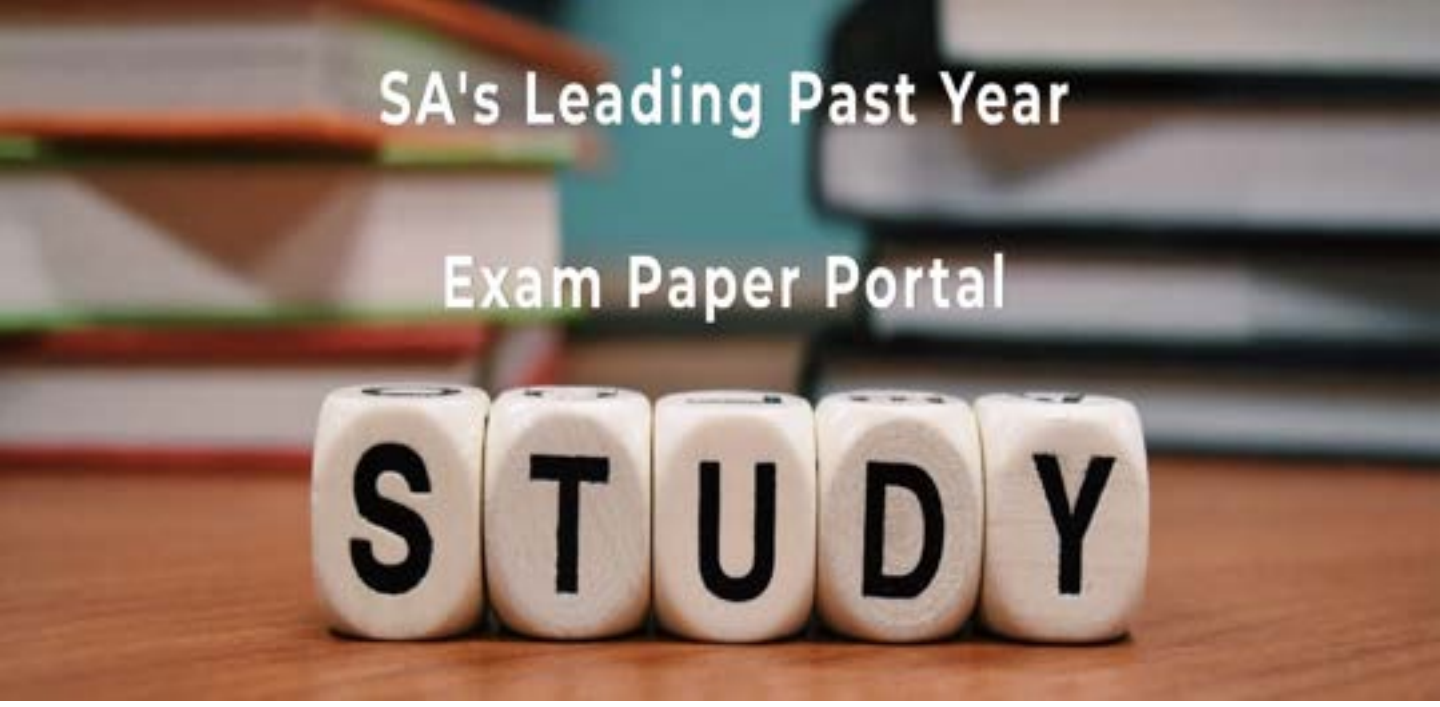

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GRADE 12

ECONOMICS P2

NOVEMBER 2014

MEMORANDUM

MARKS: 150

This memorandum consists of 20 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1	A	only variable ✓✓		
1.1.2	B	homogeneous ✓✓		
1.1.3	C	there are no close substitutes ✓✓		
1.1.4	A	maximum ✓✓		
1.1.5	A	Johannesburg Summit ✓✓		
1.1.6	B	outbound ✓✓		
1.1.7	B	conservation ✓✓		
1.1.8	C	South African Tourism ✓✓	(8 x 2)	(16)

1.2 MATCHING ITEMS

1.2.1	I	actual expenditure of a business, for example wages and interest ✓		
1.2.2	C	where MC = AVC ✓		
1.2.3	D	when a group of producers form a collective monopoly ✓		
1.2.4	F	market price = marginal revenue✓		
1.2.5	A	leads to a growth in tourism		
1.2.6	B	aircraft noise ✓		
1.2.7	G	people travelling within their own countries ✓		
1.2.8	E	controlled by government-appointed authorities ✓	(8 x 1)	(8)

1.3 GIVE ONE WORD

1.3.1	Normal profit ✓		
1.3.2	Marginal cost ✓		
1.3.3	Pareto efficiency / Pareto optimal / Pareto ✓		
1.3.4	Inflation ✓		
1.3.5	Indigenous Knowledge Systems / IKS ✓		
1.3.6	Hyperinflation ✓	(6 x 1)	(6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 **Answer the following questions.**

2.1.1 **State TWO characteristics of monopolistic competition.**

- A large number of producers (sellers) are active in the market ✓
- The nature of the product is differentiated ✓
- Entry and exit into the market is free (relatively easy) ✓
- Businesses have little control over the price of the product ✓
- Information for both buyers and sellers is incomplete ✓
- Non price competition and branding play an important role in monopolistic competition ✓ (2 x 1) (2)

Accept any other correct characteristic.

