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GRADE 12

ECONOMICS P1

PREPARATORY EXAMINATIONS

SEPTEMBER 2022

MARKING GUIDELINE

MARKS : 150

This marking guideline consist of 17 pages.

1.1 MULTIPLE CHOICE

- 1.1.1 B – autonomous ✓✓
- 1.1.2 C – peak ✓✓
- 1.1.3 A – Kitchin ✓✓
- 1.1.4 B – exchange ✓✓
- 1.1.5 D – dumping ✓✓
- 1.1.6 C – trade ✓✓
- 1.1.7 D – urbanization ✓✓
- 1.1.8 A – prime ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G - An incorrect higher total in national accounts caused by adding intermediate products to final products. ✓
- 1.2.2 E - An economic indicator showing the general direction in which the economy is moving. ✓
- 1.2.3 F - The document that details expected revenue and projected expenditure. ✓
- 1.2.4 B - An international reserve asset created by the IMF to supplement the official reserves of its member countries. ✓
- 1.2.5 D - An official state ban on trade or other activities with a particular country. ✓
- 1.2.6 H - Transfer duties based on the market value of assets owned by taxpayers. ✓
- 1.2.7 A - Encompasses industries that produce finished, usable goods or are involved in construction. ✓
- 1.2.8 C - Number of years a new-born is anticipated to live from birth. ✓

(8 x 1) (8)

1.3 CONCEPTS

- 1.3.1 Gross national products ✓
- 1.3.2 Cash reserve requirements ✓
- 1.3.3 Deregulation ✓
- 1.3.4 Comparative advantage ✓
- 1.3.5 Globalisation ✓
- 1.3.6 Demographics ✓

(6 x 1) (6)

TOTAL SECTION A: 30 MARKS

SECTION B

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

QUESTION 2: MACROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name TWO examples of financial markets. (1 x 2) (2)

- Capital market ✓
- Money market ✓
- Foreign exchange market ✓

2.1.2 How does an improvement in technology benefit the economy? (2)

- Improvements in technology come with innovative ways of making production to be cost effective thus making products to be cheaper. ✓✓
- Technological advancement can result to a creation of new products therefore meeting special need of consumers ✓✓
(Accept any other relevant and correct response)

2.2 DATA RESPONSE

2.2.1 Identify the method to calculate the national income that from the above extract. (1)

Expenditure method ✓

2.2.2 What trend is shown by net exports? (1)

Decline✓ / drop✓ / decrease✓ / negative✓ / downward ✓

2.2.3 Briefly describe the term *circular flow*. (2)

Circular flow is a simplified presentation of how spending, production and income flow between different sectors. ✓✓

(Accept any other relevant and correct response)

2.2.4 Why are nominal figures not a true reflection of the country's economic growth? (2)

- Nominal figures are on current values which do not include the rate of inflation.
- Nominal figures do not reflect whether economic performance has increased or not. ✓✓
(Accept any other relevant and correct response)

2.2.5 Why is it important for a country to calculate its national income? (2 x 2) (4)

- The national income figures indicate the performance of economic activities and compare prosperity levels. ✓✓
- They are used to measure the level of economic growth and to gauge the standard of living. ✓✓
- They form the basis for decision making by policy makers as they indicate the economic weather of the time. ✓✓

(Accept any other relevant and correct response)

2.3 DATA – RESPONSE

2.3.1 Identify the trend shown by GDP growth between 2020 and 2021? (1)

Positive✓ / Increasing✓ / Upward ✓

2.3.2 Provide a term that refers to the uses of past data to predict the future. (1)

Extrapolation ✓

2.3.3 Briefly describe the term *moving averages*. (2)

Moving averages is a method of repeatedly calculating a series of different average values along a time series to produce a smooth curve. ✓✓

(Accept any other relevant and correct response)

2.3.4 Explain the effect of COVID-19 restrictions on the economy. (2)

- In the event of restrictions in economic activities, factors of production become immobile thus hampering productivity of the country. ✓✓
- Shut-downs resulted to disinvestment hence escalating unemployment and poverty in the country. ✓✓

(Accept any other relevant and correct response)

