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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P2

2022

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 19 pages.

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

- 1.1.1 D – marginal ✓✓
 1.1.2 A – Commission ✓✓
 1.1.3 B – variable ✓✓
 1.1.4 D – duopoly ✓✓
 1.1.5 C – hyperinflation ✓✓
 1.1.6 A – eco ✓✓
 1.1.7 B – quality standards ✓✓
 1.1.8 C – deforestation ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E - mechanism that brings together buyers and sellers of goods and services ✓
 1.2.2 D - firms that have control over the market price ✓
 1.2.3 I - the lowest amount that the employers are required by the government to pay their workers ✓
 1.2.4 F - these are undersupplied by the market but beneficial to society ✓
 1.2.5 G - excludes items from the CPI basket that show high price volatility ✓
 1.2.6 A - increase in salaries that results in workers paying a higher income tax rate ✓
 1.2.7 C - tradition, rituals or music that are unique to a given culture or society ✓
 1.2.8 B - imposed on the output of goods that generates external environmental cost ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Short run/term ✓
 1.3.2 Black market ✓
 1.3.3 External cost/Negative externality ✓
 1.3.4 Inbound ✓
 1.3.5 Demand-pull ✓
 1.3.6 Environmental sustainability ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

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

2.1 Answer the following questions.

2.1.1 **Name TWO broad types of monopolies.**

- Natural monopoly ✓
- Artificial monopoly ✓ (2 x 1) (2)

2.1.2 **How would an increase in number of firms in a perfect market impact on the prices of goods and services?**

Supply will increase leading to a decrease in prices of goods and services. ✓✓

(Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Which market structure is represented by the above graph?**

Perfect competition ✓ (1)

2.2.2 **Name point A in the graph above.**

Normal profit/break-even/zero- economic profit ✓ (1)

2.2.3 **Briefly describe the term *explicit cost*.**

The actual expenditure of a business on the purchase or hire of the input required for the production process/ Direct payments which a firm makes to others for the purchase of inputs ✓✓

(Accept any other correct relevant response) (2)

2.2.4 **Why would firms incur costs even when the output is zero?**

Firms incur fixed costs (rent and insurance costs) even when there is no production taking place. ✓✓

(Accept any other correct relevant response) (2)

2.2.5 **Use the graph above to explain how profit maximisation is achieved by the firm?**

- At all points where total revenue (TR) is greater than total cost (TC) the firm is making a profit (between A and B). ✓✓
 - Profit is maximised when the vertical gap between total revenue and total cost is the greatest ✓✓
 - This occurs when 35 units of output are produced. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Identify ONE example of an external benefit in the table above.

Opportunities for new businesses /reduced transport costs for individuals ✓ (1)

2.3.2 Name the sector in which a cost benefit analysis is applied.

Public sector ✓ (1)

2.3.3 Briefly describe the term *social costs*.

The total costs incurred by the society as a whole /include private and external costs ✓✓
(Accept any other correct relevant response) (2)

2.3.4 How can a lack of information among entrepreneurs lead to market failure?

Entrepreneurs may lack information about costs, availability and productivity of some factors of production, resulting in irrational decision making and wastage of resources. ✓✓
(Accept any other correct relevant response) (2)

2.3.5 Determine whether the project is viable or not by calculating the cost benefit ratio. Show ALL calculations.

$R280\ 000 / R200\ 000 \checkmark = 1,4 \checkmark$ OR $R280\ 000 / R215\ 000 \checkmark = 1,3 \checkmark$

The project is viable ✓ because the benefits exceed the costs/the CBR is greater than 1. ✓ (2 x 2) (4)

2.4 **Briefly discuss *product differentiation* and *control over prices* in monopolistic competition.**

Product differentiation

- Different products are similar in that they satisfy the same consumer need but are not totally identical ✓✓, e.g. variety of men's clothing ✓
 - The difference may sometimes be completely imaginary as in the case of medicines, which may have different brand names but contain exactly the same basic ingredients ✓✓
 - In some instances, it is merely the service of the seller that differentiates its product from the others. ✓✓
 - The packaging of a product may make it different from other similar products ✓✓, e.g. sugar and salt. ✓
- (Accept any other correct relevant response) (2 x 2)

