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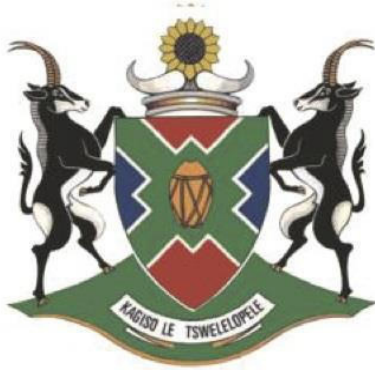
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PROVINCIAL ASSESSMENT

GRADE 12

**ECONOMICS P1
MARKING GUIDELINES
JUNE 2025**

Marks: 150

These marking guidelines consists of 21 pages.



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

- 1.1.1 B non-durable ✓✓
- 1.1.2 C compensation ✓✓
- 1.1.3 D money supply ✓✓
- 1.1.4 A peak to peak ✓✓
- 1.1.5 A Progressive tax system ✓✓
- 1.1.6 C individuals. ✓✓
- 1.1.7 B residual ✓✓
- 1.1.8 D Terms of trade ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 C Generalising their own experience as individuals when explaining the operation of the economy as a whole ✓
- 1.2.2 F Estimate the unknown data based on a pattern of known data ✓
- 1.2.3 E The value of a currency increases in terms of another countries currency ✓
- 1.2.4 A Income earned more than the minimum required to keep a factor of production employed ✓
- 1.2.5 H The amount of money spent by a consumer even when they have no income ✓
- 1.2.6 I The process of increased international co-operation and communication leading to increased trade and international business transactions ✓
- 1.2.7 B Manages the country's economic policy ✓
- 1.2.8 G Government decrease spending and increase taxation ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Transfer payment ✓
- 1.3.2 Repo rate ✓
- 1.3.3 Deflation ✓
- 1.3.4 Privatisation ✓
- 1.3.5 Balance of Payments ✓
- 1.3.6 Free floating exchange rate ✓ (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: MACROECONOMICS**40 MARKS – 30 MINUTES****2.1 Answer the following questions.****2.1.1 Name any TWO leakages found in the circular flow model.**

Savings ✓

Imports ✓

Taxes. ✓

(2 x 1)

(2)

2.1.2 Why should business cycles not exist in planned economies?

- In a planned economy everything is controlled by state or government. ✓✓
- Government control production, pricing and resource allocation. ✓✓
- There are no forces of supply and demand that can affect the economy ✓✓

(Accept any other correct and relevant response)

(1 x 2)

(2)

2.2 DATA RESPONSE**2.2.1 Identify the curve used in the graph above.**

Laffer Curve ✓

(1)

2.2.2 Name ONE source of income for the government.

Taxes ✓

Government expenditure ✓

Leasing of government properties ✓

Income generated by parastatals ✓

Donations ✓

Administrative income ✓

(1)

2.2.3 Briefly describe the term *Medium Term Expenditure Framework (MTEF)*.

A three-year spending plan for a government. It helps governments balance competing policy priorities and budget constraints ✓✓

(Accept any other correct and relevant response)

(1 x 2)

(2)

2.2.4 Examine indirect taxes as a form of income for the government.

- Indirect taxes are excise tax/sin tax on tobacco and alcohol, VAT, sugar tax, and service tax. ✓✓
- These taxes are paid to government via a third party and can be used to generate income for government nor discourage the use of harmful products. ✓✓
(Accept any other correct and relevant response) (1 x 2) (2)

2.2.5 How are socio-economic rights embedded in the budget of the South African government?

- Socio-economic issues in South Africa are embedded in the national budget through dedicated funding allocations towards programs aimed at addressing poverty, unemployment, inequality, and access to basic services like healthcare, education, and housing. ✓✓
- Significant portions of the budget are directed towards social development programs, often including targeted interventions for vulnerable populations. ✓✓
- Allocations to social grants including the child support grant, old age pension, and disability grants. Aiming to alleviate poverty and provide basic income support to vulnerable citizens. ✓✓
- Public education, including funding for teacher salaries, infrastructure development (building of schools), learning and teaching support material (LTSM) and student support programs to improve access to quality education, particularly in disadvantaged areas. ✓✓
(Accept any other correct and relevant response) (2 x 2) (4)

