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GRADE 12

ECONOMICS P1
SEPTEMBER 2023
MARKING GUIDELINES

MARKS: 150

This marking guideline consists of 19 pages.

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

- 1.1.1 C compensations of employees ✓✓
- 1.1.2 B monetary ✓✓
- 1.1.3 A medium-term expenditure framework. ✓✓
- 1.1.4 C Kitchin ✓✓
- 1.1.5 D Brazil, Russia, India, China and South Africa (BRICS) ✓✓
- 1.1.6 D Reconstruction and Development Programme ✓✓
- 1.1.7 B terms of trade ✓✓
- 1.1.8 A productivity ✓✓

(8 x 2) (16)

1.2 MATCH TYPE

- 1.2.1 I the figure used to correct errors and omissions in the calculation of the GDP ✓
- 1.2.2 D factors from within the market system that lead to changes in the level of economic activities ✓
- 1.2.3 H the inflation rate of between 3% - 6% in South Africa ✓
- 1.2.4 F the price of a currency is determined purely by market forces of demand and supply ✓
- 1.2.5 A member countries agree to abolish tariffs among themselves but levy tariffs to non-members ✓
- 1.2.6 B measures that are implemented to influence the aggregate spending in the economy ✓
- 1.2.7 C the financial incentives aimed at helping to improve the quality of workers ✓
- 1.2.8 E the United Nations recommends its use in order to standardise the calculations of social and economic indicators ✓

(8 x 1) (8)

ONE TERM

- 1.3.1 Money market ✓
- 1.3.2 Trough ✓
- 1.3.3 Community goods ✓
- 1.3.4 Infant mortality ✓
- 1.3.5 Import duties/import tariff ✓
- 1.3.6 Land restitution ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B**QUESTION 2: MACRO-ECONOMICS****40 MARKS****2.1 Short questions****2.1.1 Name any TWO pricing policy options used in the public sector**

- Free of charge ✓
- Charging a small fee ✓
- Subsidies ✓

(2 x 1) (2)

2.1.2 Why are taxes on products added to basic prices to obtain the market price?

Taxes are paid by the consumer / they are part of the price payable to obtain the product ✓✓

(1 x 2) (2)

(Accept any other correct relevant responses)

2.2 DATA RESPONSE**2.2.1 Identify any ONE point in the graph that shows the natural rate of unemployment**

- D✓
- F✓

(1)

2.2.2 Name the business cycle turning point during which inflation is often the highest.

Peak✓

(1)

2.2.3 Briefly describe the term *business cycle*.

The decreasing and increasing movements of the level of economic activity over a period of time ✓✓

(2)

(Accept any other correct relevant responses)

2.2.4 Explain a reason for the curve to move to PC1.

- Implementing the supply-side policies ✓✓
- Improving labour skills and productivity through better education, training ✓✓

(2)

(Accept any other correct relevant responses)

- 2.2.5 **Why is the relationship between inflation and unemployment regarded as inverse? Use the information in the graph to motivate your answer.**
- When the rate of unemployment decrease, the rate of inflation increase/ when unemployment increase, the inflation rate decrease✓✓
 - On PC curve, when the unemployment is low at 10%, the rate of inflation at the highest level of 9% ✓✓
 - When the rate of unemployment increases to 20% the inflation rate decreases to 6%✓✓ (2 x 2) (4)
- (Accept any other correct relevant responses)

2.3 DATA RESPONSE

- 2.3.1 **Which parastatal produces electricity in South Africa?**
- Eskom✓ (1)
- 2.3.2 **Name the level of government that focuses on the provision of services at the community level.**
- Municipality/ Local government✓ (1)
- 2.3.3 **Briefly describe the term *public sector failure*.**
- When government intervention in the economy results in a more inefficient and ineffective allocation of resources ✓✓ (2)
- (Accept any other correct relevant responses)
- 2.3.4 **Why is it difficult for the government to correctly assess the needs of the citizens for public goods?**
- Public goods have no market price to guide production✓✓ (2)
- 2.3.5 **How can public sector failure affect South Africans?**
- The country can experience macro-economic problems such as low economic growth and high unemployment ✓✓
 - Social instability can happen as a result of government failure to provide services✓✓
 - Poor implementation of progressive taxation can result in growth in unequal income distribution✓✓ (2 x 2) (4)
- (Accept any other correct relevant responses)

