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Department of  
Education  
FREE STATE PROVINCE

## **PREPARATORY EXAMINATION**

**GRADE 12**

**ECONOMICS P2**

**SEPTEMBER 2023**

**MARKS: 150**

**MARKING GUIDELINE**

**This marking guideline consists of 20 pages.**

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

- 1.1.1 C average ✓✓
- 1.1.2 D economic loss ✓✓
- 1.1.3 B marginal costs are equal to average variable costs ✓✓
- 1.1.4 C community ✓✓
- 1.1.5 A government ✓✓
- 1.1.6 B Kyoto Protocol of 1997 ✓✓
- 1.1.7 D Hyperinflation ✓✓
- 1.1.8 A Green Trust ✓✓

(8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 C the period of production where all factors can change ✓
- 1.2.2 E when the market price is not a pure reflection of the scarcity of that product ✓
- 1.2.3 F a group of producers whose goal is to form a collective monopoly to fix prices ✓
- 1.2.4 D it is set below the equilibrium price ✓
- 1.2.5 H emissions generated by human activity which are beyond the capacity of the environment to absorb ✓
- 1.2.6 I South African citizens travelling abroad ✓
- 1.2.7 B an Environmental World Heritage Site that is South Africa's eco-tourist destination ✓
- 1.2.8 G any significant and sustained change in the normal weather patterns ✓

(8 x 1) (8)

**1.3 IDENTIFY THE CONCEPT**

- 1.3.1 Private cost ✓
- 1.3.2 Cost-benefit analysis ✓
- 1.3.3 Oligopoly ✓
- 1.3.4 Domestic tourist ✓
- 1.3.5 Ecotourism ✓
- 1.3.6 Deforestation ✓

(6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2**

2.1 2.1.1 **Name any TWO examples of social grants.**

- Child support grant ✓
- Foster child grant ✓
- Older Person's grant/Old age pension ✓
- Covid-19 Social Relief of Distress Grant ✓

(Any other correct relevant response) (Any 2 x 1) (2)

2.1.2 **What is the benefit of setting a minimum price for producers?**

It enables producers to make a comfortable profit ✓✓

It encourages them to supply important essential goods ✓✓

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

2.2 **Data Response**

2.2.1 **With which market structure can these costs and revenues be associated?**

Perfect Competition/Perfect Market ✓ (1)

2.2.2 **At what level of output will the firm be making normal profit?**

15 ✓ (1)

2.2.3 **Briefly describe the term *total revenue*.**

Total revenue is the total income received from the sale of goods and services. ✓✓

(Accept any other correct relevant response) (2)

2.2.4 **Why will an entrepreneur stay in business when the firm is making 0 economic profit?**

The firm will still be able to pay its average variable costs and the entrepreneur might still be enjoying the implicit benefits. ✓✓

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



**2.2.5 Calculate the profit/loss (b) from the table above. Show ALL calculations.**

$$\begin{aligned}
 &\text{Total Revenue/TR} - \text{Total Cost/TC} \checkmark \\
 &= 200 - 300 \checkmark \\
 &= -100 \checkmark \text{ Loss/Economic Loss} \checkmark
 \end{aligned}
 \tag{4}$$

**2.3 Data Response****2.3.1 Name the Act that governs the Competition Commission.**

Competition Act  $\checkmark$  (1)

**2.3.2 Which role players can lay a complaint with the Competition Commission?**

General public/Consumers/Households/Businesses  $\checkmark$  (1)

**2.3.3 Briefly describe the term *merger*.**

It is a legal consolidation (combining/joining) of two business entities into one.  $\checkmark\checkmark$ /The coming together of two or more firms.  $\checkmark\checkmark$   
 (Accept any other correct relevant response) (2)

**2.3.4 What is the role of the Competition Appeal Court?**

To consider appeals against decisions of the Competition Tribunal.  $\checkmark\checkmark$ /To review orders made by Competition Tribunal.  $\checkmark\checkmark$   
 (Accept any other correct relevant response) (2)

**2.3.5 What corrective measures can be instituted against companies if they are found guilty?**

- They can impose substantial financial penalties on that company.  $\checkmark\checkmark$
  - They can place such a company on a competition compliance programme.  $\checkmark\checkmark$
  - They can charge companies using relevant legislation/acts.  $\checkmark\checkmark$
  - They can force product recall on a company.  $\checkmark\checkmark$
- (Accept any other correct relevant response) (2 x 2) (4)