2.1.2 **What will happen if one firm in the perfect market decides to increase its selling price?**

This firm will not be able to sell any units due to high levels of competition / the market price will remain unchanged / the firm will go out of business ✓✓
Accept any other relevant response. (1 x 2) (2)

2.2 **Data Response**

2.2.1 **Explain the term toll.**

Tolling is an *billing system* used on certain highways / roads or parking bays / fee / tax ✓✓ (2)

2.2.2 **What method can the government use to ensure that the introduction of toll roads is the best decision?**

Cost Benefit Analysis / CBA / market research / survey / SWOT analysis / impact studies / environmental studies / positive and negative aspects / needs broad public participation (public was not consulted)
Accept any other relevant method ✓✓ (2)

2.2.3 **How can toll roads lead to market failure?**

- Companies can pass the additional cost onto consumers / higher production cost ✓✓
- It could lead to a reduction in output / supply ✓✓
- Mass action against e-tolling can disturb the free flow of goods and people - disturbing the economy ✓✓

Accept any other relevant argument (2)

2.2.4 **Argue <u>in favour of</u> the implementation of toll roads.**

- Source of income for the province (government) ✓✓
- Money needed to maintain roads and infrastructure ✓✓
- Job creation ✓✓

Accept any other positive response with regard to the consumer, business, government and foreign investors (2 x 2) (4)

2.3 **Study the graph and answer the questions that follow.**

2.3.1 **Indicate the profit maximisation point of the monopolist.**

MR=MC / c ✓ (1)

2.3.2 **How many units will be produced at the maximisation point?**

100 ✓ (1)

2.3.3 **Determine whether the business is making an economic profit or an economic loss. Show all calculations.**

Total Revenue: 6 x 100 = 600 ✓
Total Cost: 4 x 100 = <u>400</u> ✓

Profit = Total Revenue – Total Cost
= 600 - 400
= <u>200</u> ✓

OR 6 – 4 ✓ = 2 x 100 ✓
= 200 ✓

The business is making **<u>economic profit</u>** ✓
Accept a graphical motivation (max 2). (4)

2.3.4 **What favourable conditions may the monopolist enjoy in comparison to other market structures?**

- The monopoly is the only supplier of that particular product ✓✓
- At liberty to set own prices / charges higher prices ✓✓
- Decide on production levels / restrict its <u>output</u> ✓✓
- <u>Laws</u> protection ✓✓
- Protected by <u>barriers of entry</u> ✓✓
- <u>Favourable geographical area</u> ✓✓
- Does <u>not produce at the lowest possible cost</u> ✓✓
- The monopoly is least efficient at allocating resources and perfect competition is the most efficient at allocating resources ✓✓

Accept any other relevant answer (Any 2 x 2) (4)

2.4 **Explain how the immobility of factors of production can cause market failure.**

- Markets may not be able to respond to consumer demand immediately if factors of production cannot respond and move around easily ✓✓
- Resources tend not to be very mobile and do not adjust easily to consumer demand ✓✓
- Labour may take time to move into new occupations and geographical areas ✓✓ e.g. family ties, friends, convenience, schools ✓✓
- Unskilled labour are not able, willing or do not always have the time or money to gain the skills they need – this causes unemployment or employment at low salaries ✓✓
- Physical capital, cannot easily be moved to places where they are needed ✓✓ e.g. factory buildings and other infrastructure ✓✓
- It takes time for industries to adapt to new technological changes / structural changes ✓✓ e.g. computer-assisted production ✓✓

Accept any relevant examples. (Any 4 x 2) (8)

2.5 **Explain how SASOL can compete in an oligopolistic market with other petrol-selling companies in South Africa.**

They will engage in non-price competition ✓✓ by focusing on some of the following:

- Advertising and marketing ✓ e.g. television and radio ✓
- Additional services ✓ e.g. convenience stores ✓
- Branding ✓ SASOL logo ✓ e.g. fuel for cleaner engine ✓
- Friendly staff ✓ e.g. offer additional services such as tyre pressure check ✓
- Clean sanitary facilities ✓ cleaned regularly / additional services e.g. a baby room ✓
- Competitions ✓ e.g. win a car ✓
- Loyalty rewards for customers ✓ e.g. fill-up to a certain amount, getting a free engine wash ✓
- Collaborate with businesses ✓ e.g. fast-selling food outlets ✓
- Advertise ✓ with and in conjunction with other businesses ✓
- Account holders ✓ certain companies filling, only pay month-end ✓

