWO** methods to improve the balance on the current account.

- A weaker rand ✓✓
- Exchange rate ✓✓
- Lending and borrowing from the IMF ✓✓
- Change in demand ✓✓
  - ✚ Export promotion
  - ✚ Import substitution ✓✓
  - ✚ Interest rates ✓✓
  - ✚ Import controls ✓✓
- Any other relevant answer ( Any 2 x 2) (4)



**6.4 Study the table below and answer the questions that follow.****6.4.1 What market structure is depicted by the above logos?**

Oligopoly✓✓ (2)

**6.4.2 Describe the slope of a typical demand curve for the above market.**

Downward sloping from left to right ✓✓ (2)

**6.4.3 Explain why firms in this industry do not compete in terms of the price of the product.**

They compete on the basis of product differentiation and efficient service✓✓, underscored by advertising✓✓. (4)

**6.4.4 What can the above manufacturers do to increase their market share?**

- After sales service✓✓
  - Branding✓✓
  - Advertising✓✓
  - Door-to-door sales✓✓
  - Internet sales✓✓
- Accept any other relevant answer (Any 1 x 2) (2)

**6.5 Differentiate between productive and allocative Inefficiency****Productive inefficiency**

- In terms of cost it means that a business does not produce goods at the lowest possible cost. ✓✓
- There is room to reduce costs without producing fewer goods or without producing a lower quality good.✓✓
- In terms of marginal cost it means that one producer can produce an additional unit of a good at a lower extra(marginal) cost than others in the economy.✓✓

**Allocative inefficiency**

- This kind of inefficiency means that the product mix does not reflect consumers' and therefore resources are not allocated in the right proportions.✓✓
- The quantities preferred by consumers are not available.✓✓ (Any 2 x 4) (8)

**6.6 Discuss the reasons for public sector failure in South Africa**

- **Management failure** ✓✓ ignorance, lack of leadership, training and experience are behaviours that improve the welfare of someone at the expense of someone else. ✓✓
- **Apathy** ✓✓ Successful public production relies on long-term accountability. ✓✓ In developing countries accountability often does not work, clients are voiceless. ✓✓
- **Lack of motivation** ✓✓ frontline workers rarely receive incentives for successful service delivery. ✓✓ There is little stipulation for service quality and quantity, no measurement of effectiveness or productivity and few rewards or penalties. ✓✓

(Any 2 x 4)

(8)

**[50]****TOTAL SECTION B: 150**

**SECTION C****MARK ALLOCATION FOR ESSAY RESPONSES**

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b>	Max 3
<b>Body:</b>	
• <u>Main part</u> : For example: discuss/distinguish/differentiate/ explain/analyse/evaluate/assess	Max 30
• <u>Additional part</u> : For example: draw a graph or diagram/deduce/ outline/briefly explain/expand on/your own opinion/support	Max 10
<b>Conclusion</b>	Max 2
<b>Interpretation</b>	Max 5
<b>TOTAL</b>	<b>50</b>

**QUESTION 7 LO1 AS1 MACROECONOMICS**

There is a constant flow of money, goods and services in the economy.

- Discuss the interaction between the participants in an open economy. (30)
- Construct a fully labelled diagram to illustrate the four sector circular flow. (10)

**INTRODUCTION**

The circular flow model of the economy is a simplification showing how the economy works and the relationship between income and spending in the economy as a whole. The circular flow model of an open economy shows the workings of an economy that is open to foreign trade. It is different to a closed economy because it includes the foreign sector.✓✓✓