## 2.4 Use graphs to differentiate between negative and positive externalities.

NEGATIVE EXTERNALITY	POSITIVE EXTERNALITY
<b>MARK ALLOCATION (4)</b> Labelling of and on axis = 1 mark Indication of positive externality = 1 mark Correct drawing and labelling of S/MPC = 1 mark Correct shift of D curve = 1 mark	<b>MARK ALLOCATION (4)</b> Labelling of and on axis = 1 mark Indication of negative externality = 1 mark Correct drawing and labelling of D/MPC = 1 mark Correct shift of S curve = 1 mark

(4 x 2) (8)

## 2.5 How would competitors in a monopolistic competition ensure their operational success in the market?

- Competitors can create opportunities for non-price competition by creating unique products compared to those of their competitors. ✓✓
  - They can attract more customers by advertising their products, making them more appealing to customers. ✓✓
  - Packing their products in an attractive way for customers, making them stand out from those of competitors. ✓✓
  - Building customer loyalty through product branding. ✓✓
  - Extending their working hours from 07:00 to 17:00. ✓✓
  - Giving out loyalty rewards and points for customers for certain purchases. ✓✓
- (Accept any other relevant correct response)  
 (Allocate a maximum of 2 marks for mere listing of facts)

(8)  
[40]

**QUESTION 3**

3.1 3.1.1 **Name any TWO criteria that can be used to measure tourism.**

- There should be a purpose for the visit. ✓
  - No remuneration should be earned at the tourist destination. ✓
  - Minimum length of stay should be one night. ✓
  - Maximum length of stay should not exceed one year. ✓
  - Travelling distance should exceed 160 km. ✓
- (Accept any other relevant correct response) (Any 2 x 1) (2)

3.1.2 **What is the effect of the emission of greenhouse gases on the environment?**

It causes global warming or climate change. ✓✓  
(Accept any other relevant correct response) (1 x 2) (2)

3.2 3.2.1 **Identify, from the information above, the concept that implies that rhinos are currently non-existent.**

Extinct ✓ (1)

3.2.2 **What product can be manufactured from the Eucalyptus tree?**

Eucalyptus oil, ointments, sweets, etc. ✓  
(Accept any other relevant correct response) (1)

3.2.3 **Briefly describe the term *biodiversity*.**

The variety of plant and animal life in an ecosystem. ✓✓ (2)

3.2.4 **How can government preserve essential species such as the flora and fauna?**

- Government can grant property rights to citizens. ✓✓
  - Government can protect the species by providing safety and security. ✓✓
- (Accept any other relevant correct response) (1 x 2) (2)

**3.2.5 What negative impact will the closure of a national park have on the economy?**

- Households who are employed will lose their jobs. ✓✓
  - They will lose the income to support their families and this will lead to a decrease in their standard of living. ✓✓
  - Businesses will lose the income from the sales they have been enjoying when people were visiting a park. ✓✓
  - Government will be challenged with an increase in unemployment. ✓✓
- (Accept any other relevant correct response) (2 x 2) (4)

**3.3 3.3.1 Identify the type of tourism depicted in the picture above.**

Cultural ✓ (1)

**3.3.2 Name any reason for the growth of the tourism industry.**

- Increased disposable income ✓
  - Less working hours ✓
  - An awareness of leisure and recreation ✓
- (Accept any other relevant correct response) (Any 1) (1)

**3.3.3 Briefly describe the term *indigenous knowledge system*.**

Knowledge of and practical application for the daily survival of traditional communities. ✓✓  
(Accept any other relevant correct response) (2)

**3.3.4 How will an increase in air ticket taxes benefit the economy?**

- The government will receive more revenue to perform its duties. ✓✓
  - Government will improve infrastructure used by tourists such as communication and transport. ✓✓
  - Government will be able to use the extra revenue to improve the quality of services given to the tourists so that they can return. ✓✓
  - Tourism Indaba is one of the largest tourism marketing events; it showcases a variety of Southern Africa's best tourism products and attracts international visitors and media from across the world. ✓✓
- (Accept any other relevant correct response) (Any 1 x 2) (2)