Accept any other relevant answer. (Any 4 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1.1 **Give TWO examples of World Heritage Sites in South Africa.**

- Mapungubwe ✓
- The Vredefort Dome ✓
- The Sterkfontein Caves / Cradle of Humankind ✓
- Robben Island ✓
- Richtersveld Cultural and Botanical landscapes ✓
- ISimangaliso Wetland Park✓ / Greater St Lucia Wetland Park ✓
- The Cape Fynbos region✓/ Table Mountain ✓/ Agulhas National Park ✓
- Ukhahlamba Drakensberg Park ✓ (Any 2 x 1) (2)

3.1.2 **How can tourism influence the lives of poor people near tourist destinations?**

- Get employed ✓✓
- Sell goods and services to the tourists ✓✓

  Any other positive or negative arguments e.g. drug trafficking and prostitution, increased crime rates, pollution, led to increased prices for locals. (Any 1 x 2) (2)

  Any other relevant answer.

3.2 3.2.1 **What are resources that can be replaced called?**

Renewable resources ✓✓ (2)

3.2.2 **What do you think is the aim of celebrating 'earth hour'?**

To make people aware of the role played by the production of electricity and fuel to environmental damage / saving energy / make people aware of the destruction of oil, coal and gas ✓✓
Accept any other relevant opinion. (2)

3.2.3 **How can people reduce transport fuel consumption in order to sustain the environment?**

- Using means of transport that carry a large number of passengers such as trains and buses ✓✓
- Using lift clubs/ travelling in groups ✓✓
- Walking ✓✓
- Using bicycles ✓✓
- Using energy efficient vehicles e.g. hybrid cars ✓✓

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

3.2.4 **In your opinion, why are non-renewable resources referred to as 'dirty'?**

- When burnt, they produce greenhouse gases ✓✓
- Non-renewable resources cause pollution ✓✓
- This will cause damage to the ozone layer / environment ✓✓
- Which will lead to global warming ✓✓
- Which will cause climate change ✓✓ (Any 2 x 2)

Accept any other relevant response (4)

3.3 3.3.1 **What are unadjusted CPI figures called?**

Headline inflation ✓✓ (2)

3.3.2 **Why is the weighting of items in the basket of goods important?**

To indicate the relative share / importance of the total consumer spending on the various items / it is clear that food and beverages, housing and utilities and transport's relative importance in total spending exceed that of the other ✓✓ (2)

3.3.3 **Why would you exclude food from the CPI basket when calculating core inflation?**

Core inflation excludes items that have prices that are highly volatile (substantive increase and decrease in prices) / affected by government intervention✓✓ (2)

3.3.4 **Comment on the impact that the overall CPI index has on the consumer.**

- Generally CPI increased / Overall CPI index increased from 5.5 in June to 6.3 in July ✓✓
- Consumers paid more in July than they did in June for the same items/the cost of living increased / June's figure is within the inflation target range, but July lies outside the target range affecting the cost of living in a negative way ✓✓
- Measures inflation and economic growth ✓✓

Accept any other relevant impact. (4)

3.4 **Discuss the economic benefits of tourism for the government and infrastructure development.**

Government

- To raise revenue: Tourism makes a direct and indirect contribution to the government revenue through taxes ✓✓ e.g. airport departure taxes, air tickets, VAT, excise duty ✓✓
- Advertise the economy: delivers excellent service to tourists and create a good image of the country ✓✓
- Create jobs and relieve poverty: especially in the informal sector ✓✓ e.g. musicians ✓✓
- It earns foreign exchange for the country thereby increasing its foreign reserves ✓✓ e.g. casino's, accommodation and transport form a very profitable source of foreign reserves ✓✓
- To recover external cost: It helps the government to recover from tourists a portion that serves as a compensation for providing the infrastructure ✓✓
- With excellent service, tourism can create a good image for the country ✓✓ e.g. public amenities such as showers and toilets on beaches ✓✓
- Achieve socio-economic objectives: e.g. black economic empowerment and SMME development ✓✓ (Max 4)

Infrastructure development

- All infrastructure built to support tourism become assets to the country✓✓ e.g. information services ✓✓
- Residents and tourists enjoy adequate and well maintained physical and basic infrastructure / social infrastructure ✓✓ such as ambulances, medical clinics, information ✓✓
- Security services and police services that are provided for use by tourists are important for use by residents ✓✓
- Economic infrastructure is prioritised by government to support tourism growth ✓✓ e.g. ports, beaches, rivers and lakes ✓✓
- Most economic corridors have tourism as an important focus ✓✓
- PPP's are sometimes used for the development of infrastructure ✓✓