MINISTER OF EDUCATION

2.4 Discuss the exogenous (monetarist) explanation of business cycles.

- Monetarists Economists believe that markets are inherently (naturally) stable✓✓
- Any expansion or contraction in economic activities is due to factors coming out of the market system ✓✓
- They believe that when disequilibrium exist in the economy, Market forces (supply and demand) bring the economy back to its natural state or equilibrium route ✓✓
- Government interferences (policy) are not part of the normal forces operating in the market (i.e. Government policy is regarded as external factor)✓✓
- Changes in weather patterns influence mainly agriculture and affects the level of economic activity in general✓✓
- Technological innovation can lead to an expansion of the level of production of goods and service ✓✓
(Accept any other correct relevant responses)
(Allocate a maximum of 4 marks for the mere listing of facts)

(8)

2.5 Evaluate the contribution of the business sector to the economy.***The business sector contributes positively to the economy by:***

- producing goods and services that satisfy humans need and wants ✓✓
- employing factors of production from which households earn income✓✓
- contributing to government income by paying their relevant taxes✓✓
- earning foreign exchange when exporting goods and services✓✓
- contributing to economic development by inventing new products that improve the lives of consumers ✓✓

The business sector can contributes negatively to the economy by:

- charging prices that are too high for their products, therefore, limiting consumption✓✓
- producing products that are of inferior quality, therefore not fully satisfying people's specific wants✓✓
- not informing consumers about the effects of the long-term consumption of their products, therefore denying consumers an opportunity to make informed decisions
- using highly scientific terms when listing the ingredients on their products thereby making consumers to not know what they really consume ✓✓
(Accept any other correct relevant responses)
(Allocate the maximum of 2 marks for the mere listing of facts)

(8)

[40]

QUESTION 3: ECONOMIC PURSUITS

3.1 Short questions

3.1.1 Name TWO instruments of fiscal policy

- Taxation ✓
- Government spending ✓
- Government loans/borrowing ✓ (2 x 1) (2)

3.1.2 How can physical control be used to reduce import?

- A country can completely ban the import of certain products ✓✓
 - government can also set very high quality control standards for imported goods ✓✓ (1 x 2) (2)
- (Accept any other correct relevant responses)

3.2 DATA RESPONSE

3.2.1 Name the international trade policy whereby the government uses tariffs to protect domestic infant industries.

Protectionism ✓ (1)

3.2.2 List any ONE method of export promotion.

- Subsidies ✓
- Export processing zones ✓
- Incentives ✓ (1)

3.2.3 Briefly describe the term *free trade*.

Free trade occurs when there are no barriers to trade, such as taxes on imported goods or bans on imports ✓✓ (2)
(Accept any other correct relevant responses)

3.2.4 Why are subsidies used when implementing import substitution?

Subsidies help to reduce costs of production for local producers, therefore allowing them to be more competitive ✓✓ (2)
(Accept any other correct relevant responses)

3.2.5 How can an economy be disadvantaged by importing more than exporting?

- It can experience a deficit on the Balance of payment ✓✓
 - Domestic economic growth can decrease ✓✓
 - Job opportunities can decrease as a result of low production ✓✓ (2 x 2) (4)
- (Accept any other correct relevant responses)

3.3 DATA RESPONSE

3.3.1 Identify in the table, the economic indicator that has improved in 2022 compared to 2021.

Unemployment✓ (1)

3.3.2 Name the price index used to measure the cost of living.

Consumer Price Index / CPI✓ (1)

3.3.3 Briefly describe the term *economic indicator*.

Statistics used to assess the performance of an economy ✓✓ (2)
(Accept any other correct relevant responses)

3.3.4 How are interest rates used to influence the inflation rate?

- During high inflation interest rates are increased to discourage spending on credit ✓✓
- If price levels are too low, interest rates can be decreased to encourage spending ✓✓ (2)
(Accept any other correct relevant responses)

3.3.5 What effects can a depreciating rand have on South Africa's international (foreign) trade?

- imported goods can become expensive as the value of the rand decrease ✓✓
- There can be an increase in South African exports as they become cheaper in countries with strong currencies ✓✓
- The Balance of Payment can be in deficit as a result of more imports than exports ✓✓ (2 x 2) (4)
(Accept any other correct relevant responses)

3.4 Distinguish between economic growth and economic development.**Economic growth**

- It is an increase in the production capacity of a country over a period of time✓✓
- It is measured by the real Gross Domestic Production of a country✓✓
- Economic growth can lead to economic development✓✓ (Max.4)