Any other relevant introduction

**(Max 3)**

**BODY**

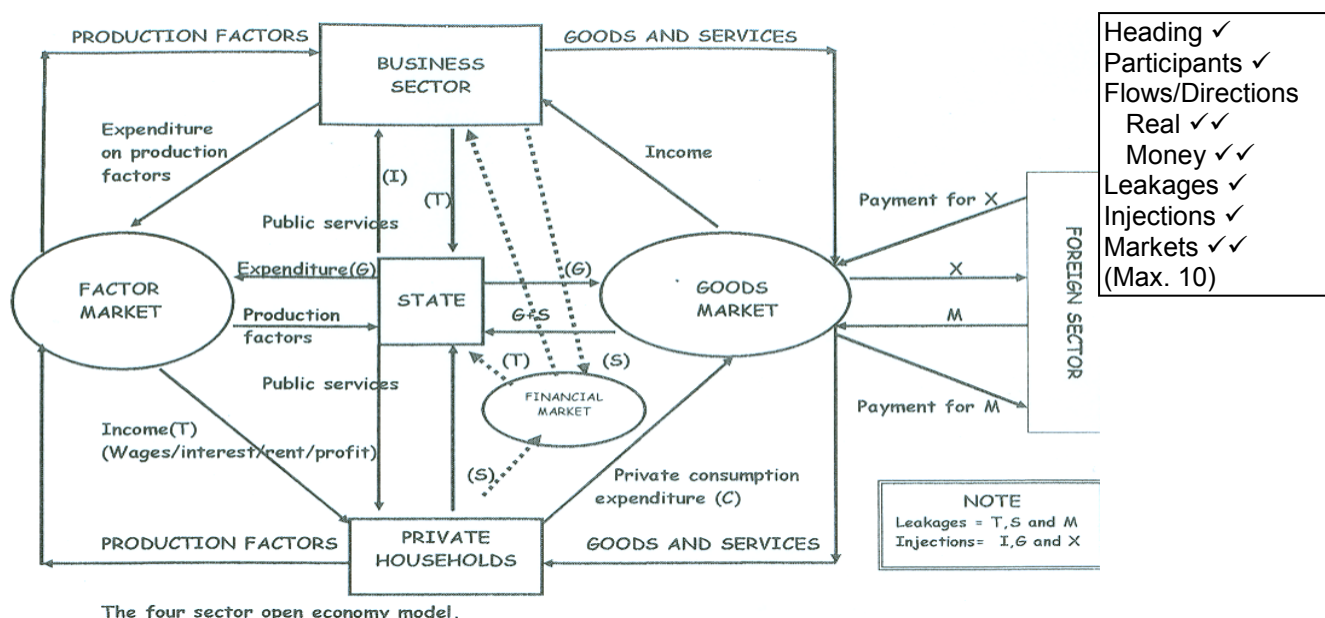
There is a flow of money and goods and services between the **household sector and business sector**.✓✓ Households earn income in the form of wages by selling their factors of production to businesses.✓✓ Businesses use factors of production to produce goods and services on which the household sector spends ✓✓ Thus the business will receive income.✓✓

There is a flow of money and goods and services between the **household sector and State**.✓✓ Household sector provides the state with labour and receive income.✓✓ The state provides the household with public goods and services ✓✓(e.g.) parks, hospitals ✓✓ for which they pay taxes.✓✓ This is income for the state.✓✓

There is a flow of money and goods and services between the **business sector and State**.✓✓ The business sector provides the state with goods and services for which the state pays.✓✓ The state provides the business sector with public goods and services for which they pay taxes.✓✓

There is a flow of goods (imports) to the business from the **foreign sector**✓✓ which the business pays for✓✓. This will be regarded as expenditure for the business ✓✓There is also a flow of goods from the business to the foreign sector.✓✓ This will be income for the business.✓✓

The **financial sector** consists of banks, insurance companies and pension funds. ✓✓They act as a link between households and firms who have surplus money and others in the economy who require funds.✓✓The money which households and firms provide to the financial sector is known as savings.✓✓ The spending on capital equipment by firms is regarded as investment.✓✓

**(Max 30)**

Heading ✓  
Participants ✓  
Flows/Directions  
Real ✓✓  
Money ✓✓  
Leakages ✓  
Injections ✓  
Markets ✓✓  
(Max. 10)

## CONCLUSION

In South Africa individual and company income tax rates were reduced over the last decade ✓✓

**(Max 2)**

(Any other relevant conclusion)

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1–15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16–30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31–45)

**[50]**

**QUESTION 8 LO2 AS1 & AS3 MICROECONOMICS**

Pure monopolies seldom exist, although we often find characteristics of a monopoly present in businesses.

- Discuss the monopoly as a market structure. (30)
- Draw a fully labelled graph to illustrate economic profit for the monopolist. (10)

**INTRODUCTION**

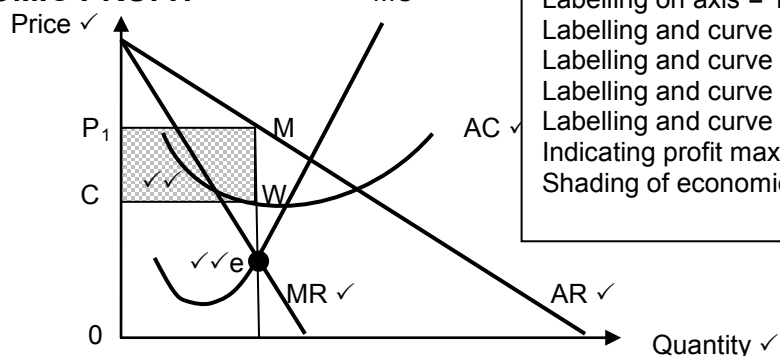
The monopoly is a market structure where only one seller (producer) operates. Entry is blocked and the product has no close substitutes ✓✓✓