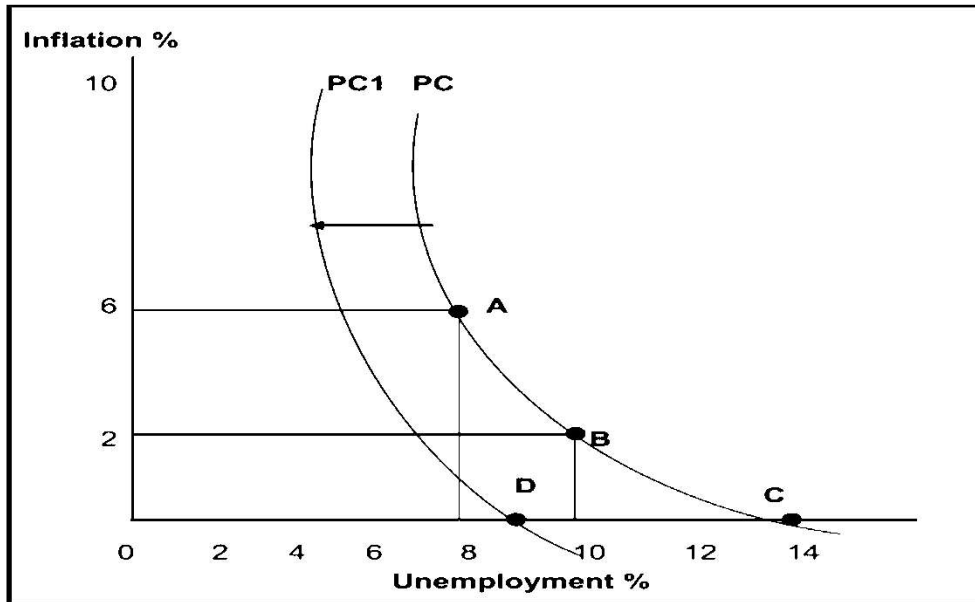
2.3.5 How can monetary policies be used to smooth-out fluctuations on business cycles? (2 x 2) (4)

- The Reserve Bank can continually change the repo rate as a measure of influencing interest rates in the country thereby stimulating or restricting the economy through loans. ✓✓
- The Reserve Bank can influence the supply of money by changing the compulsory percentage of deposits that banks must keep as reserves therefore increasing or limiting the supply of money. ✓✓
- The Reserve Bank can buy or sell state securities in the open market so the supply of money can be increased or decreased. ✓✓
- The Reserve Bank can use a free-floating or managed floating to allow market forces or to intervene in the value of currency. ✓✓

(Accept any other relevant and correct response)

2.4 With the aid of a well- labeled graph, explain the relationship between unemployment and inflation.

(8)



MARK ALLOCATION FOR GRAPH:	
Labeling of axis	= 1 mark
Labeling on axis	= 1 mark
Correct labeling of the curves	= 1 mark
Shift in the PC	= 1 mark
	Max. 4 marks

- Phillip’s curve shows the initial situation, where at point C the PC curve intersects x/axis i.e. natural rate of unemployment is 14%. ✓✓
- If unemployment falls to B i.e. 10% causes inflation to increase to 2%, thus inverse relationship between unemployment and inflation. ✓✓
- Supply-side measures that can relocate Phillips curve to PC1, shift to the left, include improvement in education ✓ effective training ✓ fewer restrictions on immigration of skilled workers ✓ demand can be stimulated to higher levels before increases in employment have effect on inflation rate. ✓✓

(Accept any other relevant correct response)

Diagram=4 marks Explanation=4 Marks (8)

2.5 How can the government reduce a deficit on the balance of payments? 4 X 2 (8)

- In the event of fundamental disequilibrium, the government can use the credit facility of the IMF, World Bank, etc. to borrow funds to reduce the deficit. ✓✓
 - Increasing interest rates will decrease spending on imports therefore solving balance of payment problems. ✓✓
 - The government can use supply-side policies to improve the competitiveness of domestic industry and exports thus achieving a positive trade balance. ✓✓
 - Import policies such as import quotas and tariffs can assist in reducing imports therefore improving the balance of trade. ✓✓
 - The government can pursue policies on privatization and deregulation as they may help to increase the efficiency of the economy. ✓✓
- (Accept any other relevant and correct response)

[40]

QUESTION 3: ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO examples of cash benefits received by households from the government. (2)

- Social relief grant ✓
 - Disability grant ✓
 - Child support grant ✓
 - Old-age pensions ✓
 - Unemployment Insurance Fund ✓
- (Accept any other relevant and correct response)

