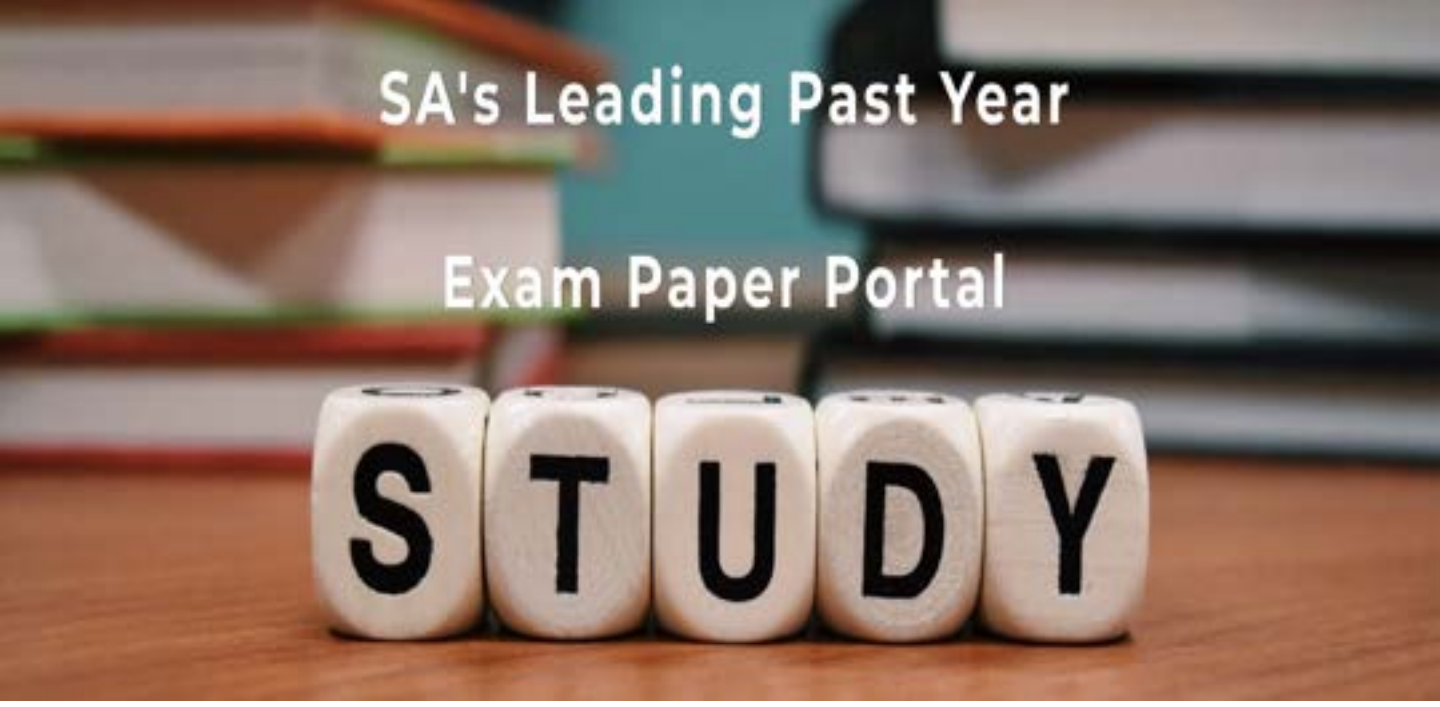

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GRADE 12

ECONOMICS P1

EXEMPLAR 2014

MEMORANDUM

MARKS: 150

This memorandum consists of 13 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 A short ✓✓
1.1.2 C factor cost ✓✓
1.1.3 A unemployment will increase ✓✓
1.1.4 C demand and supply ✓✓
1.1.5 B middle ✓✓
1.1.6 A real GDP✓✓
1.1.7 C terms of trade✓✓
1.1.8 A labour productivity✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 F subaccount in the balance of payment ✓
1.2.2 A the weakening of a currency as result of market forces ✓
1.2.3 H exchange rate system ✓
1.2.4 G a protection measure against unfair international competition ✓
1.2.5 B policies aimed at increasing the economic livelihood of a specific area ✓
1.2.6 C the interest rate which banks charge on loans to preferential clients✓
1.2.7 D world-wide interfacing with trade as the major element ✓
1.2.8 E the removal of unnecessary laws that inhibit the free operation of markets ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