Accept any other relevant answers (Max 4) (8)

3.5 **Why are industries often accused of contributing to land and water pollution?**

- Production process often causes pollution when people introduce foreign matter into the environment. ✓✓
- Firms often release chemical and physical materials on land and in water.✓✓
- Water pollution kills the organisms that live in water.✓✓
- Land pollution reduces the fertility of soil. ✓✓
- Extraction of natural resources through mining often results in the damage to land. ✓✓
- Deforestation often takes place when firms cut trees in preparation for construction of industrial sites.✓✓

Accept any other relevant answers. (4 x 2) (8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMORARY ECONOMIC ISSUES

4.1 4.1.1 **Give TWO examples of the preservation of the environment.**

- Ecological system ✓
- Heritage site ✓
- Indigenous forest ✓
- Wetland ✓
- River mouth system ✓
- Taxation / subsidies / private ownership / reserves / land expropriation / e.g. West Coast nature reserve
  Any other relevant fact. (Any 2 x 1) (2)

4.1.2 **How can the consumer benefit from competition?**

- Will pay lower prices ✓✓
- Equal opportunities ✓✓
- Better quality services ✓✓
- Higher standard of living ✓✓
  Any other relevant fact. (Any 1 x 2) (2)

4.2 4.2.1 **Identify the type of tourism illustrated in the photograph above**

Cultural tourism ✓ (1)

4.2.2 **What is meant when South Africans are encouraged to *explore their own country*?**

South Africans are encouraged to travel/be tourist in their own country ✓ e.g. Sho't-left campaign ✓ (1)

4.2.3 **How would you ensure that SA becomes a world Top 20 travel destination by 2020?**

- International tourism should increase even more than the 10,2% in 2012 ✓✓
- Tourism as an industry should contribute more to the GDP ✓✓
- Focusing even more on domestic tourism ✓✓
- Encouraging South Africans to explore their own country ✓✓
- Reduce crime / marketing / natural exhibitions / infrastructure / build on a tourist and friendly environment / upmarket technology
  Any other relevant fact. (Any 2 x 2) (4)

4.2.4 **Why is tourism viewed as a major job creator? Give examples from your own community to support your answer.**

- Tourism is labour intensive ✓✓ implying that a large number of jobs are created with every unit of capital invested e.g. local population using beads and wood to create jewellery ✓✓
- Tourism employs many skills ✓✓ from hairdressers next to the road ✓✓ / tour guides offering various tours to tourists ✓✓
- Provide immediate employment to local people ✓✓ e.g. live entertainment at Gold Reef City or Table Mountain ✓✓
- Provide entrepreneurial opportunities to many individuals with a small capital outlay ✓✓

Any other relevant fact. (Any 2 x 2) (4)

4.3 4.3.1 **Which imperfect market structure is illustrated above?**

Oligopoly ✓ (1)

4.3.2 **Name the above downward sloping demand curve above.**

Kinked demand curve ✓ (1)

4.3.3 **Explain how price leadership works in this type of market.**

- The dominant firm will initiate a change in price, e.g. increase. They will realise economic profits (abnormal profits) ✓✓
- Other competitors will also increase their prices ✓✓

OR

- Dominant firm will decrease prices, luring customers away from other firms in the market ✓✓
- Other competitors will decrease price not to lose their market share ✓✓ (Any 2 x 2) (4)

4.3.4 **Assume that the current selling price is R90. Explain why this business will not lower prices to improve its sales.**

- Below price of R90, the firm sees the demand curve as being relative price inelastic, the firm thinks that if it reduces the price of its product, other firms will follow its lead. ✓✓
- As a result all the other firms will sell a bit more output, but the firms will no longer be producing their profit maximisation output. ✓✓
- If the firm lowers its prices to R50 the total income will be R9 500 (50 X 190) compared to the original income of R13 500 (90 x 150) ✓✓ The firm suffers a loss of R4 000 ✓✓ (2 x 2) (4)

4.4 **Explain *environmental taxes* and marketable *permits* as intervention strategies to achieve environmental sustainability.**

Levying environmental taxes

- Environmental taxes are taxes that <u>are imposed on output</u> of goods that generates external environmental costs (pollution) ✓✓
- These taxes are called <u>green taxes / eco taxes</u> ✓✓
- <u>Carbon dioxide</u> from wineries and vehicle <u>tyres</u> are taxed. ✓✓
- The tax rate is <u>equal to the external marginal costs</u>. ✓✓ (2 x 2) (4)