3.1.2 How can labour-intensive production benefit the South African economy? (2)

- Labour intensive production benefits South African economy through job creation which result in the improvement of the standard of living. ✓✓
 - Labour force will gain more skills and on the job training. ✓✓
- (Accept any other relevant and correct response)

3.2 DATA-RESPONSE

3.2.1 Identify the policy used by the government to discourage expenditure on foreign products. (1)

Import substitution ✓

3.2.2 Name the international organization that promotes free trade. (1)

World trade organization ✓ / WTO ✓

3.2.3 Briefly describe the term *export promotion*. (2)

Export promotion refers to incentives to encourage the production of goods that can be exported. ✓✓

(Accept any other relevant and correct response)

3.2.4 Why is it important for South Africa to trade with other countries? (2)

- Trade ensures that the country is able to achieve export – led economic growth. ✓✓
- It leads to the increase in the competitiveness of the South Africa's manufacturing sector. ✓✓
- It ensures a creation of sustainable job opportunities as the economy becomes more diverse. ✓✓

(Accept any other relevant and correct response)

3.2.5 How does an increase in imports affect the country? (2 x 2)(4)

- The influx of imported goods in the country results to a negative trade balance hence balance of payment problems. ✓✓
- Imported goods have a potential of increasing the prices of locally manufactured goods, therefore causing inequality in the economy. ✓✓
- Too many imports in the economy can hinder the development of local industries thereby causing a high rate of unemployment. ✓✓

(Accept any other relevant and correct response)

3.3 DATA – RESPONSE

3.3.1 Identify the growth and development strategy discussed above. (1)

Joint Initiative on Priority Skills Acquisition ✓ / JIPSA ✓

3.3.2 Name the government department that is responsible for skills development in South Africa. (1)

Department of Higher education and training ✓ / DHET ✓

3.3.3 Briefly describe the term *economic growth*. (2)

Economic growth refers to an increase in the capacity of the economy to produce more goods and services. ✓✓

(Accept any other relevant and correct response)

3.3.4 Explain the negative impact of a shortage of skilled labour force in the country? (2)

- The high rate of unskilled labour force slows down the production process therefore retarding economic growth rate for the country. ✓✓
- Unskilled workers can produce goods of inferior quality therefore hampering the competitiveness of the country in the international market. ✓✓
- Unskilled labour force can be inflexible thus a variety of goods cannot be produced. ✓✓

(Accept any other relevant and correct response)

3.3.5 How does the Black Economic Empowerment Programmes improve the lives of the previously disadvantaged groups? (2 x 2)(4)

- This program creates a platform which allows the previously disadvantaged groups to gain access to industries that were previously dominated by the minority groups. ✓✓
- The Black Economic Empowerment Programmes advance the lives of South Africans by creating equal opportunities for the previously disadvantaged communities thus allowing them to participate in the mainstream economy. ✓✓
- It provides a compelling framework to create employment, skills training and career development of a workforce that will eventually mirror the demographic and gender composition of the country. ✓✓
- The Black Economic Empowerment Act assist previously disadvantaged groups to explore the business world thus raising their standard of living. ✓✓

(Accept any other relevant and correct response)

3.4. Discuss the National Development Plan as the South African approach for growth and development. (4 x 2) (8)

- The NDP is aimed at eliminating poverty and reduce inequality by 2030. ✓✓
- The plan is to draw the energies of all the people to growing an inclusive economy, building capabilities, enhancing capacity of the state and promoting leaderships and partnerships throughout societies. ✓✓
- The long term plans of all government departments are aligned with the NDP and areas are identified where policy change is required to ensure consistency and coherence. ✓✓
- The plan will shape budget allocation over the years until 2030. ✓✓
- The NDP identifies the improvement of public services as critical to achieve transformation. ✓✓

- Provinces will focus on identifying and overcoming the challenges to achieving improved outcomes, including the need to strengthen the ability of local government to fulfill its developmental role. ✓✓
(Accept any other relevant and correct response)