1.3.1 Multiplier effect ✓
1.3.2 Privatisation ✓
1.3.3 Capital goods ✓
1.3.4 Economic development ✓
1.3.5 Economically Active Population ✓
1.3.6 Land restitution ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2

2.1 2.1.1
- Government spending ✓
- Investments ✓
- Exports ✓ Any (2 x 1) (2)

2.1.2 Imports will increase ✓✓ (1 x 2) (2)

2.2 2.2.1 The final value of goods and services produced within the borders of a country in one year. ✓✓ (2)

2.2.2 R87 593 million ✓✓ (2)

2.2.3 RSA citizen working and earning money in the UK. ✓✓ (2)

2.2.4 Current prices – (Nominal) Does not take into account changes in the general price level ✓✓

Constant prices – (Real) Where the change in the general price levels were taken into account ✓✓ (4)

2.3 2.3.1 Households/Consumers ✓
Business sector/Firms/Producers ✓ (2)

2.3.2 It shows all the possible levels of expenditure and output ✓ at which the economy is in equilibrium ✓ (2)

2.3.3 $k = \frac{1}{(1 - 0,8)}$ ✓✓

$= \frac{1}{0,2}$

$= 5$ ✓✓ (4)

2.3.4 The bigger the mpc, the bigger the multiplier (and vice versa) ✓✓ (2)

2.4
- Theories by the Monetarists (Friedman) and Keynesians (Keynes) extreme and only true under specific circumstances ✓✓
- Under real circumstances, government pursues economic growth irrespective of inherently stable or unstable market. ✓✓
- Therefore governments aren't extreme, but transparent and follow pragmatic policies ✓✓
- The root of the new economic paradigm is embedded in the **prevention** of unstable conditions that will lead to contractions ✓✓
- According to the new economic paradigm it is possible for output to rise over extended periods of time without being hampered by supply constraints and inflationary pressures
- Embedded in demand-side and supply-side policies ✓✓ (Any 4 x 2) (8)

2.5

- **Argument in favour of free trade:** ✓✓
  - **The free trade argument is persuasive**. ✓✓If each nation does what it does best, everyone will enjoy lower prices and higher levels of output. ✓✓
  - **Free trade leads to greater world production** ✓✓of traded goods, leading to an increase in economic welfare. ✓✓
  - **Free trade allows countries to specialise** ✓✓in economic activities in which they have a comparative advantage (economies of scale). ✓✓
  - **Free trade leads to mutual gains** ✓✓from international trade to all countries. ✓✓
  - **When there is free trade, more efficient distribution of resources** ✓✓ is possible because each country specialises in its most effective production. ✓✓
  - **Free trade offers consumers greater choice**. ✓✓It allows consumers the choice of what to buy globally and not just from what is available locally. ✓✓

  Any 1 argument (2 x 2) (4)

- **Argument against protectionism:** ✓✓
  - Once the protection measures are introduced it became problematic to remove those measures.
  - The local business never getting strong enough to confront the global arena on their own.

  Any 1 argument (2 x 2) (4)

[40]

QUESTION 3

3.1 3.1.1
- Progressive personal income tax✓
- Wealth taxes✓
- Cash benefits - grants✓
- Benefits in kind – food parcels/user fee charge/school meals/✓
- Land reform programmes – land restitution and land redistribution✓
- Property subsidies✓
- Youth wage subsidies ✓ (Any 2 x 1) (2)

3.1.2
- Increased sales of locally produced clothing ✓✓
- Expansion of local industries ✓✓
- Increased employment ✓✓

(Accept any relevant answer) (Any 1 x 2) (2)

3.2 3.2.1
- IPAP is predicated on the need to bring about significant structural change to the South Africa economy. ✓✓ (2)

3.2.2
- Stronger domestic growth in the manufacturing sector. ✓✓
- High employment levels ✓✓ (4)