2.3 DATA RESPONSE**2.3.1 Identify the institution responsible for compiling the balance of payments in the extract above.**

South African Reserve Bank/SARB ✓ (1)

2.3.2 Name ONE product where South Africa have an *absolute advantage* in international trade.

Platinum ✓
Gold ✓
Diamonds ✓ (1)
(Accept any other correct and relevant response)

2.3.3 Briefly describe the term *foreign direct investments (FDI)*.

When foreign countries invest money in South Africa, resulting in an inflow of capital into the country. ✓✓ (1 x 2) (2)
(Accept any other correct and relevant response)

2.3.4 Explain the concept of *surpluses* in the balance of payment account.

When an account's total credit (the total currency inflow) is greater than the total debit entries (total currency outflow). ✓✓

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

2.3.5 Why are foreign direct investments recorded as a liability?

- When foreign business invests in South Africa, there is money flowing into the economy. ✓✓
- It will be recorded as a liability, as this investment will have to be paid back. ✓✓

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

2.4 Discuss the relationship between consumers and government.

- Households sell their factors of production in the factors market, government hires public sector servants, e.g. educators, nurses and doctors, to provide services to consumers/households. ✓✓
 - In return the households receive remuneration, salaries/wages for labour, rent for natural resources, profit for entrepreneurship and interest for capital. ✓✓
 - Households/consumers pay taxes to government and in return for this the government supply consumers/households with infrastructure, e.g. roads, school and hospitals. ✓✓
 - When the private sector can't provide services, government can step in and supply services, e.g. electricity via Eskom. ✓✓
 - Government can regulate certain industries, e.g. fuel, protecting consumers/households against huge increases in the price of fuel. ✓✓
- (Accept any other correct and relevant response) (2 x 4) (8)
- (A maximum of 4 marks may be allocated for mere listing of facts/examples)**

2.5 Examine the relationship between inflation and unemployment.

- Every country has a natural unemployment rate. One of the main objectives of the government's fiscal policy are to decrease unemployment. ✓✓
- Labour (and the remuneration for labour) is a huge part of the input cost in production. ✓✓
- There is an inverse relationship between unemployment and inflation, if unemployment decrease, inflation will increase (and vice versa). ✓✓
- Government must thus decide on the amount of unemployment they are willing to accept for less inflation. ✓✓
- Salaries and wages will increase, and this will lead to an increase in inflation (the increase in the salaries and wages of people, mean that they have more purchasing power). ✓✓

(Accept any other correct and relevant response)

(4 x 2)

(8)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

[40]

QUESTION 3: MACROECONOMICS**40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Name any TWO policies used to achieve the economic growth.**

Fiscal policy ✓

Monetary policy ✓

(2 x 1) (2)

3.1.2 Explain the impact of international trade on mass production.

- The evolution of international trade has led to new global markets and an increase in demand for goods and services from these global markets, producers had to increase production in order to supply these new markets. ✓✓
- Bigger international markets required more products to be produced. Increased production together with economies of scale led to products being produced in bulk and at lower prices for the new markets. ✓✓
- International trade and new markets have led to the creation of global supply chains, which have made it possible for countries to increase their production capacity by specialization which led to increased production and exporting the surplus goods produced. ✓✓

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

3.2 DATA RESPONSE**3.2.1 Identify the line of equilibrium from the graph above.** $Y = E$ ✓

(1)

3.2.2 Name any ONE of the participants in the graph above.

- Business/Firms/Producers ✓
- Household/consumers ✓

(1)

3.2.3 Briefly describe the term *multiplier effect*.

- The situation where a change in spending causes an disproportionate change in aggregate demand and hence in the level of aggregate income (the opposite can also happen when there is a decrease in expenditure). ✓✓
- One individual's expenditure becomes the next individual's income. ✓✓