3.5 How can protectionism positively influence the economy? (4 x 2) (8)

- When local producers are protected from the competition by multinational industries, they charge reasonable prices thus making their goods more affordable. ✓✓
- When eliminating imports, economic self-sufficiency can be attained therefore achieving a positive trade balance. ✓✓
- Protection laws shield strategic industries therefore ensuring the sufficient supply of strategic goods in the country. ✓✓
- Prevention of dumping by big international businesses promotes the efficiency of local industries thus accelerating economic growth for the country. ✓✓
- Import tariffs charged become the earnings to the government and can increase the tax base of the country. ✓✓
- Protection laws results to balance of payment corrections and stabilize exchange rates for the country. ✓✓
- Protectionism stabilise exchange rates and balance of payments thus improving the country's competitiveness. ✓✓
(Accept any other relevant and correct response)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name TWO methods of export promotion. (2)

- Incentives ✓
- Subsidies ✓

4.1.2 How does an increase in aggregate demand benefit the economy? (2)

- An increase in aggregate demand is intertwined with an increase in aggregate spending hence an increase in GDP. ✓✓
- This increase implies that the country's economic growth can be accelerated. ✓✓
(Accept any other relevant and correct response)

4.2 DATA-RESPONSE

4.2.1 Identify the original exchange rate on the graph above. (1)

R14.53 ✓

4.2.2 Name the exchange rate system used in South Africa. (1)

Free-floating exchange rates ✓

4.2.3 Briefly describe the term *devaluation*. (2)

Devaluation is a deliberate decrease in the value of the currency by the central bank. ✓✓

(Accept any other relevant and correct response)

4.2.4 Explain any factor that can cause an increase in demand for US dollars in South Africa. (2)

- South Africans may demand US-Dollars when they wish to buy goods and services from the USA. ✓✓
 - People travelling to the US from South Africa may require exchanging South African Rands for US-Dollars. ✓✓
- (Accept any other relevant and correct response)

4.2.5 How can the central bank stabilise the value of currency? (2 x 2) (4)

- The Central bank can buy or sell foreign exchange when the currency is undervalued. ✓✓
 - When the currency is undervalued interest rates can be decreased to cause an outflow of foreign currency and drain excess liquidity from the economy. ✓✓
- (Accept any other relevant and correct response)

4.3 DATA – RESPONSE

4.3.1 Identify a product that is regarded as a commodity from the above extract. (1)

Oil ✓

4.3.2 Name ONE institution that is responsible for publishing economic indicators in South Africa. (1)

Statistics South Africa ✓

4.3.3 Briefly describe the term *economically active population*. (2)

All persons of either sex between the ages of 15 to 65 who supply labour for productive activities. ✓✓

(Accept any other relevant and correct response)

4.3.4 Explain the importance of money supply as an economic indicator? (2)

- An increase in money supply may result to inflation thus indicating a need for government intervention to bring it within the target range. ✓✓
- Money supply is the component of monetary indicator as it is used as an important element in determining economic activity. ✓✓
- Decrease in money supply indicates that the economy is about to enter the period of lower growth or even recession. ✓✓
(Accept any other relevant and correct response)

4.3.5 How does low productivity affect the economy? (2 x 2)(4)

- Low productivity results in exports being more expensive and becomes difficult to find trading partners. ✓✓
- It causes the depreciation in currency thus making it more expensive to buy from other countries. ✓✓
- A country with a low productive capacity tends to rely on imported goods thus causing balance of payments problems. ✓✓
- It causes inflation as wages increase whilst workers do not produce more. ✓✓
(Accept any other relevant and correct response)

4.4 Distinguish between *nominal* and *real* figures when calculating the GDP. (4 x 2) (8)

Nominal figures	Real figures
They are also known as national product at current prices. ✓✓	Real figures are also known as national product at constant prices. ✓✓
Nominal figures are calculated by multiplying all final goods by their prices. ✓✓	Real figures are expressed in prices which applied in a certain base year. ✓✓
Inflation rate has not yet been taken into consideration. ✓✓ (Max.4)	They are expressed by the CPI since inflation rate is taken into account. ✓✓ (max.4)

(Accept any other relevant and correct response)

4.5 How can Small Business Development Programme stimulate the economy? (2 x 2)(8)

- Small Business Development Programme can stimulate the economy by allowing community members to generate profits which enable them to raise the standard of living. ✓✓
- Self- sufficiency can be promoted thus easing the pressure from the government to provide basic needs. ✓✓
- This initiative creates immediate employment and job opportunities in the society thus increasing the per capita income for the country. ✓✓
- A platform is provided where anyone with an initiative/ creative mind can invest therefore increasing economic participation in the country. ✓✓
- SBDP contributes to the country's GDP and fast track economic growth for the country. ✓✓ (Accept any other relevant and correct response)