3.2.3
- Creation of employment. ✓✓
- NGP envisage the creation of 5 million new jobs by 2020. ✓✓ (4)

3.3 3.3.1 North/South divide or developed/developing countries✓✓ (2)

3.3.2 USA, Canada, UK, France, Germany, Japan, Italy, Russia (2 x 1) (2)

3.3.3 **Developing countries:** mainly export raw to developed countries and import manufactured products from developed countries. ✓✓ **Developed countries:** continue to subsidise production of their agricultural goods, making it difficult for developing countries to compete, ✓✓ while insisting that developing countries eliminate their tariffs on manufactured goods. ✓✓ Most developing countries have very little foreign trade. ✓✓ (6)

3.4
- The main focus was on developing the global competitiveness of the SA manufacturing enterprises (implemented by the DTI) ✓✓
- It is a strategy that applies to all processes that transforms natural products into manufactured products✓✓
- It involve cross cutting issues such as technology, human resource development, access to finance and infrastructure✓✓
- It also concentrate on key input sectors like transport, telecommunications and energy✓✓
- The IMS prioritise certain growth sectors like tourism, agriculture, information technology and cultural industries✓✓ (4 x 2) (8)

3.5
- The SARB is using interest rates to manipulate the market✓✓
- The repo rate is the key interest rate. This is the rate at which the SARB lends money to banks for short periods of time✓✓
- The SARB will lower the interest rate if it wants to stimulate the demand for credit. ✓✓
- Many people will be encouraged to buy more at lower interest rates. ✓✓
- This will lead to a higher demand for goods and services✓✓ (4 x 2) (8)

[40]

QUESTION 4

4.1 4.1.1 Accountability/Efficiency/Assessing needs/Pricing policy/ Parastatals/Privatisation✓✓ (Any 1 x 2) (2)

4.1.2 Low productivity – low production – negative effect on the aggregate supply of goods and services – same/or growing aggregate demand = rapid increase in general price level ✓✓ (demand inflation) (1 x 2) (2)

4.2 4.2.1 Point, e ✓✓ (2)

4.2.2 The value of the rand depreciates ✓✓ As a result of the increase in the demand for dollars, the value of the rand decreases from R10 for one dollar to R12 for one dollar✓✓ (4)

4.2.3 In case of devaluation of the rand, the Central Bank will sell foreign exchange. ✓✓
In case of revaluation of the rand, the Central Bank will buy foreign exchange. ✓✓ (4)

4.3 4.3.1 An IDZ is a purpose-built industrial estate which is closed off and situated in a specific area. ✓ (2)

4.3.2 Upington, in the Northern Cape, is a natural home for solar energy research and development. ✓✓
Saldanha Bay will service the growing oil and gas industry on Africa's west coast, while expanding iron ore exports. ✓✓ (2)

4.3.3 SEZ's currently get a special incentive, which is not applicable to the IDZ. A blanket corporate tax rate of 15%, well below the 28% currently applied. ✓✓

IDZ is located in a smaller area linked directly to a port, whereby an SEZ covers a wider area. The plan is to incorporate the IDZ into an SEZ. ✓✓ (2)

4.3.4 Distorting effects – the current IDZ does not benefit from the special tax incentive scheme. ✓✓
The concern is that companies within the IDZ will close their operations and move over to the SEZ's to enjoy this incentive. ✓✓
This could mean dislocations and movement to other areas. ✓✓
Valuable investments will be lost in the area withdrawn. This will cause distortions in the production and output for that region. ✓✓ (4)

4.4 **Leading:**

- Give consumers, businesses and the state a glimpse of the direction in which the economy might be heading.✓✓
- When these indicators rise, the level of economic activities will also rise a few months later. ✓✓
- Examples of leading indicators are job advertising space; inventory; and sales. ✓✓ (Any 2 x 2) (4)

Lagging:

- Lagging indicators won't change direction until after the business cycle has changed its direction. ✓✓
- Examples of these indicators are hours worked in construction and total of commercial vehicles sold. ✓✓ (Any 2 x 2) (4)

4.5 **Infant mortality rates** ✓✓– the number of children younger than one year old who die in a year per 1 000 births during that year. In 2010 in SA it was 34 per thousand✓✓ (Any 2 x 2) (4)