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

3.2.4 Examine the concept of autonomous consumption.

- The expenditures that consumers must make even when they have no disposable income. ✓✓
 - Certain goods need to be purchased, regardless of how much income or money consumer has in their possession at any given time. ✓✓
 - When a consumer is low on resources, paying for these necessities can force them to borrow money or access money that they had previously been saving. ✓✓
- (Accept any correct and relevant response) (1 x 2) (2)

3.2.5 Calculate the multiplier, use the formula $k = 1 / (1 - MPC)$.

$$k = 1 / (1 - MPC)$$

$$k = 1 / (1 - 0.75) ✓$$

$$k = 1 / 0.25 ✓$$

$$k = 4 ✓✓ (4)$$

3.3 DATA RESPONSE**3.3.1 Identify the monetary policy instrument implemented in the car above.**

Interest rate cuts/Rate cut ✓ (1)

3.3.2 Name the institution responsible for monetary policy.

South African Reserve Bank/SARB ✓ (1)

3.3.3 Briefly describe the term *business cycle*.

A cyclical pattern of consecutive periods (time) of increasing and decreasing economic activity/GDP and trends in a country. ✓✓
(1 x 2) (2)

3.3.4 What fiscal policy instruments are available for government to control the business cycle?

Government can increase or decrease taxes and government expenditure. ✓✓
(Accept any other correct and relevant response) (1 x 2) (2)

3.3.5

Explain how monetary policy instruments should be implemented when the business cycle is entering a boom phase.

To achieve this SARB can implement one or more of the following policy instruments:

- Increase interest (repo) rates, making borrowing money (credit) more expensive and less attractive for consumers and there will be a decreasing in the demand for goods/services. ✓✓
 - Make use of open market transactions, the SARB will sell securities (e.g. bonds) to the commercial banks, decreasing the available money in circulation at the commercial banks. ✓✓
 - Increase cash reserve requirements, increase the on demand deposits from commercial banks (commercial banks has on demand deposits at the SARB), removing money from the economy. ✓✓
 - Moral suasion/persuasion, refers to the use of persuasion and rhetorical appeals by the SARB bank to influence the behaviour of commercial banks and other financial institutions, rather than relying on strict regulations or mandates. It's a non-quantitative approach to credit control, meaning it doesn't involve direct changes in interest rates or reserve requirements. ✓✓
 - The SARB can buy US dollars on the open market. South Africa operates under a free-floating exchange rate policy, allowing the rand's value to be determined by market forces, but the SARB can intervene to manage volatility and ensure an orderly foreign exchange market, by increasing the demand for US dollars the value of the rand will depreciate, making imports unattractive and slow down the economy. ✓✓
 - The SARB make money “scars or expensive”, which will lead to a decrease in the demand for goods and services the economy will “cool down” and we will experience a simultaneous decline in inflation.
- (Accept any other correct and relevant response) (2 x 2) (4)

3.4 Discuss the relationship between economic growth and economic development as public sector objectives.

- Economic growth refers to an increase in the production of goods and services in a country. ✓✓
 - Economic growth is measured in terms of Real GDP. ✓✓
 - For economic growth to occur, the economic growth rate must be higher than population growth. ✓✓
 - Economic Development is programs, policies or activities that seek to improve the economic well-being and quality of life for a community. ✓✓
 - Economic development is measured by GDP per capita or standard of living. ✓✓
 - Economic Development is programs, policies or activities that seek to improve the economic well-being and quality of life for a community. ✓✓
 - Growth and development, benefit its citizens and often leads to higher standard of living. Without economic growth there can be no economic development. ✓✓
- (Accept any other correct and relevant response) (4 x 2) (8)
- (A maximum of 4 marks may be allocated for mere listing of facts/examples)**

3.5 Examine the measures available to correct a balance of payment deficit.

Interest rates.