[40]**TOTAL SECTION B: 80 MARKS**

SECTION C

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

Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

QUESTION 5: MACRO-ECONOMICS**40 MARKS – 40 MINUTES**

Discuss in detail the reasons for public sector failure. (26)

INTRODUCTION

Public sector failure is a result of wrong government intervention in the economy as well as inefficiency in the use of available resources. ✓✓ (2)

(Accept any other suitable introduction)

BODY:**MAIN PART:****1. Poor management/ management failure ✓**

- The public sector organizations may have leaders with poor management skill. ✓✓
- Some of these managers may be lacking proper experience and training while others may be having hidden agendas. ✓✓
- This may affect how they apply various policies or may get the timing of such policies not right. ✓✓

2. Lack of motivation ✓

- Government employees often do not receive incentives for successful service delivery. ✓✓
- There are no systems to evaluate service quality provided by the employees. ✓✓
- Even those who do outstanding work are not recognized therefore they end up being demotivated. ✓✓

3. Apathy ✓

- Some employees are apathetic (uninterested/ indifferent) about their work and they lack accountability about their actions. ✓✓
- This means they often lack responsibility for their decisions. These result in poor service delivery. ✓

4. Bureaucracy ✓

- Refers to excessively complex administrative procedures that are often followed in government sector. ✓✓
- Bureaucrats (government officials) are criticised for being too rigid and inefficient. ✓✓

- A simple request end up entangled in endless processes, paperwork that slows down an otherwise simple task. ✓✓
- Application for a particular project having to go from one administrative level to another, taking very long period before an answer can be given. ✓✓

5. Politicians ✓

- Politicians are often interested in being re-elected to their positions rather than serving the public. ✓✓
- Therefore they often pursue vote-maximising strategies to secure or retain their political offices. ✓✓
- The pressure of looming election often can make many politicians make decisions just to make the voting public happy. ✓✓
- Some projects can be undertaken even if they were not budgeted for or no proper cost benefit analysis was conducted. ✓✓

6. Special interest groups (rent seeking groups) ✓

- Rent seeking refers to when people spend money on lobbying in order to increase their wealth without actually creating any more wealth. ✓✓
- Special interest groups such as farmers or organised labour often attempt to influence government to their own advantage. ✓✓
- They make use of the law, lobbying, bribes and other favours to influence the government officials to act in their interest. ✓✓

7. Structural weakness ✓

- Some government objectives work against each other and it becomes difficult to achieve both. ✓✓
- Government has an objective of full employment while it also has an objective of price stability which works against each other. ✓✓
- The government must accept a certain level of inflation in order to achieve a level of employment. ✓✓

(Accept any other relevant and correct response)

How can the South African government improve the provisioning of public goods?

(10)

- Public sector provisioning can be improved by holding accountability sessions from various government departments so that public servants feel obliged to perform. ✓✓
- The government can conduct need analysis as a form of bottom up approach to development. ✓✓
- The service commitment charter can be adopted to improve the integrity and moral of public servants. ✓✓
- The auditor general's report can be used as a method to control spending by various government departments. ✓✓
- Laws to remove red-tape can be adopted and implemented so that the provisioning of public services can be accelerated. ✓✓
- The government can use the budget to allocate more money on social spending. ✓✓

(Accept any other relevant and correct response)

CONCLUSION

The problems in public sector provision of goods and services result in public sector failure and eventually failure in achieving macroeconomics objectives. ✓✓
(Accept any other suitable conclusion)

[40]**QUESTION 6: ECONOMIC PURSUITS****40 MARKS – 40 MINUTES**

Discuss in details South Africa's initiatives (endeavors) in regional development. (26)

INTRODUCTION

Regional development is aimed at increasing the economic livelihood of specific areas or regions by limiting the negative effects of economic activities in only a few areas. ✓✓

Accept any relevant introduction.