Control over prices

- Firms have little control over the price of a product due to the competitive nature of the market. ✓✓
 - They are price makers rather than price takers./price makers for their brand of products ✓✓
 - Each seller can sell at its own price since a single price cannot be determined for differentiated products. ✓✓
 - A range of prices can be applied to different products depending on the size of business. ✓✓
 - Bulk purchases by a business can result in lower prices for products. ✓✓
- Allocate a **maximum of 4 marks** for mere listing of facts)
(Accept any other correct relevant response) (2 x 2) (8)

2.5 **How would the implementation of maximum prices impact negatively on the economy?**

- Maximum prices may cause a shortage of goods and services in the economy. ✓✓
 - The shortage in supply will result in the economy declining. ✓✓
 - Black markets often develop where producers may attempt to sell the goods at higher prices. ✓✓
 - Producers of goods and services may leave the market as they are not making sufficient profits. ✓✓
 - Investors may withdraw their investment due to low return on their investment. ✓✓
 - A decline in economic growth and investment withdrawal will result in loss of jobs leading to an increase in the level of unemployment. ✓✓
 - Maximum prices result in a decrease in supply which leads to an increase in prices of goods and services. ✓✓
- (Accept any other correct relevant response)
(Allocate a **maximum of 2 marks** for mere listing of facts) (8) [40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 **Name any TWO World Heritage Sites of historical and cultural importance in South Africa.**

- The Cradle of Humankind/ Sterkfontein/Maropeng ✓
- Robben Island ✓
- The Mapungubwe Cultural Landscape ✓
- Ikhomani cultural landscape ✓
- Ritchterveld cultural and Botanical landscape ✓ (2 x 1) (2)

3.1.2 **How can the granting of property rights help conserve the environment?**

- Granting of property rights ensures that people take care of anything that belongs to them. ✓✓
 - Property rights encourage people to use the environment profitably for as long as possible, even for future generations. ✓✓
- (Accept any other relevant and correct response) (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify the health risk faced by the tourists in the cartoon above.**

Covid-19 /Pollution ✓ (1)

3.2.2 **What type of tourism is associated with 'Happy Holidays'?**

Leisure/recreation tourism ✓
(Accept any other relevant and correct response) (1)

3.2.3 **Briefly describe the term *transit tourist*.**

People who stop over in a country/destination on their way to another country/destination through air, road, rail, and sea transport. ✓✓
(Accept any other relevant and correct response) (2)

3.2.4 **Explain the purpose of levying taxes on tourists**

- To maintain the existing infrastructure and essential tourist facilities ✓✓
 - To cover the costs incurred by local municipalities in the hosting of the tourists. ✓✓
 - Tourism tax revenue is also used to develop tourism infrastructure. ✓✓
- (Accept any other relevant and correct response) (2)

3.2.5 How can infrastructure development promote tourism?

- Improved infrastructure enhances the living conditions of local people as well as tourists. ✓✓
- Upgrading existing accommodation, transport and communication infrastructure contributes positively to tourist arrivals thereby sustaining tourism growth. ✓✓
- Increased number of tourists due to infrastructure will subsequently create job opportunities in the tourism sector. ✓✓
(Accept any other relevant and correct response) (2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Identify the term that refers to the variety of plant and animal life in an ecosystem.

Biodiversity ✓ (1)

3.3.2 Name ONE animal that is threatened by extinction in South Africa.

- Rhino ✓
 - Tiger ✓
 - African wild dog ✓
 - Cheetah ✓
- (Accept any other relevant and correct response) (1)

3.3.3 Briefly describe the term *preservation*.

Keeping resources that are non-renewable intact/keeping resources that are threatened by extinction intact, e.g., ecological systems, heritage sites, indigenous forests. ✓✓
(Accept any other relevant and correct response) (2)

3.3.4 Explain the importance of education campaigns in preventing environmental degradation.

- Education changes people's attitudes towards the environment positively. ✓✓
- Various innovative approaches have been tried such as setting up community wildlife reserves. ✓✓
- People with more education take action to promote and support political decisions that protect the environment. ✓✓
(Accept any other relevant and correct response) (2)