Under five mortality rates✓✓ – the number of children under five years old who die per 1 000 live births during that year. In SA it was 50 per thousand. ✓✓ (Any 2 x 2) (4)

[40]

TOTAL SECTION B: 80

SECTION C

Answer only ONE of the two questions in this section in the ANSWER BOOK

STRUCTURE OF ESSAY:	MARK ALLOCATION:
Introduction	Max. 2
Body: **Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
Additional part: Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
Conclusion	Max. 2
TOTAL	**40**

QUESTION 5: MACROECONOMICS 40 MARKS – 30MINUTES

International trade is the backbone of our modern commercial world as producers in various nations try to profit from an expanded market, rather than be limited to selling within their own borders.

- Discuss export promotion as part of South Africa's international trade policy. (26 marks)
- In your opinion, how successful is South Africa with the implementing of the above policy? Motivate your answer. (10 marks) **[40]**

Introduction

Incentives or mechanisms to encourage domestic manufacturers to increase the exports of goods and services to foreign countries ✓✓ **(Max. 2)**
(Any other relevant definition of export promotion)

Body

MAIN PART

Reasons for export promotion✓

- The country achieves significant export-led economic growth. ✓✓
- Export promotion enlarges the production capacity of the country. ✓✓
- Export markets are much bigger than local markets. ✓✓
- More workers will be employed. ✓✓
- Prices will be reduced. ✓✓

Methods of export promotion✓

- Incentives: The government supplies information on export markets, research on new markets, concessions on transport charges, export credit, etc. in order to stimulate exports. ✓✓
- Subsidies: These include direct and indirect subsidies: ✓✓
  – Direct subsidies: Cash payments to exporters.✓✓
  – Indirect subsidies: Refunds on import tariffs and general tax rebates.✓✓
- Trade neutrality: Subsidies equal in size to import duties are paid. ✓✓
  Neutrality can be achieved through trade liberalisation. ✓✓

Advantages of export promotion✓

- There are no limitations to size of scale since the market is very large.✓✓
- Production is based on cost and efficiency.✓✓
- There is increased domestic production.✓✓
- Exchange rates would be realistic.✓✓

Disadvantages of export promotion✓

- The real cost of production is reduced by subsidies and incentives.✓✓
- The lack of competition because of incentives and subsidies forces competitors out of the market.✓✓
- Export promotion results in increased tariffs and quotas by powerful overseas competitors.✓✓
- Export promotion results in the protection of labour-intensive industries by developed countries.✓✓ **(Max 26)**

NOTE: A maximum of 8 x 1 marks will be allocated for headings.

ADDITIONAL PART

The candidate can offer a positive or a negative argument.

Positive/Negative ✓✓ **(1 x 2)**
Arguments ✓✓ ✓✓ **(2 x 2)**
Substantial evidence ✓✓ ✓✓ **(2 x 2)**
(Accept any other relevant answer) **(Max. 10)**

Conclusion

.
Any relevant conclusion. **(Max. 2)**

QUESTION 6: ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

Supply-side policies focus on the ability of markets to supply enough goods and services to meet aggregate demand.

- Discuss this statement by focusing on effectiveness and efficiency of markets in the South African context. (26 marks)
- In your opinion, how successful is the South African government in providing in the basic needs of the poor? (10 marks) **[40]**

Introduction

The stimulation of supply means to increase the output, in terms of goods and services. ✓✓
(Any other relevant definition) **(Max. 2)**

Body

MAIN PART:

There are various factors that promote the efficiency and effectiveness of resources:

- **Education and training**✓
  - The Sectorial Education and Training Authorities (SETA's) have been created to promote and facilitate work-related training for the different sectors of the economy. ✓✓
  - The increase in the number of skilled workers will improve the productivity levels of workers. This will lead to an increase in output. ✓✓

- **Fiscal policy**✓
  - High tax rates discourage individuals, leading them to work less and businesses to invest less. ✓✓
  - In South Africa the tax rates for individuals and businesses have been systematically reduced. Tax incentives give industries an area to operate at lower costs. These additional funds can be used to increase production. ✓✓
  - Individuals get tax rebates. ✓✓
  - This will increase the disposable income levels of individuals. This will stimulate the demand for consumer goods and services. ✓✓