(Max 2)

BODY: MAIN PART**1. SPATIAL DEVELOPMENT INITIATIVES (SDI's) ✓**

- SDI Program attracts infrastructure and business investments to underdeveloped areas to create employment. ✓✓
- Department of Trade and Industry is the driving force behind industrial and spatial development. ✓✓
- DTI plans together with central, provincial and local government, IDC, parastatals and research institutions. ✓✓
- Industrial Development Policy Program (Spatial Development) has 2 focus points:
 - spatial development initiative (SDI) ✓✓ and financial incentives. ✓✓
- SDI refers to government's initiative and economic development potential of certain specific spatial locations in SA. ✓✓

Key objectives

- Stimulate economic activity in selected strategic locations. ✓✓
- Generate economic growth and foster 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 Program 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. ✓

2. **INDUSTRIAL DEVELOPMENT ZONES (IDZs)** ✓

- They are purpose-built industrial estates, physically enclosed and linked to a port or airport. ✓✓
- Industrial Development Zones are built in duty-free import areas. ✓✓
- This strategy was aimed at making exports internationally competitive. ✓✓
- They focus on creating jobs and promoting exports. ✓✓
- Goods produced in these zones should be exported to foreign countries. ✓✓
- As services are provided from outside, the economy in the areas should be stimulated. ✓✓
- An IDZ offers a world-class infrastructure, enjoys a zero rate of VAT on supplies from South African sources and reduced taxation on some products. ✓✓
- IDZs were located to benefit:
 - Investing companies through support. ✓✓
 - Access to transport for exporting purposes. ✓✓
 - products produced for export by waiving import duties. ✓✓
 - skills training for employees by providing subsidies. ✓✓
- Each IDZ is designed to:
 - Provide location for establishment of strategic investments. ✓✓
 - Promote and develop links between domestic and zone-based industries. ✓✓
 - Enable exploitation of resource-intensive industries. ✓✓

3. **SPECIAL ECONOMIC ZONES** ✓

- It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment. ✓✓
- Geographically demarcated area where specific economic activities have been identified to be developed. ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- There are plans to reduce tax to 15% as an incentive to attract new industries. ✓✓
- The aim of creating SEZ is to attract:
 - Only new businesses. ✓✓
 - Businesses which are developing a new product line. ✓✓
 - Business which are expanding their volume. ✓✓
 - The DTI has indicated that the existing IDZs where special tax incentives do not apply would be graduated into SEZs. ✓✓

4. **Corridors** ✓

A corridor is a track of land that forms a passageway allowing access from one area to another and particular advantages to mining, manufacturing and other businesses. ✓✓

Two types:

- Domestic corridor ✓ e.g. Lubombo, West Coast, Fish River ✓
- Corridors beyond the South African borders (SADC) ✓ e.g. Maputo Development corridor ✓, Mozambique. ✓

Reasons in support of South Africa's regional integration in Southern Africa:

- Have political and stable neighbours. ✓✓
- Have important export markets and a future source of water and energy supplies. ✓✓
- Integration may be a precondition for support from foreign investors, donors and multilateral institutions. ✓✓
- A robust regional transport system and a solid infrastructure base hold the key to attracting investment into the SADC region – improving competitiveness and promoting trade. ✓✓

(Max.26)

(Accept any other relevant and correct response)

(A maximum of 8 marks for headings and examples.)

ADDITIONAL PART

Evaluate the appropriateness of South Africa's regional development policies in terms of the international best practice. (10)

- South Africa has effectively managed to implement regional development policies through democratic decision making which is transparent and accounted for, this has led to good governance. ✓✓
- The regional development policies of South Africa have spill-over effects hence development is integrated across all regions of the country. ✓✓
- Public Private Partnerships has been the backbone of the South Africa's regional development policies and has played a central part in terms of promoting the economic potential of underdeveloped areas. ✓✓
- Through incentives like the Critical Infrastructure Programme (CIP), the South African government has provided infrastructure like roads, electricity and water to resource-poor areas. ✓✓
- The South African regional development policies have played a pivotal role in encouraging competitiveness through giving incentives like Custom free incentives which promote export orientated manufacturing. ✓✓
- The implementation of incentives like Skills Support Programme (SSP) has led to South Africa increasing the capacity of the regions thus creating employment opportunities and enhancing sustainable development. ✓✓

(10)

(Accept any other relevant and correct response)
(Also accept the argument for inappropriateness)

CONCLUSION

It is clear that a range of programs gives effect to government's commitment to support regional economic development and integration in the Southern African region and beyond. ✓✓ (2)

(Accept any suitable conclusion)

[40]

TOTAL SECTION C: 40 MARKS

GRAND TOTAL: 150 MARKS