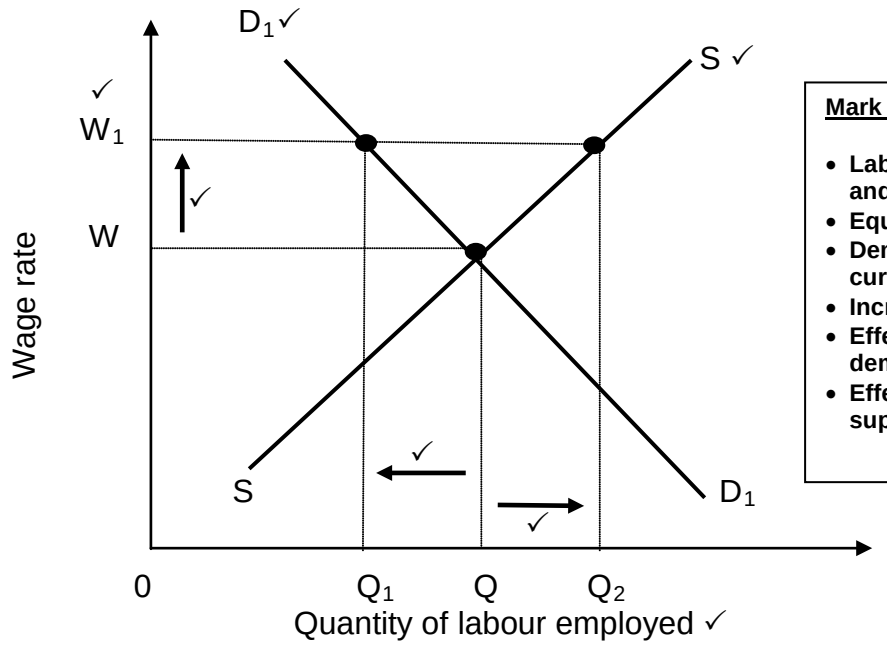
Marketable permits

- Government gives each business a <u>licence to pollute</u> to a certain extent. ✓✓
- Businesses can <u>sell their licences</u> to other businesses that has a larger or increased pollution level. ✓✓
- In South Africa marketable permits are <u>granted by the Department of Minerals and Energy</u>. ✓✓ (2 x 2) (4) (8)

4.5 **What are the effects of the implementation of minimum wages in South Africa?**

- The market fails to pay fair increases in salaries of people who are not in a strong enough bargaining position with their employers ✓✓
- As a result, they are unable to secure real wage increases and their wages remain low and therefore unfair income takes place ✓✓
- A minimum wage will increase the wage rate, however less workers will be demanded (over supply) in the labour market ✓✓
- This will lead to an increase in unemployment ✓✓
- Examples of workers that minimum wages are applied: farm workers, domestic workers ✓✓ (Any 4 x 2)

GRAPH:



Mark allocation for graph:

- **Labelling of wage rate and labour employed ✓**
- **Equilibrium wage ✓**
- **Demand and supply curves ✓ each**
- **Increase in wage rate ✓**
- **Effect on the quantity demanded ✓**
- **Effect on the quantity supplied ✓**

(Max. 4)

DISCUSSION:

- Minimum wages improve the distribution of income from W to W1 ✓✓
- However quantity of labour demanded will decrease from Q to Q1 ✓✓
- The quantity supply of labour will increase from Q to Q2 ✓✓
- Therefore, an oversupply of labour (increase in unemployment) will occur with the new minimum wage at W1✓✓
  Accept any other relevant argument. (Max. 8) (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF THE 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: MICROECONOMICS 40 MARKS – 35 MINUTES

Under perfect market conditions the market price of products is determined through the interaction of supply and demand.

- **Discuss perfect competition under the following headings:**
  - → **A comparison of the demand curve of the individual producer and industry**
  - → **Profit maximisation**

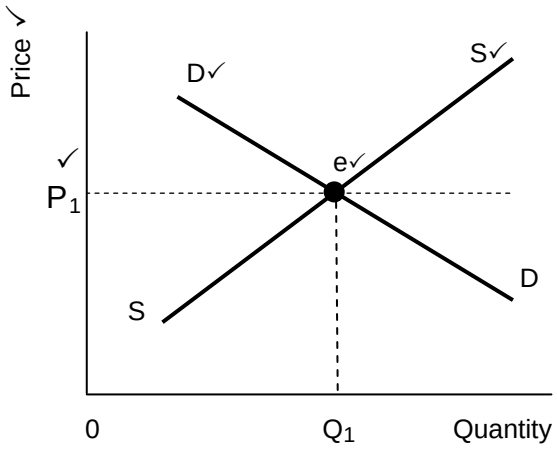
  Make use of graphs to support your discussion. (26)
- **In your opinion, does the Competition Act of South Africa promote fair competition? (10)** **[40]**

