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KWAZULU-NATAL PROVINCE

**EDUCATION
REPUBLIC OF SOUTH AFRICA**

GRADE 12

**NATIONAL
SENIOR CERTIFICATE**

ECONOMICS

COMMON TEST

MARCH 2023

MARKING GUIDELINES

MARKS: 100

This marking guidelines consists of 12 pages.

SECTION A: COMPULSORY**QUESTION 1****20 MARKS – 15 MINUTES****1.1 MULTIPLE CHOICE**

- 1.1.1 C. capital ✓✓
- 1.1.2 D. collective ✓✓
- 1.1.3 C. Phillips ✓✓
- 1.1.4 B. Appreciation ✓
- 1.1.5 B. deregulation ✓✓

(5 x 2) (10)

1.1 MATCHING ITEMS

- 1.2.1 D - Used for balancing national income figures. ✓
- 1.2.2 E - Analysing the series of data over a period of time. ✓
- 1.2.3 F - A short-term debt obligation of the central government. ✓
- 1.2.4 A - The difference between the value of exports and imports. ✓
- 1.2.5 G - A situation where one country can produce goods or services cheaper than another. ✓
- 1.2.6 B - Benefits provided by the government to improve the quality of life for citizens. ✓

(6 x 1) (6)

CONCEPTS

- 1.3.1 Multiplier effect ✓
- 1.3.2 Peak ✓
- 1.3.3 Parastatals ✓ / State owned enterprise ✓
- 1.3.4 Exchange rate ✓

(4 x 1) (4)

TOTAL FOR SECTION A: 20 MARKS

SECTION B

Answer ONE of the two 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 any TWO examples of direct taxes.

- Income tax ✓
- Property tax ✓
- Transfer tax ✓
- Capital gains tax ✓
- Corporate tax ✓

(Accept any other relevant and correct response)

(2 X 1) (2)**2.1.2 Why is gold recorded as a separate item on the balance of payment for South Africa?**

Gold is a major contributor to the country's GDP hence is recorded separately to monitor the trend. ✓✓
(Accept any other relevant and correct response)

(1 X 2)**(2)****2.2 DATA-RESPONSE****2.2.1 Identify the method of calculating national accounts shown above. (1)**

Income method ✓

2.2.2 Give another term used for gross value added. (1)

Gross domestic product / GDP ✓

2.2.3 Briefly describe the term *gross national product*. (2)

Gross national product is the market value of all final goods and services that are produced by permanent residents of a country in a year. ✓✓

(Accept any other relevant and correct response)

2.2.4 Explain the benefit of investing in small business for the economy. (2)

- Small business investment can create employment thus improving the standard of living. ✓✓
 - The emergence of small businesses can improve economic growth in the country. ✓✓
- (Accept any other relevant and correct response)

2.2.5 Calculate the value of A. Show all calculations. (4)

$$R\ 5\ 453\ 539\ \checkmark + R\ 131\ 563\ \checkmark - R\ 12\ 494\ \checkmark = R\ 5\ 572\ 608\ \checkmark$$

2.3.1 Identify the sub-account of the balance of payment discussed above. (1)

Current account ✓

2.3.2 Give the change in the surplus between quarter 4 of 2021 and quarter 1 of 2022. (1)

R11 Billion ✓

2.3.3 Briefly describe the term *portfolio investment*. (2)

Portfolio investments refer to the buying of assets such as shares in companies on the stock exchange of another country. ✓✓

(Accept any other relevant and correct response)

2.3.4 What is the importance of foreign direct investment in the economy? (2)

- FDI is an inflow of capital to the country which increases the GDP. ✓✓
- Having FDI creates job opportunities hence improving the standard of living. ✓✓

(Accept any other relevant and correct response)

2.3.5 How can the shortage of skilled labour force affect the South Africa's trading position? (4)

- Lack of skilled labour force will reduce the quality of goods produced by the country. ✓✓
- When there is a shortage of skilled labour-force resources cannot be put to optimum use. ✓✓
- A lack of skills will make the country to be dependent on imports thus causing balance of payment problems. ✓✓