**3.3.5 How can the government promote tourism internationally?****Government can:**

- Invest in marketing campaigns that highlight the unique attractions and experiences of our country ✓✓
- Create promotional videos, run targeted advertising campaigns and host events to showcase the local culture ✓✓
- Use Tourism Indaba as one of the largest tourism marketing events; it showcases a variety of Southern Africa's best tourism products and attracts international visitors and media from across the world ✓✓
- Consider offering incentives for travellers such as discounts on airfare or accommodations to make it more affordable for people to visit our destinations ✓✓
- Work with local businesses and organizations to create a welcoming environment for tourists so they feel safe while exploring the area ✓✓

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

**3.4 Differentiate between *conservation* and *preservation*.****CONSERVATION**

- Conservation is the act of creating standards of conduct that outline the production and careful management (proper use) of natural resources. ✓✓
- It is applied in game parks, botanical gardens, etc. ✓✓
- Conservation seeks a creative continuity of the environment while ensuring that change is sympathetic to the quality of life for both present and future generations. ✓✓ (4)

**PRESERVATION**

- Preservation means keeping something from being harmed. ✓✓
- An example is when no development takes place in a specific area – to keep something intact. ✓✓
- Non-renewable resources are irreplaceable if lost or threatened with extinction, ✓✓ e.g. species of animals, birds, heritage sites, an indigenous forest. ✓✓ Once they disappear, they are lost forever. This requires more than conservation and requires preservation. ✓✓ (2 x 4) (8)

**3.5 How can the tourism industry alleviate poverty in South Africa?**

- Prime tourist sites are located in rural areas where poverty is prevalent and could employ local people for remuneration. ✓✓
  - Tourism is a fast and effective mechanism for distributing resources to rural and urban areas to develop them as tourist sites. ✓✓
  - Tourist development in rural areas increases the number of available jobs in areas where there aren't jobs. ✓✓
  - Tourism promotes a balanced and sustainable form of development. ✓✓
  - Offers an opportunity for local residents to sell their products or services to tourists for an income. ✓✓
- (Accept any other correct relevant response)  
(Allocate a maximum of 2 marks for mere listing of facts)

(Any 4 x 2) (8)  
**[40]**

**QUESTION 4****4.1 4.1.1 Name any two types of infrastructure.**

- Economic ✓
  - Basic services ✓
  - Physical (Transport/Communication/Energy) ✓
- (Accept any correct relevant response)

(Any 2 x 1) (2)

**4.1.2 Why do businesses in the perfect market structure only make economic profit in the short term?**

In the long run, new firms/businesses would enter the market and competition rises and profits would therefore shrink/reduce. ✓✓

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

**4.2 4.2.1 Name any other industry/sector in South Africa where minimum wages are applied.**

- Civil Engineering ✓
  - Contract Cleaning Services ✓
  - Domestic Workers ✓
  - Farm Workers/Taxi/Hospitality ✓
- (Accept any correct relevant response)

(1)

**4.2.2 Give any ONE product on which government levies excise duties.**

Alcohol ✓/Tobacco or Cigarettes ✓  
(Accept any correct relevant response)

(1)

**4.2.3 Briefly describe the term *labour*.**

Labour refers to the human mental and physical effort to produce goods and services to get a reward. ✓✓

(Accept any correct relevant response) (2)

**4.2.4 What effect will the increase in the minimum wage have on the demand for labour?**

The demand for labour will decrease. ✓✓

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

**4.2.5 How does government promote education as a merit good in South Africa?**

**The government promotes education by:**

- Offering free education for learners in vulnerable communities ✓✓
- Passing laws that make it compulsory for children to attend primary school ✓✓
- Providing funding such as National FAS for students from impoverished backgrounds ✓✓
- Introducing initiatives such as the National School Nutrition Programme which provides free meals to learners from low-income families ✓✓
- Increasing the spending on Education in the National Budget ✓✓

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

**4.3 4.3.1 Identify an environmental problem depicted in the picture above.**

Hazardous/Toxic Waste ✓ (1)

**4.3.2 Name an international measure which manages nuclear waste.**

Basel Convention ✓ (1)

**4.3.3 Briefly describe the term *environmental sustainability*.**

Environmental sustainability means the ability of the environment to survive its use for economic activity. ✓✓

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



**4.3.4 Why is it difficult for the free market to ensure environmental sustainability?**

- Free markets have free access to resources and this leads to over-exploitation of resources. ✓✓
- Free markets foster inequality and poverty and these social ills put pressure on the environment. ✓✓
- Free markets respond to demand for goods and services and it prioritises profit maximisation. ✓✓