Any other relevant introduction (Max 3)

**BODY****STRUCTURE OF THE MONOPOLY**

Number of businesses ✓	The number of businesses is not as important as their conduct particularly as concerns the question as to whether an individual business could influence the selling price of the product ✓✓ The monopoly is a price-maker that have an influence on the price of their products ✓✓
Nature of the product ✓	The goods offered by a monopoly are unique in nature ✓✓
Entry ✓	It refers to how easy or difficult it is for businesses to enter or leave the market ✓✓ Entry under monopolistic conditions is entirely blocked ✓✓
The control of businesses over the price of the product ✓	The monopoly is the only businesses on the market and has considerable control over the prices of their products ✓✓ they are price-makers or price determiners ✓✓
Information ✓	All information on market conditions should be available to both buyers and sellers ✓✓ a monopoly experiences no uncertainty regarding market information ✓✓
Demand curve ✓	The demand curve of a monopoly is downward-sloping ✓✓ and equals the market demand curve because the producer reflects the total supply on the market ✓✓
Long term economic profit ✓	Due to the fact that there are no competitors entering the market over the long run, the economic profit remains over the long term ✓✓
Seller market power ✓	Many – the monopoly is a price-maker ✓✓
Technical efficiency ✓	Is possible for the monopoly ✓✓
Allocative efficiency ✓	No allocative efficiency regarding the monopoly ✓✓

(Max 30)

**ECONOMIC PROFIT** ✓

Heading of graph = 1 mark  
 Labelling of axis = 1 mark  
 Labelling on axis = 1 mark  
 Labelling and curve (MC) = 1 mark  
 Labelling and curve (AC) = 1 mark  
 Labelling and curve (AR) = 1 mark  
 Labelling and curve (MR) = 1 mark  
 Indicating profit maximization point (e) = 2 marks  
 Shading of economic profit = 2 marks

**Maximum 10 marks****CONCLUSION**

We found that a monopolist produces less in the long term, demands a higher price for the product, makes economic profit and does not produce at the lowest possible cost.

✓✓

**(Max 2)**

Any other relevant conclusion

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1–15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16–30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31–45)

**[50]****(Max 5)**

**QUESTION 9 LO3 AS3 ECONOMIC PURSUITS**

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

- **Discuss import substitution as part of the South African international trade policy.** (30)
- **In your opinion how can a policy of free trade benefit South Africa?** (10)

**INTRODUCTION**

Import substitution is the replacement by domestic production of goods that were previously imported. The aim is to develop local industries, increase employment opportunities and improve South Africa's balance of payments ✓✓✓

Any other relevant introduction (Max 3)

**BODY****STAGES OF IMPLEMENTATION:**

- Imports of simple consumer goods e.g. textiles and shoes, are replaced with domestic production ✓✓
- Domestic industries are created to replace a wider range of more sophisticated manufactured items ✓✓

**FORMS OF IMPORT SUBSTITUTION:**

- Voluntary import substitution ✓✓ attempts by countries to develop their own industries as part of an economic development strategy ✓✓ e.g. Iscor ✓✓
- Forced import substitution ✓✓ certain countries are forced to produce certain goods because they are excluded from taking part in international trade ✓✓ through trade sanctions (countries prohibit trade with a certain country) ✓✓ boycotts (voluntary measures not to trade with a certain country) ✓✓ disinvestment (foreign countries withdraw their investments from a country) ✓✓

**REASONS FOR IMPORT SUBSTITUTION:**

- Diversification ✓✓ is known as the expansion of manufacturing that will make countries less dependent on foreign countries and give them more control over their economies ✓✓ the infant industry argument is used to justify protection measures, to be able to become internationally independent and independent of protection as they expand their scale of operation ✓✓
- Trade ✓✓ developing countries rely on natural resources as basis for economic growth and development ✓✓ and export mainly minerals and agricultural produce ✓✓ growth could however accelerate if developing countries produce manufactured goods themselves ✓✓