(Accept any other relevant and correct response)

2.4 Distinguish between the money market and capital market in the circular flow. (8)**Money market**

- The money market consists of short-term loans and investments which are made by consumers and business enterprises. ✓✓
 - Bank debentures, treasury bills and government bonds are traded in the money market. ✓✓
 - The South African Reserve Bank is the main institution for this market. ✓✓
 - Banks, insurance companies are typical examples of money markets. ✓
- (Accept any other relevant and correct response)

Capital market

- The capital market consists of long-term loans and investments which are made by consumers and business enterprises. ✓✓
 - Shares and mortgage bonds are traded in the capital market. ✓✓
 - The Johannesburg Stock Exchange is a key institution in the capital market. ✓✓
- (Accept any other relevant and correct response)

(4 x 2) (8)

2.5 How can a positive balance of payment (BOP) benefit the country?

- A positive BOP can allow the government to provide for the citizens thus improving livelihood. ✓✓
 - With a positive balance, the country is able to earn foreign income thereby accelerating economic growth. ✓✓
 - Countries with a positive BOP can attract investors therefore increasing the real GDP. ✓✓
 - When exports increases, the per capita income also increase therefore improving the standard of living. ✓✓
 - A positive BOP promotes globalisation and trade, which introduce new goods in the market. ✓✓
- (Accept any other relevant and correct response)

(8)

[40]

QUESTION 3: MACROECONOMICS**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any Two examples of transfer payments. (2)

- Social grants ✓
 - Old age pension ✓
- (Accept any other relevant and correct response)

3.1.2 What is the relationship between the size of the multiplier and the marginal propensity to consume (mpc)? (2)

A positive correlation exists as the bigger mpc will result to a bigger size of the multiplier and vice versa. ✓✓
(Accept any other relevant and correct response)

3.2 DATA-RESPONSE**3.2.1 Identify the economic participant discussed above. (1)**

Foreign sector ✓

3.2.2 Give ONE example of a product that is sold in the factor market. (1)

- Labour ✓
- Capital ✓
- natural resources /land ✓

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

Circular flow refers to the continuous flow of spending, production and income between different sectors of the economy. ✓✓
(Accept any other relevant and correct response)

3.2.4 What is the negative effect of an increase in tax rate on the business sector? (2)

- An increase in tax rate is associated with a subsequent decrease in profits caused by a decrease in aggregate demand. ✓✓
- Tax increases can slow down business development as the large portion of business turn-over is used for paying taxes. ✓✓
- When tax rate increases, businesses may be tempted to avoid paying taxes which may have legal implications. ✓✓
(Accept any other relevant and correct response)

3.2.5 How can households benefit from an increase in government spending?

- Households enjoy better infrastructure and improved standard of living. ✓✓
- The citizens are able to enjoy better living conditions and personal growth. ✓✓
- The availability of public goods attracts investors thereby creating employment opportunities for households. ✓✓
(Accept any other relevant and correct response)

DATA-RESPONSE**3.3**

3.3.1 Identify the exchange rate system that is represented by the Graph. (1)

Free-floating exchange rate system ✓

3.3.2 Give the original exchange rate. (1)

R14.5363 ✓

3.3.3 Briefly describe the term *revaluation*. (2)

Revaluation refers to the action by the central bank to deliberately increase the value of currency. ✓✓
(Accept any other relevant and correct response)

3.3.4 What could be the cause for an upward shift from D-D to D1-D1? (2)

- Increase in importation of goods and services by South Africans. ✓✓
 - An increase in the demand for US dollars. ✓✓
 - Payment of interest and dividends on loans and foreign investment. ✓✓
 - Outflow of capital to foreign countries. ✓✓
- (Accept any other relevant and correct response)

3.3.5 How can the central bank stabilize the value of the currency? (4)

- The Central bank may buy and sell foreign exchange when the currency is undervalued or overvalued. ✓✓
 - When the currency is undervalued interest rates can be increased to cause an inflow of foreign currency and vice versa. ✓✓
 - The central bank can set inflation targeting to release inflation pressure. ✓✓
 - The surplus on the current account will then decrease. ✓✓
 - The central bank may apply both expansionary and contractionary monetary policies to stabilise the value of the currency. ✓✓
- (Accept any other relevant and correct response)