Economic development

- It is an improvement in the quality of life of the majority of people in a country over a period of time✓✓
 - It is concerned with factors that show the level of standard of living i.e. education, health, job creation✓✓
 - It is measured by per capita income✓✓ (Max.4) (8)
- (Accept any other correct relevant response)

3.5 Evaluate the achievement of the Japan - South Africa partnership forum for South African economy.

- Bilateral trade between Japan and South Africa had been expanding since the establishment of full diplomatic relations in 1992. ✓✓
 - Companies such as the Toyota Motor Corp had entered South Africa in 1962 and investment by Japanese companies continued during this period. ✓✓
 - South Africa exports mainly primary products such as base metals, agricultural products, etc.
 - South Africa imports technology-intensive goods from Japan. ✓✓
 - There has been over Yen 100 billion in Japanese investments in South Africa since 1994✓✓
 - in 2021 South Africa exported goods worth R150 billion to Japan, resulting in a trade surplus for South Africa.
 - Japanese investments in South Africa are mostly in the automotive, metals and chemicals sectors✓✓ (8)
- (Accept any other correct relevant responses) [40]
- (Allocate a maximum of 2 marks for the mere listing of facts)

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 Short questions****4.1.1 List TWO demographic indicators.**

- Population growth ✓
- Life expectancy ✓ (2)

4.1.2 How does the government manage the economy?

- Creates the social and legislative environment in which businesses and individuals follow their own interests ✓✓
- Applies suitable and reliable economic and other policies ✓✓
(Accept any other correct relevant responses (1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Name the leakage that is possible in a two-sector economy.**

Saving ✓ (1)

4.2.2 Which participant spend money on goods and services in the above economy?

Household/ consumer ✓ (1)

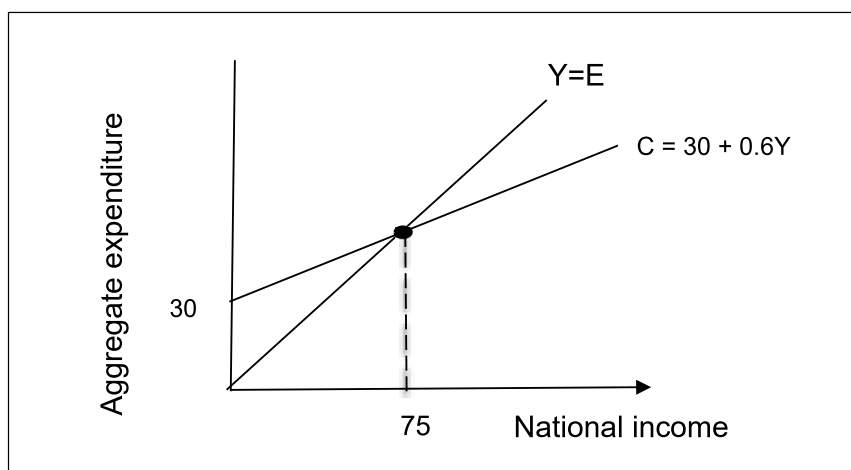
4.2.3 Briefly describe the term *autonomous consumption*.

- The spending that does not depend on income ✓✓
 - The expenditure that takes place irrespective of the level of income ✓✓ (2)
- (Accept any other correct relevant responses)

4.2.4 Use the following formula to calculate the multiplier .Show all calculation

$$\begin{aligned}
 & \frac{1}{Mps} \\
 = & \frac{1}{0,4} \quad \checkmark \\
 = & 2.5 \quad \checkmark
 \end{aligned}
 \quad (2)$$

4.2.5 Using the information in the extract, draw the multiplier graph.

**Marking grid**

- Correct drawing and labelling of axes = 1 mark
 - Correct drawing and indication of autonomous consumption (30) = 1 mark
 - Correct indication of the consumption function = 1 mark
 - Correct indication of the equilibrium national income amount (75) = 1 mark
 - Correct drawing and indication of the line of equity ($Y=E$) = 1 mark
- (Max 4)

(4)

4.3 DATA RESPONSE**4.3.1 Identify the alternative term used to describe poor countries.**

‘the South’✓ (1)

4.3.2 Name any ONE indicator that relates to unequal living standards.

- Per capita income✓
 - Life expectancy✓
 - Education✓
- (1)

4.3.3 Briefly describe the term *north-south divide*.

The developmental gap between the developed (rich) and developing (poor) countries✓✓ (2)
(Accept any other correct relevant responses)