INTRODUCTION

An industry consists of all the firms that produce the same product where the output of an industry is the sum of the output of its individual firms. ✓✓
Accept any other relevant answer **(Max. 2)**

BODY: MAIN PART

Demand curve for the market ✓

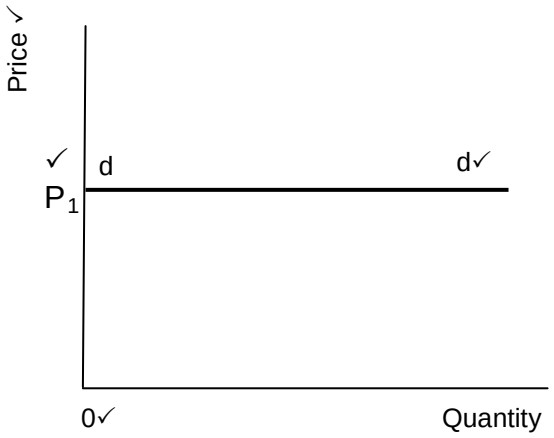


Mark allocation

• Labelling of axes	1 mark
• Labelling on axes	1 mark
• Draw and labelling of demand curve	1 mark
• Draw and labelling of supply curve	1 mark
• Indication of equilibrium	1 mark
• Heading	1 mark

Max: 4 marks

Demand curve of a perfect Competitor ✓



Mark allocation

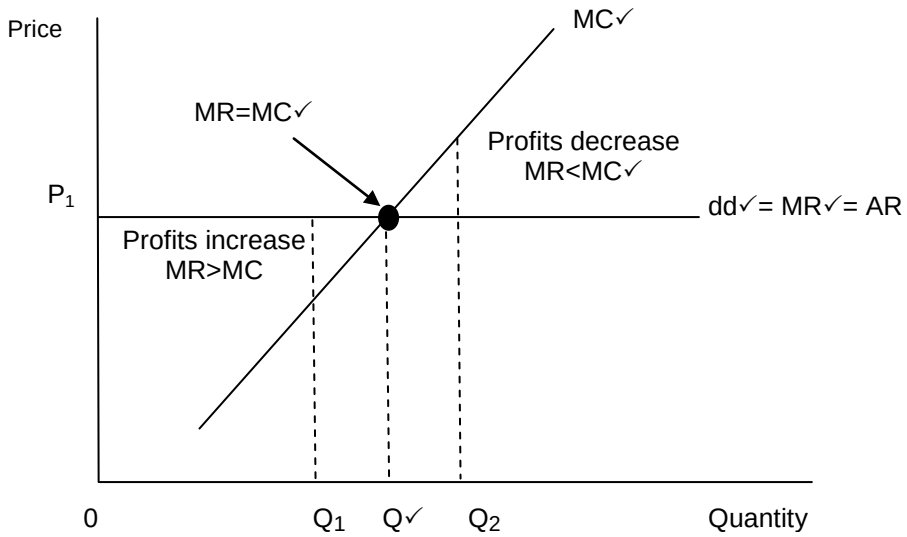
• Labelling of axes	1 mark
• Labelling on axes	1 mark
• Indication of origin	1 mark
• Draw and labelling of demand curve	1 mark
• Heading	1 mark

Max: 4 marks

- In a perfectly competitive market the price of a product is determined by the interaction between market demand and market supply for the product. ✓✓
- The market demand curve is represented by DD which is downward sloping and the supply curve (SS) is upward sloping. ✓✓
- As a result of the interaction between market demand and market supply, the equilibrium is established at P1. ✓✓
- Extending this price the graph of the individual produce. The demand curve for the firm is horizontal that indicates that the individual producer is a price taker. ✓✓

2. Profit maximisation

Marginal cost/marginal revenue approach



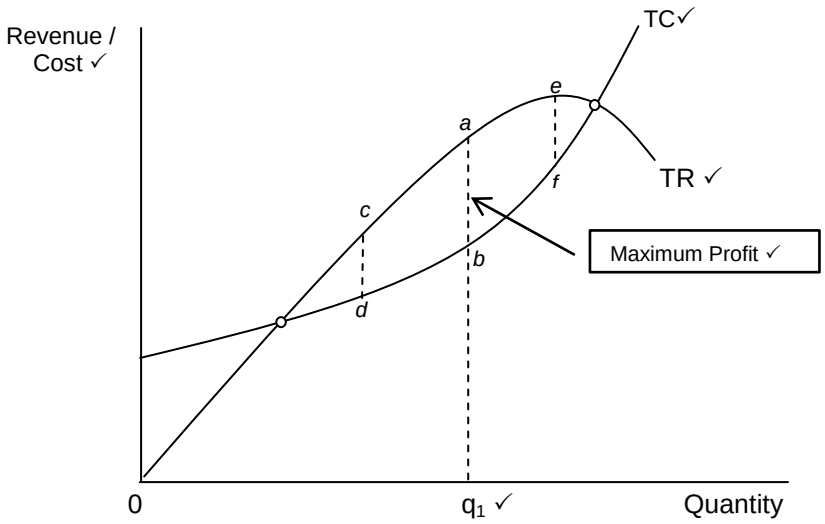
Mark allocation

• Correct heading	1 mark
• Labelling on axes	1 mark
• Drawing and labelling of curves	1 mark each
• Indication of equilibrium (MR=MC)	1 mark
• Indicating area where MR>MC	1 mark
• Indicating area where MR<MC	1 mark
	Max 4 marks