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

**4.3.5 What are the negative effects of soil erosion on the environment?**

- Soil erosion leads to increased pollution in streams and rivers. ✓✓
- It is a major environmental threat to sustainability and productivity as it affects soil fertility and food security. ✓✓
- It degrades land and often makes it less productive. ✓✓
- Erosion may result in the destruction of water sources such as dams. ✓✓
- It also destroys the ecosystem (the grazing land for animals). ✓✓

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

**4.4 Differentiate between the *environmental taxes* and the *marketable permits*.****ENVIRONMENTAL TAXES✓**

- Environmental taxes are taxes imposed on the output of goods that generate external environmental costs. ✓✓ These are called green taxes. ✓✓
- Carbon dioxide emissions from wineries and vehicle tyres are taxed. ✓✓ The tax rate is equal to the marginal external cost. ✓✓

(Accept any other correct relevant response) (4)

**MARKETABLE PERMITS✓**

- The government gives each business a licence to pollute to a certain degree. ✓✓
- Businesses sell their licences to other businesses. ✓✓
- In South Africa, marketable permits are granted by the Department of Minerals and Energy. ✓✓

(Accept any other correct relevant response)

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

(2 x 4) (4)  
(8)



**4.5 How successfully has the government dealt with missing markets as a consequence of market failure?**

**The government has successfully addressed the missing markets by:**

- Providing public goods to the citizens where markets cannot meet the demands for certain goods ✓✓
- Providing community goods, e.g. police services, free of charge to all communities ✓✓
- Making sure that all members of society have access to merit goods, e.g. education to uplift their standard of living ✓✓
- Supporting the communities by charging excise tax on the consumption of demerit goods to discourage the use thereof ✓✓
- Providing collective goods at an affordable fee allows the community to access such goods ✓✓

(Accept any other correct relevant response)

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

(Any 4 x 2) (8)

**[40]**

**TOTAL SECTION B: 80**

**SECTION C**

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

**QUESTION 5**

- **Discuss the characteristics of monopoly in detail without using graphs.** (26 marks)
- **Critically evaluate the government's role in bailing out Eskom.** (10 marks)

**INTRODUCTION**

A monopoly exists when there is only one seller of a product, when the product has no close substitutes, and when barriers block entry into the market completely.  
(Accept any other correct relevant response) (Max. 2)

**BODY: MAIN PART****1. Number of producers ✓**

- The monopolist has full control over the supply of a product because it is the only seller. ✓✓
- The monopoly also represents the total industry, e.g. De Beers, Eskom. ✓✓

**2. Nature of the product ✓**

- The product is unique and has no close substitutes. ✓✓
- E.g. electricity and rail transport. ✓

**3. Economic profit ✓**

- The monopoly makes a short-term loss or profit. ✓✓

**4. Technical superiority ✓**

- A monopoly has a technical advantage over potential competitors and its access to resources and technical superiority make it difficult for others to compete. ✓✓

**5. Demand curve ✓**

- Monopolists are also confronted with a demand curve for their product but because they are the only supplier of the product, they can decide at what point on the demand curve they wish to be. ✓✓
- The monopolist is the only supplier of the product in the market – the demand curve that confronts the monopolist is that of the market as a whole. ✓✓
- The market demand curve which slopes downwards from left to right/ graph. ✓✓

**6. Production level ✓**

- Once the monopolist has decided on a price, the quantity sold is determined by market demand ✓✓ – by reducing the price, monopolists can sell more units of the product and vice versa. ✓✓
- Monopolists influence the product price; combination of the product they sell without any reaction from other market participants. ✓✓
- Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is blocked. ✓✓

**7. Market forces ✓**

- Although the monopolist is the only supplier of a product, the product is still influenced by market forces in the economy. ✓✓
- Consumers have limited budgets and a monopoly can therefore not demand excessive prices for the product and the monopolist product has to compete for the consumer's favour with all the other products available in the economy. ✓✓
- E.g. Transnet competes with road, air and sea transport. ✓✓

**8. Control over the price ✓**

- A monopolist has considerable control over the market price – but demand limits it. ✓✓
- A monopoly does not have control over demand, so demand will influence the final market price. ✓✓
- A monopoly can only decide at which point on the demand curve it wants to produce. ✓✓

**9. Substitutes ✓**

- Few products have no close substitutes whatsoever. ✓✓
- For many years, there was no competition for telephone services in South Africa, but consumers could still use alternative forms of communication such as letters and telegrams. ✓✓