## METHODS OF IMPORT SUBSTITUTION:

- **Tariffs are customs duties** ✓✓ taxes on imported goods that may be ad valorem (percentage) of specific (an amount per unit) ✓✓ prices of imported goods will rise and shift the local demand to domestic production ✓✓
- **Quotas** ✓✓ limit the supply of a good or service ✓✓ it places a restriction on imports and reduce supply (prices go up) ✓✓
- **Subsidies** ✓✓ to domestic enterprises that export goods may protect them ✓✓
- **Exchange control** ✓✓ governments or free trade areas may limit the amount of foreign exchange made available for imports, investment or traveling abroad ✓✓
- **Physical control** ✓✓ in the form of a complete ban or embargo on the imports of certain goods ✓✓ e.g. arms and drugs ✓✓
- **Diverting trade** ✓✓ measures that make it difficult to import from abroad are import deposits, time consuming customs procedures and quality standards ✓✓

## ADVANTAGES OF IMPORT SUBSTITUTION:

- **Easy to implement** through the imposition of tariffs and quotas ✓✓
- **Industrial development** is encouraged ✓✓
- **Employment opportunities** increase ✓✓
- A **decrease in imports** has a positive effect on the balance of payments ✓✓

## DISADVANTAGES OF IMPORT SUBSTITUTION:

- It does not necessarily lead to an overall reduction in **imports** ✓✓ South Africa had to import capital and intermediate goods to manufacture consumer goods ✓✓
- Inefficient **local production** because local producers are shielded from international competition ✓✓
- Domestic consumers are forced to buy goods at **higher prices** on the international market ✓✓
- Costly and uneconomical **projects** are established e.g. Moss gas ✓✓

## SCEPTICISM - REASONS:

- Protection means high profits to protected industries, isolating them from competition and **lower their efficiency and development** ✓✓
- Protection does **not advance industrialization** – backward linkages do not materialize ✓✓
- Consumers often have to pay **higher prices** for goods of inferior quality from non-essential industries ✓✓  
(Max 30)

## How a policy of free trade can benefit South Africa:

- **Specialisation** ✓✓ leads to comparative advantage to a country in what they are relatively best at producing ✓✓
- **Economies of scale** ✓✓ are created through trade by reducing unit costs ✓✓
- **Choice** ✓✓ of consumers are increased because they can choose what they prefer to buy ✓✓
- **Innovation** ✓✓ free trade implies competition, better methods of production, cutting costs and improving quality and reliability of goods ✓✓  
(Max 10)



**CONCLUSION**

From the above discussion it is obvious that import substitution implies that countries try to become more self-supporting and independent. By implementing tariff protection, South Africa introduced an inward-looking policy. The World Wars stimulated manufacturing further due to isolation from foreign countries. ✓✓ **(Max 2)**  
Any other relevant conclusion

Use the following assessment grid in conjunction with the above to assess the discussion:

<b>MARKS</b>	<b>INTERPRETATION OF TOPIC</b>
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1–15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16–30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31–45)

**(Max 5) [50]**

**QUESTION 10 LO4 AS2**

**Tourism plays a vital role in the global economy.**

- **Discuss the effects of tourism on the South African economy. (30)**
- **Suggest ways in which tax revenue can be used to promote tourism? (10)**

**INTRODUCTION**

Tourism represents a unique industry in an economy because its effects extend far beyond the tourism industry itself. Tourism is an industry that provides a substantial economic stimulus to other industries ✓✓✓

Any other relevant introduction

**(Max 3)**

**BODY****DISCUSS THE EFFECTS OF TOURISM ON SOUTH AFRICAN ECONOMY****1. Gross Domestic Product (GDP) / Economic growth / Direct foreign spending by tourists ✓✓**

- Direct impact amount to 3.9% of GDP in 2005 ✓✓
- Indirect impact is about 9.0% in real terms – more than gold mining ✓✓
- Differs from country to country – Mauritius gets about 1/3 of its National Income from this sector ✓✓
- Biggest impact on services industry than on agriculture or manufacturing ✓✓

**2. Employment / Entrepreneurial opportunities and the informal sector ✓✓**

- World Travel and Tourism Council (WTTC) estimates ½ million jobs directly created by tourism in 2002 – 1/3 of economy's workforce ✓✓
- Largest provider of jobs and earner of foreign exchange, ✓✓ due to: tourism is labour intensive ✓✓ employs many skills ✓✓ can provide immediate employment ✓✓ provides entrepreneurial opportunities ✓✓
- Indirectly 6.9% of workforce involved with tourism in SA ✓✓
- Significant part of tourist expenditure goes towards informal sector activities ✓✓
- Tourism contributes equally to GDP and job-creation – indicates how labour intensive the sector is ✓✓
- DEAT shows current focus of government on sector's potential to create entrepreneurial and employment opportunities for historically disadvantaged ✓✓