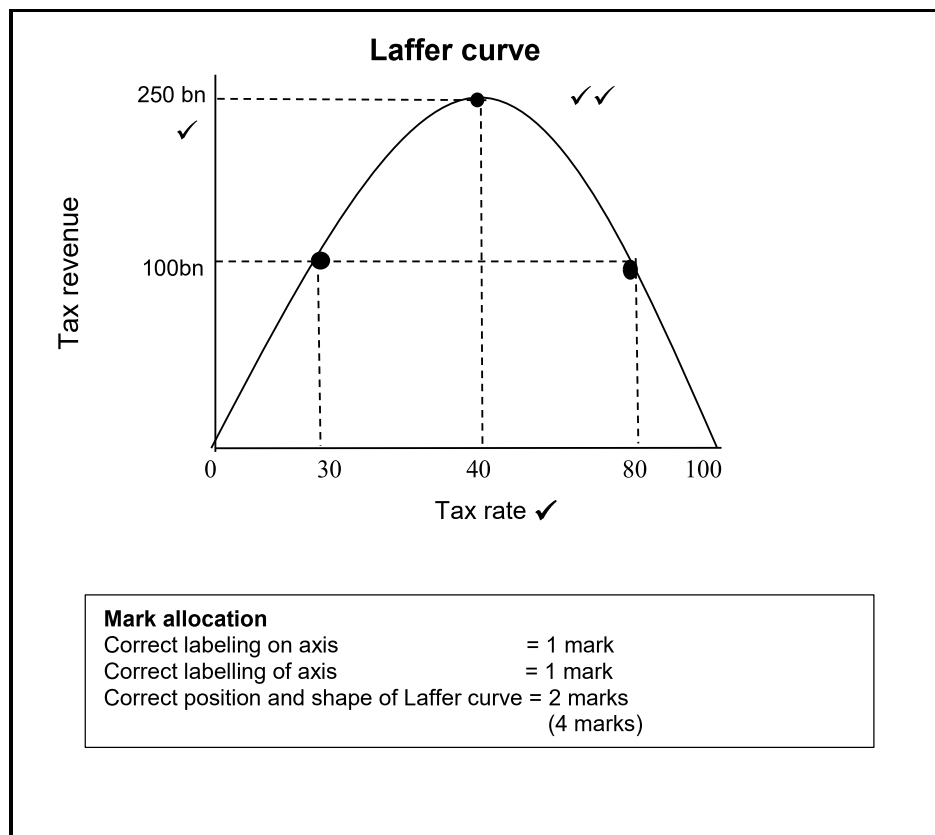
4.3.4 How do farming subsidies offered by rich countries negatively affect farmers from developing countries?

Allowing farmers from developed countries to charge much lower prices, therefore developing farmers being unable to compete ✓✓ (2)
(Accept any other correct relevant responses)

4.3.5 Why are developed countries regarded as the major contributors to climate change?

- Developed countries mostly engage in the mass production of goods and services ✓✓
- These economies often burn a large amount of coal and gas, thereby causing air pollution✓✓
- This pollution causes global warming and climate change which negatively affect the whole world ✓✓ (2 x 2) (4)
(Accept any other correct relevant responses)

- 4.4 With an aid of a labeled diagram explain the relationship between tax rate and tax revenue.



- At the tax rate of 0% the government revenue is zero because no one pays ✓✓
 - An increase in tax rate from 0% to 30% will lead to an increase in tax revenue from 0 to 100 billion ✓✓
 - At the rate of 40% the tax revenue will be at its highest level at 250 billion
 - A further increase in tax rate to 80% will result in a decrease in the tax revenue from 250 billion to 100 billion due to tax evasion or avoidance ✓✓
 - tax at 100% and no one will be willing to work at 100% tax rate, therefore tax revenue will be zero ✓✓ (Max. 4)
- (Accept any other correct relevant response)

(8)

4.5 Analyse the role of education in the economy.

- Education is one of the methods to decrease poverty and income inequality ✓✓
- Education directly influences the level of income and standards of living for the people ✓✓
- If the level of education increases, more people will find jobs, unemployment will decrease and poverty will decline ✓✓
- The level of education of the population also affects the country's level of productivity, competitiveness and national wealth ✓✓
- Secondary education is considered as a minimum entry requirement to employment for semi- skilled labour therefore it helps improves the society's skill acquisition potential ✓✓
- Education contributes highly to economic growth as skilled and qualified labour force is likely to be productive and contribute to government revenue ✓✓ (8)