- The firm produces maximum profits if it produces the quantity where the marginal revenue is equal to marginal cost (MR=MC) ✓✓
- As long as marginal revenue is greater than marginal cost, the marginal revenue contributes towards total profits ✓✓
- By producing an additional unit, the producer gains the additional unit and his profit increases more than it cost to produce. MR>MC: profits increase ✓✓
- When the marginal revenue is less than marginal cost, total profits will decline / MR<MC: profits decline ✓✓
- It cost the firm more to produce an additional unit than it gets from selling the additional unit it is therefore not in the interest of the firm to produce the extra unit ✓✓
- If the marginal cost of producing an extra unit is higher than the marginal revenue received, the firm will make a loss ✓✓
- For the producer to maximise profits, it should expand production to the point where marginal revenue is equal to marginal cost ✓✓

OR

Total cost/Total revenue approach



Mark allocation

• Labelling of axis	1 mark
• Labelling on axis	1 mark
• Positioning and labelling of total cost	1 mark
• Positioning and labelling of total revenue	1 mark
• Correct indication of maximum revenue	1 mark

Maximum 4 marks

- The firm will realise maximum profit where total revenue and total cost is at its greatest - (a-b) on the graph ✓✓
- The firm starts to realise profits if it produce or increase output to the right of break-even point A ✓✓
- Any output beyond (right of break-even point B will realise in a loss; total cost is higher than total revenue ✓✓
- If the firm produce up to point e, peak of total revenue, it will still realise profits, however it will not realise maximum profits ✓✓
- The firm therefore maximises sales ✓✓
- If the firm want to realise maximum output it should produce to point a ✓✓
- The firm therefore maximises profit.
  Candidates should also be credited if tables are used in their discussions.

Discussion max 14 marks
Max. 26 marks

ADDITIONAL PART

Yes✓
Arguments in favour:

- The aim of the Competition Act is to <u>increase efficiencies</u> in the market ✓✓
- <u>Improve equity</u> in markets by ensuring access to people who were previously disadvantaged to participate in the economy ✓✓
- Contribute to <u>developmental objectives</u> ✓✓
- Provide consumers with <u>competitive prices and product choices</u> ✓✓
- Ensure that <u>small and medium sized enterprises</u> have an equitable opportunity to participate in the economy ✓✓
- Promotes the spread of ownership ✓✓

- **Three institutions were created to achieve these objectives:**

  - Competition Commission: ✓ to investigate, control and evaluate restrictive business practices, ✓✓ abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. ✓✓
  - Competition Tribunal: ✓ grant exemptions, authorise or prohibit large mergers, adjudicate, grant an order for costs on matters refers by the Commission✓✓
  - Competition Appeal Court: ✓ consider any appeal from or review a decision of the Competition Commission; ✓✓ confirm, amend or set aside a decision by the Competition Tribunal ✓✓ confirm an order for the disinvestment of assets of parties that merged without following the Act. ✓✓

- **Examples of cases investigated by the Competition Commission and/or Competition Tribune or Appeal Court:**

  - BMW ✓ over-pricing cars ✓✓ (outcome fined) ✓✓
  - Tyre industry ✓ collusion amongst tyre manufacturers ✓✓ (outcome fined) ✓✓
  - Construction industry ✓ collusion of bidding prices for building stadiums in 2010✓✓ (outcome fined) ✓✓
  - Bread (Tiger Brands) ✓ collusion of bread companies to fixing prices✓✓ (outcome fined) ✓✓
  - Cell phone companies ✓ (rates) as well as interconnection rates✓✓ (outcome reducing interconnection fees over a few years ✓✓
  - Telkom ✓ monopolising communication towers ✓✓ (outcome fined) ✓✓

- **Effects of these investigations:**

  - Install good business practices, deterred for other companies that wanted to apply inappropriate business practices ✓✓
    (accept any other relevant example)
    Any cases investigated by the Competition Commission. The candidate has to mention the parties involved and the outcome of such investigation.