3.4 Briefly discuss the size of the population and income level as demand reasons for international trade. (8)

The size of the population

- An increase in population growth may result to an increase in demand. ✓✓
- Local producers may not be able to satisfy this demand. ✓✓
- This therefore means that goods and services must be imported from other countries. ✓✓

(max 4)

(Accept any other relevant and correct response)

Income level

- Changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓

(max 4)

(Accept any other relevant and correct response)

3.5 How can South Africa benefit from an increase in injections? (8)

- An increase in exports results to a consequent increase on the country's real GDP. ✓✓
- When capital investment increase, the quality of goods produced by the country can improve thereby accelerating economic growth. ✓✓
- An increase in government spending can accelerate economic development hence improving the standard of living. ✓✓
- Government spending on infrastructural development can stimulate industrial development and lead to job creation. ✓✓
- A country with more injections than leakages can easily resolve its balance of payment problems. ✓✓
- An increase in injections can lead to the attainment of a better international position for the country. ✓✓

(Accept any other relevant and correct response)

[40]

TOTAL SECTION B: 40 MARKS

SECTION C**QUESTION 4: MACRO-ECONOMICS****40 MARKS – 40 MINUTES****Discuss in detail the new economic paradigm in the smoothing of cycles. (26)****INTRODUCTION**

The new economic paradigm discourages policy makers in using monetary and fiscal policies to fine-tune the economy; however, they are encouraged to resort to policies related to demand and supply. ✓✓

(Accept any other correct relevant introduction) (2)

BODY: MAIN PART**The demand-side policies**

- Demand side policies refer to decisions taken by the government to influence the aggregate demand for goods and services in the country. ✓✓
- The government may try to increase consumer spending by stimulating aggregate demand. ✓✓
- This can grow the economy but can lead to bottlenecks such as inflation, unemployment and balance of payments deficit. ✓✓

(a) Inflation ✓

- When aggregate demand increase faster that aggregate supply, general price levels will also increase. ✓✓
- If supply does not react to the changes in demand, prices will increase and will lead to inflation. ✓✓
- Supply-side measures can be used to create a situation where supply is more flexible. ✓✓

(b) Unemployment ✓

- Demand-side policies can stimulate economic growth. ✓✓
- Economic growth increases the demand for labour and this reduces unemployment. As a result people will be employed and unemployment will decrease. ✓✓
- When unemployment falls, inflation starts to rise. And the r relationship is shown using the Phillips curve. ✓✓

Supply-side policies

These are measures undertaken by authorities to influence the level of aggregate supply of goods and services in the country to meet changes in demand. ✓✓

(a) Reduction of costs ✓

- The reduction of costs of production means that a great output can be supplied at any given price level. ✓✓
- The government can use measures that can reduce costs of production for businesses directly or indirectly. ✓✓
- **Infrastructure services** ✓: The government can target transport, communication, water and energy as areas of focus. ✓✓
- **Administration costs** ✓: This includes removing the burden placed by inspections, reports on the application of various laws, regulations and by-laws, tax returns providing statistical information. ✓✓
- **Cash incentives** ✓: These include subsidies and compensation of exporters who operate in neglected sectors. ✓✓

(a) Improving the efficiency of inputs ✓

- **Tax rates** ✓: High rates of personal income tax and corporate income tax are disincentives as they reduce increase costs and reduce profits. ✓✓
- **Capital consumption** ✓: Replacing capital goods regularly creates Opportunities for businesses to keep up with technological development. ✓✓
- **Human resources development** ✓: Improving working conditions can improve the quality of human resources and enhance the efficiency of businesses. ✓✓
- **Free advisory services** ✓: The government involvement in promoting opportunities to export and establishing new business ventures in other countries. ✓✓