3.3.5 How is the loss of biodiversity being addressed internationally?

- The Convention on International Trade on Endangered species (CITES) has been established which bans international trade in an agreed list of endangered species. ✓✓
- CITES makes use of permits and quotas to regulate and monitor the trade of species that may become endangered. ✓✓
Modern technology makes it possible to transplant desirable genes from one species to another and create new species which are more resistant to diseases. ✓✓

- Convention of Biological Diversity (CBD) is an international legal instrument for conservation of biological diversity and its components. ✓✓
(Accept any other relevant and correct response) (2 x 2)

(4)

3.4 Briefly discuss the effects of tourism on *externalities* and *poverty*.

Externalities

- Tourism can attract a large amount of revenue, however can also cause undue environmental damages. ✓✓
- Rapid growth of tourism may lead to degradation of traditions and cultural values/ environmental damages to sites and natural settings due to pollution and waste. ✓✓
- Global tourism will grow due to increased population, improved living standards, increased free time and expansion of transportation systems ✓✓.
- Tourism activities increase pressure on tourist sites ✓✓
- Tourism attracts revenue to the country, alleviates poverty, conserves cultural and natural assets but needs to be carefully planned. ✓✓
- Tourism can stimulate employment indirectly in tourism related Industries. ✓✓
(Accept any other relevant and correct response) (2 x 2)

Poverty

- Tourism is widely recognised as a more effective mechanism to address poverty especially in rural areas. ✓✓
- Most prime tourism attractions are located in rural areas which allow rural people to share in the benefits of tourism. ✓✓
- Tourism provides alternative to urbanization, permitting people to continue to enjoy rural life whilst earning a living. ✓✓
- Poor people are offered opportunities to link up with the mainstream tourism businesses supplying of goods and services. ✓✓
(Accept any other relevant and correct response)

Allocate a **maximum of 4 marks** for mere listing of facts)

(2 x 2)

(8)

3.5 How can the government promote a green economy in South Africa?

- The government should make use of the constitution as it allows it to create laws and methods to achieve green economy. ✓✓
- The government should enforce the national environment management (NEM) act and other acts that are meant to deal with biodiversity, air quality and waste management to achieve green economy. ✓✓
- Taxes should be used to solve environmental challenges as they tend be quite easy to implement and control. ✓✓
- Revenue collected from taxes may be further used on measures such as environmental awareness to achieve green economy. ✓✓
- The implementation of industrial policy action plan should be focused on achieving green economy by using more advanced manufacturing techniques that are low in energy consumption and create green jobs. ✓✓

- Clean energy and energy efficiency – expanding off-grid options in rural and urban areas, up-scaling solar water heater rollout. ✓✓
 - The government should promote the use of eco-friendly methods of energy production such as wind, water and nuclear. ✓✓
 - Eco-friendly methods of energy production can be fast-tracked by allowing more independent power producers into the market to counter the pollution that is generated by Eskom. ✓✓
 - Incentives such as tax rebates can be provided to companies that produce environmentally friendly products. ✓✓
(Accept any other relevant and correct response)
- (Allocate a maximum of 2 marks for mere listing of facts)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 **Give any TWO examples of monopolistic competitive markets.**

- Supermarkets ✓
- Fast-food restaurants ✓
- Clothing shops ✓
- Furniture shops ✓
- Medical doctors ✓
- Hair dressers ✓
- Car dealers ✓

(Accept any other correct relevant response) (2 x 1) (2)

4.1.2 **How can a decrease in interest rates cause inflation?**

- Cost of borrowing will decrease, increasing consumer spending which will result in excess demand ✓✓
- Investment spending by business will increase demand for capital goods. ✓✓

(Accept any other correct relevant response) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify the curve that relates to allocative efficiency.**

IC/Indifference Curve ✓ (1)

4.2.2 **What quantity of rice will be supplied if 800 units of maize are produced?**

0 ✓ (1)

4.2.3 **Briefly describe the term *market failure*.**

Occurs when the market forces (supply and demand) fail to allocate resources efficiently/optimum output has not been achieved. ✓✓ (2)