(Accept any other correct relevant response)

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

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

SECTION C**ESSAYS****QUESTION 5: MACROECONOMICS**

- **Discuss in detail the reasons for international trade.** (26 marks)
- **Evaluate the effects of international trade on a country.** (10 marks)

INTRODUCTION

International trade involves the importing and exporting of goods between countries✓✓

(Accept other correct relevant introductions) (Max. 2)

BODY: MAIN PART**Demand reasons**

- **Size of the population**✓
 - The size of the population impacts the demand for goods and services✓✓
 - If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
 - Local suppliers may not be able to satisfy this demand.✓✓
- **Income levels**✓
 - The population's income levels affect demand.✓✓
 - 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.✓✓
- **Changes in the wealth of the population**✓
 - An increase in the wealth of the population leads to greater demand for goods.✓✓
 - People have access to loans and can spend more on luxury goods, many of which are produced in other countries.✓✓
- **Preference and trade**✓
 - Preferences and tastes can play a part in determining prices, ✓✓
 - E.g. customers in Australia have a preference for a specific product which they do not produce and need to import, and it will have a higher value than in other countries.✓✓
- **The difference in consumption patterns**✓
 - The difference in consumption patterns is determined by the level of economic development in the country, ✓✓ e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods ✓✓

Supply reasons○ **Natural resources** ✓

- These resources are not evenly distributed across all countries of the world ✓✓
- They vary from country to country and can only be exploited in places where these resources exist ✓✓
- South Africa is well-gifted with different natural resources but less well-gifted with skilled labour and capital whilst Japan and Ireland have a relative abundance of skilled labour but they lack natural resources ✓✓

○ **Labour resources** ✓

- Labour differs from country to country in terms of skills, knowledge, training, quality, quantity and cost between them ✓✓
- Some countries have highly skilled, well-paid workers and high productivity levels ✓✓

○ **The availability of capital** ✓

- Some countries need to modernize their industries and economies with advanced machinery, equipment and plant but cannot manufacture this equipment because they lack the capital to do so ✓✓
- This has increased the need for international trade ✓✓

○ **Lack of entrepreneurship** ✓

- Countries that have good entrepreneurial skills offer more goods and services for trade ✓✓
- Efficiency determines the supply of goods and services produced at lower prices and reduces the opportunity cost of acquiring them ✓✓

○ **Climatic conditions** ✓

- These conditions make it possible for some countries to produce certain goods at a lower price than other countries ✓✓
- E.g. Brazil is the biggest producer of coffee ✓
- Countries have different climatic conditions and are therefore able to produce different products ✓✓

○ **Technological resources** ✓

- The development levels and innovation processes of countries will always differ and as a result, other countries may have them in abundance while others may not. ✓✓
- Countries like Germany, and the United States, are able to use capital that embodies high levels of technology while other countries do not have access to the latest technology ✓✓
- These countries that have high technological labour force are able to produce certain goods and services at a low unit cost e.g. US and Germany ✓✓✓

- **Specialisation ✓**
- The production of certain goods and services allows some countries to produce them at a lower cost than others ✓✓
- E.g. Japan produces electronic goods and sells these at a lower price ✓
- International trade enables countries to specialize in the production of goods and services in which they have a comparative advantage ✓✓
- Most of such surplus production gets exported to other countries and the revenue earned from these exports can be used to finance imports ✓✓
(Accept any other correct relevant response) (Max. 26)

ADDITIONAL PART

International trade can affect a country positively by:

- making a country specialise in the production of goods and services in which they have a comparative advantage ✓✓
- leading to economic growth as mass production of goods and services takes place due to local consumption and exports ✓✓
- increasing efficiency with which firms produce their products in order to successfully compete in international markets ✓✓
- benefitting consumers through lower prices due to increased competition among local and foreign produced goods ✓✓
- enabling consumers to have access to a wider variety of goods and services ✓✓

International trade can negatively affect a country by:

- causing economic suffering during times of emergencies such as war or lock-downs if a country specialises in producing too few kinds of goods and services ✓✓
- increasing poverty in countries which do not have enough capital to produce and export many goods and services ✓✓
- encouraging over-exploitation of a country's natural resources as goods are produced for local and export markets ✓✓ (Max.10)
(Accept any other correct relevant responses)
(Allocate a maximum of 2 marks for the mere listing of marks)

CONCLUSION

[40]

Each country needs to develop and implement suitable policies to guide its participation in international trade ✓✓