(b) Improving the efficiency of markets ✓

- **Deregulation** ✓: This includes the removal of laws, regulations and by-laws, and other form of government controls that interfere in markets and make the markets free. ✓✓
- **Competition** ✓: This entails arranging the markets in such a way that allows for new businesses, increase competition and invites Foreign Direct Investment. ✓✓
- **Levelling the playing fields** ✓: Government policy should protect the private sector as well. Public enterprises are protected by legislation and they survive on government resources thus disadvantages the private sector. ✓✓

(Accept any other relevant correct answer)

(26)

(NB: Graph illustration may be awarded a maximum of 4 marks)

(NOTE: A maximum of 8 marks is awarded for headings and examples)

ADDITIONAL PART:**How can exogenous (external) factors influence the economy? (10)**

- Inclement weather, damages the much-needed infrastructure thereby lowering the standard of living and slowing down trade and investments. ✓✓
 - Drought, floods, etc. results to shortages of raw materials hence negatively affecting the real GDP of the country. ✓✓
 - Competition coming from countries selling similar products may create balance of payment problems for the country. ✓✓
 - Political influence can result to unnecessary changes in policy which may lower business confidence and elicit pessimism from investors. ✓✓
 - Changes in technology can result to structural unemployment and shortage of priority skills. ✓✓
- (Accept any other relevant and correct response)

CONCLUSION

Under the real-world circumstances, governments will avoid the use of monetary and fiscal policies as they trigger inflationary effects and cause unemployment. ✓✓

[40]**QUESTION 5: MACRO-ECONOMICS****40 MARKS – 40 MINUTES****Discuss in detail the macro-economic objectives of the state. (26)**Introduction

The main objectives of the state are to serve the people and help in bringing about a systematic development for all citizens. ✓✓

(Accept any other relevant correct introduction)

Body main part:

1. Economic growth ✓
 - Economic growth refers to an increase in the production of goods and services in the economy. ✓✓
 - For economic development to take place, the economic growth rate must be higher than the population rate. ✓✓
 - The state must ensure sustainable growth as it leads to an improvement in the standard of living. ✓✓

2. Full employment ✓
 - Full employment means that all persons who would like to work and who are looking for work should be able to find work or create work for themselves. ✓✓
 - Attaining high levels of employment is one of the most important economic objectives for all governments. ✓✓

3. Exchange rate stability ✓
- The state tries to protect the country's currency from excess depreciation and appreciation. ✓✓
 - Depreciation and appreciation creates uncertainty for producers and investors and should therefore be limited. ✓✓
 - Monetary and fiscal policies are used to ensure that exchange rates remain relatively stable for as long as possible. ✓✓
4. Price stability ✓
- A market economy performs much better when prices are relatively stable. ✓✓
 - In South Africa the relative price stability means maintaining an inflation rate of between 3% and 6%. ✓✓
5. Economic equity ✓
- A redistribution of income and wealth is essential in market economies. ✓✓
 - In South Africa the state uses a progressive tax system to provide free services to the poor. ✓✓
 - Free social services such as basic education, primary healthcare, basic economic services and to pay cash grants to poor and other vulnerable people. ✓✓
- (Accept any other relevant correct answer)
(Sub-headings and examples should be marked to a maximum of 8 marks)

Additional part:

How can public sector failure negatively affect the economy of South Africa?

(10)

- When the state fails, the citizens embark on service delivery protests thereby damaging the much-needed infrastructure. ✓✓
 - Failure by government to provide services slows down economic growth therefore decelerating economic development. ✓✓
 - Poor service delivery negatively impacts the production sector which relies on state for services such as electricity, water, etc. ✓✓
Failure by the state to provide services discourages investors and results to pessimism in business people. ✓✓
 - When the government fails to provide services, businesses lose profit thereby retrench workers. ✓✓
 - Public sector failure is associated with a low standard of living and poverty. ✓✓
- (Accept any other relevant and correct response)

Conclusion

The state is a very important participant on the country's economy as it gets to make critical decisions on governing the country. ✓✓
(Accept any other relevant and correct response)

[40]

TOTAL SECTION C: 40 MARKS

GRAND TOTAL: 100 MARKS