(Accept any other correct relevant response)

4.2.4 **How can the government discourage the consumption of demerit goods?**

- The government increases the excise duties levied on demerit goods such as alcohol. ✓✓
- Provides information (education) to the public about the harmful effects of these products. ✓✓
- Banning and regulating the consumption of demerit goods e.g., bottle stores are not allowed to sell alcohol on Sundays. ✓✓

(Accept any other correct relevant response) (2)

4.2.5 **Why will production at point E be regarded as inefficient?**

- Few goods and services will be produced due to inefficient use of resources.
- Due to inefficient use of resources, cost of production will increase. ✓✓
- Goods and services are not produced an optimum level. ✓✓
- The consumers will be deprived of certain goods/The type or quantity of goods produced will not be what is best for the consumers. ✓✓
- Few job opportunities will be created resulting in lower standard of living. ✓✓
- The production of one product (i.e., rice) may be increased without decreasing the production of the other product (i.e., maize) ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the international agreement in the cartoon above that limits the production of greenhouse gases.**

Kyoto Protocol ✓

(1)

4.3.2 **Give ONE example of a fossil fuel.**

- Oil ✓
- Natural Gas ✓
- Coal ✓

(Accept any other correct relevant response)

(1)

4.3.3 **Briefly describe the term *global warming*.**

Refers to the gradual overall increase in the temperature of the earth's atmosphere due to the increase of pollution into the atmosphere. ✓✓

(Accept any other correct relevant response)

(2)

4.3.4 **Explain the Basel Convention agreement to reduce environmental damage.**

- Parties are obliged to prevent the import or export of hazardous wastes if they have reasons to believe that the wastes will damage the environment. ✓✓
- It manages nuclear waste by allowing parties to only export a hazardous waste to another party that has not banned its import ✓✓

(Accept any other relevant and correct response)

(2)

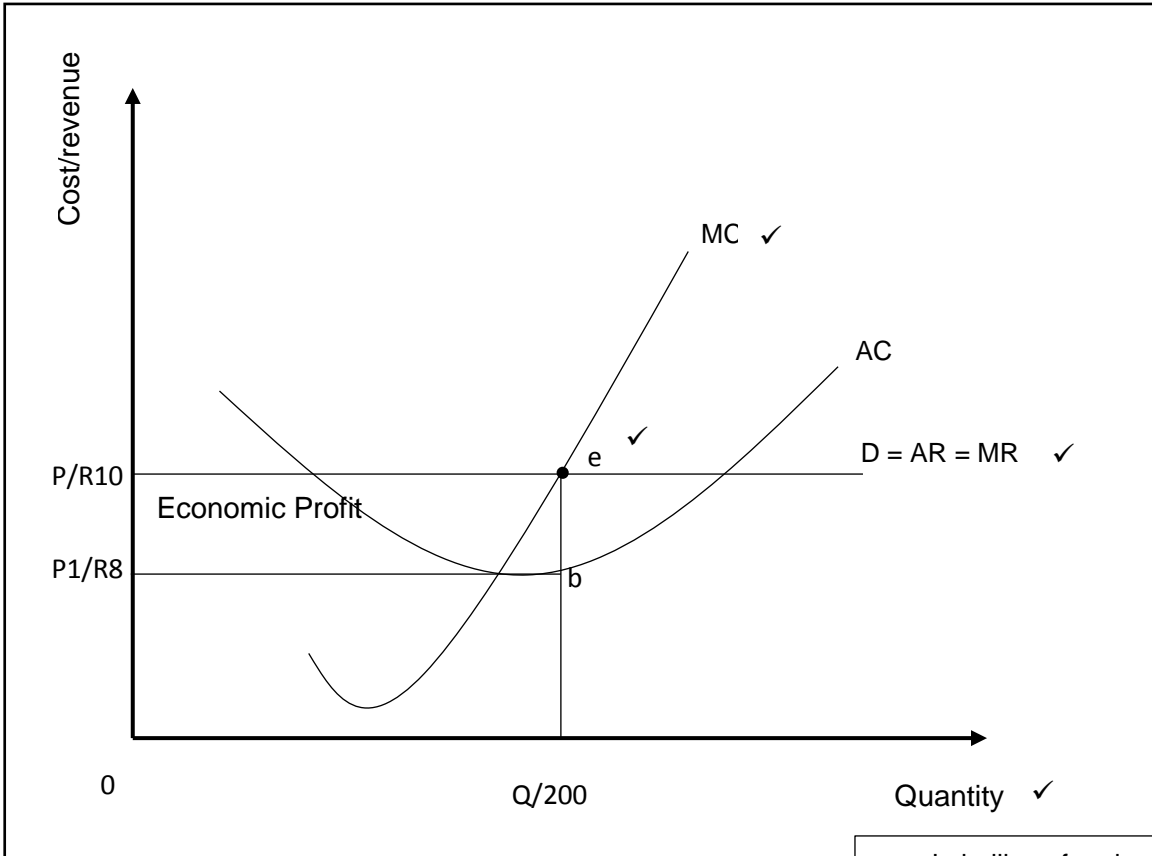
4.3.5 **How can producers contribute to environmental sustainability?**