- **Competition**✓
  - The promotion of competition services as an incentive for new businesses to enter the market. ✓✓
  - The Competition Act is aimed at limiting the number of monopolies formed and reducing or eliminating the powers of monopolies. ✓✓
  - In addition, the many barriers of international trade have been lifted over the years. ✓✓

- **Deregulations✓**
  - The deregulation of regulated industries provide for greater competition in the market. ✓✓
  - Many unnecessary laws and other barriers to competition in SA have been removed, although there are still some regulations, especially the informal sector that has to be revised. ✓✓

- **Labour legislation✓**
  - In South Africa, the Labour Relations Act, the Employment Equity Act and the Basic Conditions of Employment Act provide a fair and equitable working environment. ✓✓
  - Such a workplace atmosphere will motivate workers to not only improve the quality of their work but also strive towards self-development. ✓✓

- **Small, medium and micro enterprises✓**
  - In South Africa, the government encourages the establishment of SMMEs through various financing and support structures. ✓✓
  - Institutions such as Khula, the National Empowerment Fund, the Industrial Development Corporations and Business Partners are in partnership with national government. ✓✓
  - There are also free advisory centres available to provide information on topics such as managing and running SMMEs✓✓

- **Broad-Based Black Economic Empowerment Act (BBBEE) ✓**
  - BBBEE is the economic empowerment of all black people, especially women, workers, youth, the disabled and people living in rural areas. ✓✓
  - It is aimed at addressing historical imbalances of the past, through increasing the number of black people that can own, control and control the country's economy and decreasing income inequalities. ✓✓

- **Research and Development✓**
  - An R&D strategy has been implemented by the government to improve national competitiveness. ✓✓
  - The R&D Strategy has three pillars: innovation; science, engineering and technology (SET), human resources and transformation; creating an effective government system. ✓✓
  - Examples are the CSIR and Mintek✓✓

- **Privatisation✓**
  - Many publicly owned businesses have been privatised or partly privatised. ✓✓
  - Privatisation is essential in promoting competition in the market place. ✓✓
  - It is also proven that private companies are more effective and efficient than state-owned businesses. ✓✓
  - Examples are Telkom, Iscor, ✓✓

- **Infrastructure ✓**
  - A well-developed infrastructure is the backbone of a growing economy. South Africa has one of the better-developed infrastructure is Southern Africa. ✓✓
  - Transport: The South African transport network consists of highways, railways and ports. ✓✓
  - Energy: Currently Eskom generates 95% of electricity in South Africa. It is one of the world's ten largest electricity suppliers in the world. It also exports to other countries. ✓✓
  - Telecommunications: this is one of the fastest growing sectors in the SA economy. It offers fixed-line, wireless and satellite communication and has the most developed network on the African continent. ✓✓

- **Cost of doing business✓**
  - It refers to cost of doing business, such as transport, communication and energy costs✓✓.
  - Other costs involve water, sanitation, vehicle and registration and labour markets. ✓✓ **(Max 26)**

NOTE: A maximum of 8 x 1 marks will be allocated for headings.

ADDITIONAL PART:

In your opinion, is the South African government successful in meeting the basic needs of the poor? Motivate your response.

Yes/No✓✓

Almost 26% is regarded as absolutely poor in terms of international benchmark poverty line ($1,25 per day)

(1) Social security grants: old age pensions, child support grants, disability grants✓✓
(2) Benefits in kind: free quota water (6 000 litres per household) and electricity (20 kWh) per household, school-feeding schemes✓✓
(3) Housing: RDP houses✓✓
(4) Sanitation: Access to clean water, energy, sewerage system✓✓
(5) Primary healthcare: poor receive free hospitalisation and medicine. From certain income levels fees are staggered. Immunisation for all children is free. ✓✓
(6) Education: no-fee schools✓✓

(Candidates must mention some of these basic needs and how it affects the poor)
(Max.10)

Conclusion

Any relevant conclusion ✓✓ **(Max. 2)**

TOTAL SECTION C: 40
GRAND TOTAL 150

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