**10. Favourable circumstances ✓**

- Sometimes entrepreneurs may enjoy favourable circumstances in a certain geographic area. ✓✓
- E.g. there may be only one supplier of milk in a particular town, a hardware store or hotel. ✓✓
- There may even be laws that protect them, e.g. Post Offices in South Africa. ✓✓
- Pure monopolies are a rarity in South Africa. ✓✓
- Not only are substitutes available, but there is often nothing to prevent other entrepreneurs from entering the market, hence what may be called a quasi-monopoly. ✓✓



**11. Market information ✓**

- All buyers and the single seller do not have full knowledge of all the current market conditions. ✓✓

**12. Exploitation of consumer ✓**

- The monopolist may produce fewer products at a higher price compared to businesses under perfect competition. ✓✓
- E.g. De Beers, because the monopolist is the only producer of the product in the market, there is always the possibility of consumer exploitation. ✓✓  
Most governments take steps to guard against such practices and new and existing monopolies are usually well monitored. ✓✓

**13. Market entry ✓**

- The barriers prevent other producers from entering the market to supply the same type of product. ✓✓
- A single firm owns and controls a specific scarce resource and excludes other companies from entering the market. ✓✓

**14. Natural monopolies ✓**

- High development cost is frequently a reason – the provision of electricity is often used as an example. ✓✓
- To build a nuclear power station and transmission lines to distribute electricity, costs billions of rands. ✓✓
- E.g. Eskom as a single business in the country that supplies electricity operates as a natural monopoly and is owned and regulated by the government. ✓✓

**15. Artificial monopolies ✓**

- The barriers to entry are not economic in nature but artificial like patent rights which are legal and exclusive rights of a patent holder to manufacture a product using his or her unique invention. ✓✓
- Patents are also frequently encountered in the pharmaceutical industry. ✓✓
- Licensing is another way in which artificial monopoly is applied, e.g. TV and radio licenses. ✓✓
- Licences protect operators against entry of other competitors. ✓✓

**16. Economies of scale ✓**

- These give advantages to large existing companies. ✓✓
- Occur when the cost per unit decreases when the output increases. ✓✓
- Large businesses' production costs per unit are lower than those of small businesses, e.g. Eskom. ✓✓



**17. The geographical area ✓**

This can cause a natural barrier as well, e.g. only one holiday resort can fit on the seafront as an exclusive beach. ✓✓

**18. Size of the market ✓**

- Sometimes a business enjoys favourable circumstances in a certain small market. ✓✓
- E.g. there may be only one hardware store in a particular small town. ✓✓  
(Allocate a maximum of 8 marks for headings/sub-headings) (Max. 26)

**BODY: ADDITIONAL PART****Critically evaluate the government's role in bailing out Eskom**

- It has put Eskom into technical default and pit government against its own employees. ✓✓
- It has used trillions of civil servants' pensions and unemployment funds to rescue the debt-stricken national power monopoly. ✓✓
- It has set a bad precedent that could see other failing state-owned companies knocking on government's door and rattling private sector concerned that its money could be next. ✓✓
- State finances are now arousing political interests groups who are increasingly interested in grasping a solution ✓✓
- It has put government in a financial pressure crisis and forces government to do more work to strengthen fiscal anchors. ✓✓
- It has assisted since the outages crimped output and has disrupted everything from aluminium smelter to the household kitchen. ✓✓  
(Accept any other relevant explanation) (Max. 10)

**CONCLUSION**

Eskom's new CEO has plans of using green finance to help reduce the power utility's financial crisis but the final decisions lie with the government. ✓✓  
(Accept any other relevant conclusion) (Max. 2)

**[40]**

**QUESTION 6**

- **Discuss in detail the consequences of inflation.** (26 marks)
- **How can the South African Reserve Bank use interest rates as an instrument to control inflation in South Africa** (10 marks)

**INTRODUCTION**

This is a constant and significant increase in the general price level of goods and services in the country over a certain period of time, e.g. a year. ✓✓  
(Accept any other correct relevant introduction) (Max. 2)

**BODY: MAIN PART****1. Salary and wage earners ✓**

- Price increases affect people whose incomes are relatively fixed (in other words, people whose incomes remain constant or do not increase at the same rate as prices do). ✓✓
- This group includes retired people, pensioners and the poor. ✓✓
- As prices increase, their almost fixed incomes purchase less and less ✓✓
- However, there are individuals and entrepreneurs whose incomes often increase at a rate that is higher than the inflation rate and they do not suffer but gain from inflation. ✓✓
- Globalization results in increased employment opportunities in the economy due to increased productivity; the need to produce more goods both for local and international markets rises in globalised economies. ✓✓
- The demand for increased skilled labour becomes a need as a result, this demand for labour benefits the local labour market in increased employment opportunities and growth. ✓✓