(Accept any other correct relevant higher order conclusion) (Max.2)

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

- **Discuss in detail South Africa's initiatives (endeavours) in regional development.** (26 marks)
- **How can a country benefit from successful implementation of its industrial development policies?** (10 marks)

INTRODUCTION

Regional development is the provision of support and other assistance to regions which are less economically developed in order to improve them. ✓✓ (Max. 2)
(Accept any other relevant introduction)

BODY: MAIN PART

- **Spatial Development Initiatives (SDIs)** ✓
- SDIs refer to government initiatives to stimulate industrial development in areas where poverty and unemployment are at their highest ✓✓
- It is a link between important economic hubs and regions in a country – The Department of Trade and Industry (DTI) is the main driver of SDIs ✓✓
- All major projects in the SDIs are partnerships between the public sector and the private sector. ✓✓
- In a Public Private Partnership, a private business may provide the capital to build the factory and buy raw materials and employ labour, while the government provides the capital for the infrastructure ✓✓

Aim/objectives of SDIs

- To attract business investments to neglected areas in the country ✓✓
- To stimulate growth and employment in underdeveloped areas ✓✓
- To develop infrastructure such as roads and harbours ✓✓
- **Industrial Development Zones (IDZ)** ✓
- They are geographically designed near a harbour or airport, purpose-built industrial sites providing services to export-orientated industries. ✓✓
- They are physically enclosed and linked to an international port (harbour) or airport. ✓✓
- The private sector firms develop and manage the firms inside the IDZ. ✓✓
- Each IDZ offers a zero rate VAT on supplies bought within South Africa, government incentive schemes, reduced taxation for some products and access to the latest information. ✓✓
- Raw materials are imported free of customs duties ✓✓

Aims/objectives of Industrial Economic Zones

- Designed to attract new investment in export-driven industries ✓✓
- Increase exports by encouraging manufacturing and foreign trade ✓✓
- Raise the standard of living ✓✓

- **Special Economic Zones (SEZ`s)** ✓

- They are geographically demarcated areas where specific economic activities have been identified to be developed. ✓✓

- These areas may enjoy incentives such as tax relief and support programmes to promote industrial development. ✓✓
 - SEZs were initiated because of the shortcomings that were identified in IDZs ✓✓
 - For example, IDZs could only be set up next to the sea or international airport ✓✓
 - This restriction excluded other regions in the country that had industrial potential.
 - The products are aimed at both the export and the local markets ✓✓
 - That is why it can be next to a harbour/airport (export purposes) or anywhere within the country (local market) ✓✓
 - This makes it different from the IDZ which focuses only on the export market ✓✓
 - These areas may enjoy some tax incentives which are used to attract more investments into the zone ✓✓
 - **Corridors** ✓
 - These are tracks of land that form passageways allowing access from one area to another. ✓✓
 - They offer specific advantages to mining, manufacturing and other businesses. ✓✓
 - The advantages also include the presence of existing infrastructure and the Specialisation of products or services ✓✓
 - Corridors are important for – E.g. Maputo corridor that starts in Gauteng and extends through Mpumalanga to the Maputo port ✓✓
- (Accept any other correct relevant response.) (Max.26)
- (Allocate a maximum of 8 marks for the mere listing of facts or examples)

ADDITIONAL PART:

Successful implementation of industrial policies can benefit a country by:

- allowing for engagement with the world economy in trade and acquisition of knowledge that is important for increasing the productive capacity of the country ✓✓
 - establishing large-scale manufacturing, agricultural, mining and services production, leading to the creation of job opportunities for all skill levels
 - enabling consumers to access a variety of domestically produced products at affordable prices as well as improved living standards. ✓✓
 - achieving high rates of savings and investment that can lead to stable prices ✓✓
 - diversifying the economy by producing a variety of goods not only for the domestic market but for the global market as well ✓✓
 - developing and maintaining appropriate incentives to attract investors domestically and from abroad ✓✓
 - contributing to the industrial development of the African continent and making a positive contribution to the global economy ✓✓
- (Accept any other correct relevant response.) (Max.10)
- (Allocate a maximum of 2 marks for the mere listing of facts)

CONCLUSION

The department of trade and industry plays a key role in ensuring that the aims of regional development are achieved by ensuring that there is a decentralisation of industries in the country ✓✓

(Accept any other relevant conclusion)

(Max. 2)

(40)

TOTAL SECTION C: 40
GRAND TOTAL: 150