The producers can contribute to environmental sustainability by:

- Developing new technology and equipment that are using environmentally friendly energy ✓✓

- Producing environmentally friendly substitutes such as unleaded petrol ✓✓
- Recycling waste, such as bottles, cans, and cardboards ✓✓
- Properly disposing hazardous waste will reduce pollution ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

4.4 With the aid of a correctly labelled graph, explain economic profit in a perfect market.



- Labelling of and on axes = 1 mark
 - Indication of profit maximisation point (e)=1 mark
 - Correct drawing and labelling of revenue curves = 1 mark
 - Correct drawing and labelling of cost curves = 1 mark
- 4 marks**

- The perfect competitive firm maximise profit where the marginal revenue (MR) and marginal costs (MC) are equal (point e) ✓✓
 - At point e, the firm will supply 200 units at market price of R10 ✓✓
 - The average revenue is R10 and the average cost per unit is R8. ✓✓
 - Total economic profit will be R400 (2 x 200) ✓✓
 - Total revenue is R2 000 (R10 x 200) – Total cost R1 600 (R8 x 200) ✓✓
 - The firm makes economic profit of R400 ✓✓
 - Economic profit occurs in the short run. ✓✓
- (Accept any other correct relevant response) (max. 4)

(A maximum of 2 marks if the determination economic profit is not explained.) (8)

4.5 Analyse the challenges faced by the tourism industry in South Africa.

- Tourism activities are concentrated mainly in the coastal cities and big cities whilst most inland areas are neglected. ✓✓
 - There is lack of infrastructure like roads to access and grow community tourism. ✓✓
 - A large section of the population in SA is not aware of the concept of tourism. ✓✓
 - Poverty also limits some people to the extent that they cannot take part in tourism activities. ✓✓
 - Tourism is not marketed enough in rural communities for people to be aware of places to visit. ✓✓
 - Cost of travelling is still high in South Africa since there are very few low-cost airlines offering affordable service. ✓✓
 - High level of crime and social unrests may discourage foreign tourists to visit the country. ✓✓
 - Outbreak of pandemic diseases such as Covid 19, natural disasters, economics shocks may restrict movement of people. ✓✓
- (Accept any other relevant and correct response)

(Allocate a maximum of 2 marks for mere listing of facts)

TOTAL SECTION B:

(8)
[40]
80

SECTION C

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

Your answer will be assessed as follows:

QUESTION 5: MICROECONOMICS**40 MARKS – 40 MINUTES**

- **Examine oligopoly as a market structure in detail.** (26 marks)
- **How can the government discourage firms from engaging in anti-competitive behaviour?**

(10 marks)**[40]****INTRODUCTION**

An oligopoly exists when a small number of large firms are able to influence the supply of a product or service in a market. ✓✓

(Accept any other correct relevant introduction)

(max. 2)