**2. Investors and savers ✓**

- Different types of investments are affected by inflation: Assets with fixed nominal values. ✓✓
- These assets have a fixed nominal value and give a return if they are held until maturity. ✓✓
- When they are paid, because their nominal values remain constant, the purchasing power of the nominal values decreases as prices increase (that is, their real value decreases). ✓✓

**3. Assets with flexible market values ✓**

- The holders of shares and fixed property usually gain by price increases because the nominal values of these assets tend to increase at least proportionately to the rate of inflation (that is, their market values are flexible). ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level. ✓✓
- In this case, inflation creates wealth to the advantage of those holding such assets. ✓✓

**4. Taxpayers ✓**

- South Africa has a progressive personal income tax system. ✓✓
- This means that marginal and average tax rates increase in harmony with the income level. ✓✓
- The higher an individual's income, the greater the percentage of income he or she has to pay in tax. ✓✓
- With inflation, taxpayers' nominal income (wages and salaries) rises even when their real income remains unchanged. ✓✓
- Taxes are levied on nominal income and not on real income. ✓✓
- Therefore, if the income tax schedule remains unchanged, inflation increases the average rate of personal income tax. ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before. ✓✓
- This phenomenon, known as bracket creep, leads to a redistribution of income from taxpayers to the government. ✓✓
- Bracket creep results from a combination of inflation and progressive income tax. ✓✓
- It has the same effect as an increase in the tax rate. ✓✓

**5. Industrial peace ✓**

- Wage bargaining is often accompanied by strikes and mass action. ✓✓
- These actions can sometimes spill over into violence, which affects society at large. ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels), widespread civil unrest follows. ✓✓

**6. Inflation has a negative effect on economic growth ✓**

- Inflation leads to increased uncertainty in the economy. ✓✓
- This uncertainty discourages savings and investments especially in the long term. ✓✓
- Which are necessary for economic growth – result: reduced economic growth. ✓✓
- Inflation affects the real money value and savings. ✓✓



- Because inflation reduces the real value of money, it affects the real value of money saved in particular. ✓✓
- This means that because of inflation, the rand buys fewer goods and services than before. ✓✓
- It also means that the real money value saved is worth less at the end of the savings period than when the money was saved. ✓✓
- E.g. if a consumer receives 5% interest on his/her savings account while the inflation rate is 8%, then the real rate of interest on the consumer's savings is -3%. ✓✓

#### 7. Inflation has an adverse effect on a country's balance of payments (BOP)✓

- If a country's rate of inflation is higher than that of its trading partners, the prices of exported goods increase while the prices of imported goods decrease. ✓✓
  - This leads to a loss of competitiveness in the export market, which in turn, leads to decreased exports. ✓✓
  - This has a negative effect on the country's balance of payments (BOP). ✓✓
  - The loss of export competitiveness can also increase unemployment. ✓✓
  - Inflation affects the redistribution of income in a country. ✓✓
  - The effects of inflation are uneven. ✓✓
  - While it does not clearly benefit anyone and certainly harms most, it also harms some less than others. ✓✓
  - Inflation also tends to redistribute income from low-income groups to higher income groups. ✓✓
  - This is because people in the low income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation. ✓✓
  - Powerful groups such as trade unions, large companies and the wealthy, can increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and welfare recipients. ✓✓
- (Allocate a maximum of 8 marks for headings/sub-headings) (Max. 26)

#### BODY: ADDITIONAL PART

#### How can the SARB use interest rates as an instrument to control inflation in South Africa (10 marks)

- 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/prime lending rate. ✓✓
  - High interest rates discourage consumers from taking unnecessary credit, discouraging consumer spending. ✓✓
  - A decrease in credit creation results in 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 costs. ✓✓
- (Accept any other relevant answer) (Max. 10)



## **CONCLUSION**

South Africa has seen stable prices since the implementation of inflation targeting in 2 000 and has been applying all monetary and fiscal measures to combat inflation. A high rate of inflation will always cause instability in the economy. ✓✓

(Accept any other relevant conclusion)

(Max. 2)

**[40]**

**TOTAL SECTION C: 40**

**GRAND TOTAL: 150**