If only cases were mentioned without any deliberation (Max. 5)

(Max. 10)

CONCLUSION

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body /
- An opinion or valued judgement on the facts discussed /
- Additional support information to strengthen the discussion /
- A contradictory viewpoint with motivation /
- Recommendations.

E.g. It is critically important to protect the market mechanism of supply and demand by enhancing fair and vibrant competition in the economy; therefore the role of the Competition Act cannot be underestimated. ✓✓ **(Max. 2)**

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 35 MINUTES

Inflation is a phenomenon that many countries in the world have to deal with.

- **Examine in detail the causes of cost-push inflation. (26)**
- **Has South Africa's inflation-targeting policy been beneficial to the economy? Motivate your response. (10) [40]**

INTRODUCTION

Inflation is a sustained and significant increase in general price level over a period of time and a simultaneous decrease in the purchasing power of money**.** ✓✓
Accept any other relevant introduction. **(Max. 2)**

BODY: MAIN PART

Causes of cost-push inflation

- **Increase in <u>Wages</u>:** ✓
  - In South Africa, increase in wages constitute more than 50% of Gross Value Added at basic prices✓✓
  - If the increase in wages is not accompanied by an increase in production, the cost of production will rise ✓✓
  - Producers will increase the prices of their products to offset the high cost of production ✓✓
  - Strikes and stay-aways / labour union activities ✓✓

- **<u>Key inputs</u>/ increase in prices of imported capital goods** ✓
  - When the prices of key inputs that are imported increase, domestic cost of production increases especially in the manufacturing sector ✓✓
  - Supply shocks e.g. sudden increase of oil causes a knock-off effect ✓✓

- **<u>Exchange rate depreciation</u>** ✓
  - A decrease in the value of the rand will result in an increase in prices of imports ✓✓

- **<u>Profit margins</u>** ✓
  - When firms increase profit margins, the prices that consumers pay also increase ✓✓
  - Sometimes firms use their market power to push up prices ✓✓

- **<u>Productivity</u>** ✓
  - Less productive factors of production will lead to increased cost per unit ✓✓
  - Strikes and stay-aways often reduce production output and can result in price increases ✓✓

- **<u>Natural disasters</u>** ✓
  - Natural disasters such as drought, flood and global warming can impact on the cost of production ✓✓
  - This is often the case in relation to food prices ✓✓

- **Interest rates** ✓
  - An increase in interest rates results businesses paying more money for capital loaned ✓✓
  - Firms recover these costs by increasing the prices of their products ✓✓
- **Increase in taxation** ✓
  - Increase in *direct tax* like company income tax may lead to businesses increasing their prices to offset the extra burden ✓✓
  - Increase in *indirect tax* such as custom duty will lead to increase in costs of supplying a particular product, therefore the price will increase ✓✓
- **Administered prices increase** ✓ e.g. fuel prices ✓✓
- Shoplifting and losses ✓caused by employees are added to the prices of products ✓✓

Accept any other relevant fact. Maximum 8 marks for headings. (**Max. 26**)

BODY: ADDITIONAL PART

YES / NO ✓

- Inflation targeting is when a particular percentage is set as an acceptable level for an increase in general price levels ✓✓
- The SARB's inflation target is a range of 3% and 6% ✓✓
- The aim of inflation targeting policy is to achieve and maintain price stability ✓✓
- The implementation of the inflation target is easy to understand – expressed in numbers which makes it very clear and transparent ✓✓
- It reduces uncertainty and promotes sound planning in the public and private sectors ✓✓
- It provides an explicit yardstick that serves to discipline monetary policy and improves the accountability of the central banks ✓✓
- The SARB make use of monetary policy, specifically the repo rate to keep the inflation within the target range ✓✓
- The government make use of fiscal policy regarding public sector revenue and expenditure ✓✓

Positive effects

- Where demand is higher than supply an increase in interest rates help to bring the demand down ✓✓
- The policy can helps businesses to make economic plans without worrying about the effects of high inflation ✓✓
- South Africa's price level has been fairly stable since the introduction of the inflation targeting policy in 2000 ✓✓

Negative effects

- Inflation targeting can cause a reduction in economic growth ✓✓
- This is because the raising of interest rates, result in a decrease in total spending which is needed for production to increase ✓✓
- Decreased economic growth can increase unemployment ✓✓
- South Africa has been experiencing an increase in unemployment since the implementation of the policy in 2000 ✓✓
- Inflation targeting is difficult to implement when the cause of inflation is supply shocks ✓✓ (Max. 10)

CONCLUSION

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body.
- An opinion or valued judgement on the facts discussed.
- Additional support information to strengthen the discussion.
- A contradictory viewpoint with motivation.
- Recommendations.

E.g. Inflation can be a threat to the normal functioning of the economy; therefore measures like monetary and fiscal are vital to keep the phenomenon under control. ✓✓

(Max. 2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

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