MAIN PART**Number of sellers** ✓

- There are few sellers dominating the market which limits competition. ✓✓

Nature of the product ✓

- Products may be homogeneous or differentiated. ✓✓
- If the products are homogenous, the market is regarded as pure oligopoly. ✓✓
- When the products are differentiated, the market is regarded as differentiated oligopoly. ✓✓

Market entry ✓

- Entry into an oligopolist market is not easy due to the existence of barriers ✓✓ such as brand loyalty and economies of scale. ✓
- Many oligopolistic industries have high set-up costs which also block entry. ✓✓
- Advertising is very expensive and firms that cannot afford to do so will lag behind the competition, this is itself is a barrier to entry. ✓✓

Market information ✓

- Information is incomplete as consumers and producers do not have full information about prevailing market conditions. ✓✓
- Lack of information may cause uncertainty and irrational decision making in the market. ✓✓

Control over the price ✓

- Producers have a considerable control over the price of their product but not as much as in a monopoly. ✓✓
- Sometimes oligopolies may collude to influence prices in the market. ✓✓

Demand curve ✓

- An oligopolist faces a kinked demand curve, with two segments. ✓✓
- The top segment is relatively elastic, and the bottom segment is relatively inelastic ✓✓

Allocate a **maximum of 2 marks** for a correctly drawn kinked demand curve

Economic profit/loss ✓

- Oligopolistic firms can make economic profit in both short run and long-run. ✓✓
- Barriers to entry make it possible for oligopolies to enjoy high profits. ✓✓

Decision making /Mutual dependence✓

- The oligopolist market is characterized by mutual dependency where the actions of one firm will influence others ✓✓
- Interdependence leads to complex policy decision making as compared to other market structures ✓✓

Collusion ✓

- There is high possibility of collusive practices in an oligopoly since there are few businesses ✓✓
- Oligopoly businesses collude to reduce competition, earn higher, reduce uncertainty in the market.
- Collusion may be formal (cartels) or informal (price leadership). ✓✓
- A cartel is an organisation of oligopolistic businesses that come into existence with a specific aim of forming a collective monopoly. ✓✓
- Price leadership is the situation where the dominant firm fixes the price and the other firms accept it as a market price. ✓✓

Non-price competition ✓

- Oligopolistic firms are reluctant to change prices because a price war will drive their prices down, eliminating profits. ✓✓
- They make use of non-price measures to attract customers and increase their market share. ✓✓
- An important aspect of non-price competition is to build brand loyalty, product recognition and product differentiation. ✓✓

(Accept any other correct relevant response)

Allocate a **maximum of 8 marks** for mere listing of headings and examples)

(max. 26)

ADDITIONAL PART

The government discourage firms/oligopolist firms from engaging in anti-competitive behaviour by:

- Granting licenses to other businesses to compete against existing oligopolies. ✓✓
- Imposing heavy fines on firms found guilty of anti-competitive practices/behaviour. ✓✓
- Speeding up investigations on firms/businesses suspected of collusion/price fixing. ✓✓
- Prohibiting mergers and takeovers by oligopoly businesses with the aim of reducing competition. ✓✓
- Implementing/introducing maximum prices on markets where there are possibilities of price fixing. ✓✓
- Regulating unfair business practices, such as acquiring exclusive rights to resources, which may prevent new firms from entering the market. ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of facts)

(max. 10)

CONCLUSION

Unlike perfect competitors, oligopoly businesses fail to achieve both productive and allocative efficiency as they do not produce at the lowest possible average cost and do not produce at optimum output level. ✓✓

(Accept any other correct relevant conclusion)

(max. 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- **Discuss in detail the measures to combat inflation.** (26 marks)
- **How do inflationary expectations affect the various role players in the economy?** (10 marks)

[40]**INTRODUCTION**

Inflation refers to a sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money. ✓✓

BODY**MONETARY POLICY MEASURES ✓**

Monetary policy measures to combat inflation are taken by the South African Reserve Bank (SARB) and government through the implementation of one or more of the following instruments:

Interest rates ✓

- The SARB curbs inflation by increasing the repo rate which makes it expensive to borrow money. ✓✓
- Banks pass on the increased cost of borrowing (repo rate) to their clients by increasing the interest rate. ✓✓
- High interest rate discourages consumers from taking unnecessary credit, discouraging consumer spending. ✓✓
- A decrease in credit creation results to a reduction of money supply thereby reducing demand-pull inflation. ✓✓
- The increase in interest rates stabilises the value of the currency which helps to reduce cost-push inflation through lower import cost. ✓✓

Open market transactions ✓

- The SARB can directly decrease the supply of money by selling government securities in the open market. ✓✓
- When banks buy these securities money flows from banks to the SARB which reduces money supply. ✓✓
- Reduction in money supply will reduce aggregate demand controlling demand-pull inflation. ✓✓

Cash Reserve Requirements ✓

- Commercial banks are required to hold a certain minimum cash reserve with the central bank. ✓✓
- An increase in the cash reserve requirement limits the amount of money that banks can give out as credit and helps to curb inflation. ✓✓

Moral suasion ✓

- The SARB can persuade commercial banks to act in a responsible manner when granting credit under inflationary conditions. ✓✓
- Moral suasion helps to reduce inflation because credit will be granted to fewer consumers. ✓✓

FISCAL POLICY MEASURES✓

Inflation can be combated through fiscal changes in taxation and government expenditure. ✓✓

The following are actions that can be taken:

Government expenditure ✓

- The state can reduce expenditure by postponing some government projects such as roads, hospitals and schools. ✓✓
- Aggregate demand will decrease thereby reducing demand-pull inflation. ✓✓
- The government may finance a budget deficit from the non-banking sector to limit inflation. ✓✓

Taxation✓

- Government can increase direct taxation such as personal income tax to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- The state can impose surcharges on imported goods which will increase their prices, discouraging consumer spending. ✓✓
- A loan levy can be used to reduce disposable income of consumers. ✓✓
- The government may reduce taxes on savings or introduce tax-free savings accounts to encourage saving and reduce spending. ✓✓

OTHER MEASURES

Additional measures that can be used to combat inflation include:

- **Increase productivity.** ✓
Improved education and training allow for more people to be employed and ensure that they are more productive. ✓✓
- **Price Control:** ✓
The government ensures that certain essential goods remain affordable by fixing their price. ✓✓
- **Wage Policy:** ✓
A wage policy should keep wage increases in line with inflation rate. ✓✓
- **Stricter conditions for consumer credit:** ✓
The National Credit Regulator may impose strict requirement on consumer credit which will reduce aggregate demand. ✓✓
- **Import controls are relaxed:** ✓
More imports may help to supplement local supply of goods and services, reducing inflation caused by product shortages. ✓✓
- **Floating exchange rate:** ✓
Prices are automatically adjusted to international conditions which allow free operation of the price mechanism (real prices). ✓✓
- **Indexation:** ✓
Refers to a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓
(Accept any other correct relevant response)

Allocate a **maximum of 8 marks** for mere listing of headings and examples)

(Max. 26)

ADDITIONAL PART

Various role players are affected by high inflation expectations in the following ways:

- Inflation expectations play a major role in the process that transmits expectations of price increases through to the actual increase in prices. ✓✓
- Consumer spending may increase when consumers expect prices to increase in the near future, without market signals. ✓✓
- More consumer goods and capital good are bought before the price increase thus increasing aggregate demand. ✓✓
- Labour unions demand higher wages to protect purchasing power for their members when they anticipate rise in inflation. ✓✓
- When wages increase, businesses raise their prices to compensate the increase in labour costs thereby fuelling inflation. ✓✓
- When businesses expect inflation to rise, they tend to increase their prices in advance which increase their profit margins. ✓✓
- The SARB uses inflation expectations to adjust monetary policy instruments that control money supply. ✓✓

(Accept any other correct relevant response)

(Allocate a **maximum of 2 marks** for mere listing of facts)

(Max. 10)

CONCLUSION

A high rate of inflation will always cause instability in the economy hence various measures are applied to combat it. / Inflation expectations are self- fulfilling because higher expectations lead to higher inflation and the vice versa is true. ✓✓

(Accept any other correct relevant conclusion)

(Max.2)

[40]

TOTAL SECTION C:
GRAND TOTAL:

40
150