**3. Poverty relief ✓✓**

- Tourism makes a substantial contribution to economic growth and job creation – not sufficient to eradicate poverty – affect lives of the poor in many ways / fast and effective distribution mechanism in development of rural areas ✓✓
- Sensible policy guidelines can counteract the potentially negative effects of tourism ✓✓
- Prime tourism attractions located in rural areas ✓✓
- Promote balanced and sustainable development ✓✓

- Provides alternative to urbanization, permitting people to continue – enfranchising both women and youth ✓✓
- Offers diversity of income sources to poor people: allowing them a stake, empowering them, creating partnerships ✓✓

#### 4. Externalities ✓✓

- Benefits that arise from economic activities that are not reflected in the actual prices of transactions – referred to as economic side-effects of certain transactions ✓✓
- Tourism strategy will maximize external benefits and minimize external costs of various externalities ✓✓
- Such benefits are normally measured in terms of an impact or cost-benefit analysis ✓✓
- Attracts large amounts of revenue, but cause undue environmental damage ✓✓
- Rapid growth aimed at short-term benefits ✓✓
- Global tourism will grow due to increased population and increased living standards ✓✓
- Potential: attract revenue to country, alleviate poverty, conserve cultural and natural assets – needs conscious planning ✓✓
- Needs to achieve ethical and sustainable tourism must respect tradition and customs of area, plough back earnings into local community – area must be protected as attractive tourist resort ✓✓

#### 5. Environmental effects ✓✓

- People have become more aware of the negative environmental consequences and implications for consumption and waste ✓✓
- Tourism's relationship with environment is complex – involves many activities that have adverse environmental effects ✓✓
- Led to emphasis on ecotourism development - involves guidelines for managing social, economic and environmental impact of tourism ✓✓
- Objective is to achieve an equitable spread of benefits across the entire population ✓✓
- Local communities engaged in tourism to achieve local empowerment ✓✓
- Ecotourism development embraces principles of ecological preservation ✓✓
- Permanent environmental restructuring ✓✓ e.g. highways, airports ✓✓

#### 6. Infrastructure ✓✓

- SA has modern, world-class infrastructure, sophisticated transport system ✓✓ low-cost and widely available energy and advanced telecommunication system ✓✓
- Quality infrastructure will increase volume of tourism – need good travel facilities, well-maintained road network and excellent tourist accommodation, such as hotels and lodges ✓✓
- Most centres have good transport lines, superior road and highway infrastructure ✓✓
- Proper infrastructure planning needed to accommodate growth in tourism ✓✓
- Development of infrastructure is seen as public investment ✓✓

**7. Measuring tourism ✓✓**

- There should be a purpose for the visit and activity ✓✓
- No remuneration should be earned ✓✓
- The minimum length of stay is one night ✓✓
- The maximum length of stay is one year ✓✓
- The travelling distance should be more than 160 km ✓✓

**8. Foreign exchange generator ✓✓**

- Every time money is spent locally, it helps to ensure the balance of payments equilibrium ✓✓  
(Max 30)

**SUGGEST WAYS IN WHICH TAX REVENUE CAN BE USED TO PROMOTE TOURISM:**

- Special and imaginative tax incentives could be offered to accomplish certain socio-economic objectives in the South African tourism industry ✓✓
- Government could target specific objectives for special favourable tax treatment in the form of tax holidays or rebates and tax credit schemes ✓✓
- E.g. by encouraging ecotourism ✓✓ / encouraging tourism to selected regions ✓✓ / SMME involvement with an emphasis on the informal sector ✓✓ Black Empowerment initiatives ✓✓
- Special tax policies could also be applied to education and training programmes designed to overcome the human capacity constraint at various levels of the industry ✓✓
- THETA is responsible for education and training in the tourism industry ✓✓

**(Max 10)****CONCLUSION**

From the above discussion it is clear that tourism plays a very important role in any economy, but that certain effects of tourist activities can be harmful to the community as such and how the government can play a role through taxation that might lead to growth in the tourism industry ✓✓

Any other relevant conclusion.

**(Max 2)**

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 - 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 - 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 - 45)

**(Max 5)**

**TOTAL SECTION C: 100**  
**GRAND TOTAL: 300**

**[50]**