- Domestic demand can be changed by increasing interest rates. If interest rates are increased, spending, including spending on imports will decrease (decrease in disposable income). ✓✓
- Simultaneously, foreign savers try to take advantage by increasing their investment in the country with the higher interest rate. ✓✓
- The opposite happens when interest rates are decreased. ✓✓

Import controls.

- This includes import tariffs, other duties and quotas. ✓✓
- The WTO is trying to lower tariffs and other trade barriers for the sake of trade liberalization. ✓✓

Borrowing and lending.

- Countries with surpluses often lend money to countries with deficits. Countries with deficits often borrow. ✓✓
- In the event of a fundamental disequilibrium, member countries may borrow from the IMF. ✓✓

Change in demand.

- Changes in demand is either domestic or foreign. An increase in domestic demand cause imports to increase and this has a negative effect on the balance of the balance of payments. ✓✓
- A decrease in demand has the opposite effect. ✓✓

Export promotion.

- Export promotion (such as government incentives), is applied to encourage the production of goods that can be exported, e.g. certain European countries pay subsidies to farmers. ✓✓
- This will bring the prices of locally produced goods down and make exports more attractive. ✓✓

Import substitution.

- Government pays incentives to produce goods domestically rather than to import them. The South African government favours export promotion. ✓✓

Change in exchange rates.

- Exchange control allows central banks to ration foreign exchange. Thus, making it difficult to import. ✓✓

Free-floating exchange rates.

- South Africa uses the free-floating exchange rate system; our currency is traded in the open market. If imports increase, the demand for foreign exchange increase. ✓✓
- The currency depreciates because of the working of market forces. Depreciation makes imports more expensive in the depreciating country and exports cheaper in the foreign country. ✓✓
- Imports decrease, exports increase, and the currency appreciates. ✓✓

Managed floating exchange rate.

- Central banks use their reserves to effect depreciations and appreciations. ✓✓
- Over the long term, currencies must find their equilibrium levels. ✓✓

Fixed exchange rate.

- Currencies are devalued and revalued by the Central bank. ✓✓

Increase in tax.

- Reduces disposable income which decreases demand in imports. ✓✓

Reduction of reserves by SARB.

- Correct deficits if we adopted a Managed floating exchange rate. ✓✓
(Accept any other correct and relevant response) (2 x 4) (8)
(A maximum of 2 marks may be allocated for mere listing of facts/examples)

[40]

QUESTION 4: MACROECONOMICS**40 MARKS – 30 MINUTES****4.1 Answer the following questions.****4.1.1 Name any TWO factors that affects the exchange rate.**

Supply ✓

Demand. ✓

Increased demand for a country's currency by inbound tourists.

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

4.1.2 Explain the nature of business cycles.

The business cycle is the natural expansion and contraction of the production and output of goods and services that happens over a period of time. It can be said to be the economic rise and fall of a firm in the economy. ✓✓

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

4.2 DATA RESPONSE**4.2.1 Identify ONE state operated enterprise in the cartoon above.**

Post Office ✓

SAA ✓

SABC ✓

Eskom ✓

(1)

4.2.2 Name ONE necessity of the public sector.

Economic rights ✓

Social rights ✓

Basic human rights ✓

(Accept any other correct and relevant response) (1)

4.2.3 Briefly describe the term *parastatals*.

Institutions/organizations, which are wholly or partially owned and managed by the government (either autonomous or quasi-governmental). ✓✓

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

4.2.4 Explain the advantages of privatizing a state owned enterprise.

Advantages, including increased efficiency, competition, and government revenue, reduction in fiscal burden, improved service delivery and less government interference. ✓✓

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

4.2.5 Discuss reasons for public sector provisioning.

- To supply public goods/services, using policies such as taxation and government spending. ✓✓
- Supply public goods: community goods, collective goods, merit goods and control non-merit goods. ✓✓
- Conserve resources and protect the environment. ✓✓
- Manage the economy: manage the collective interest of its people, create the social legislative environment in which businesses and individuals pursue their own interests, apply suitable and credible economic and other policies in order to achieve internationally respected objectives. ✓✓

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

4.3 DATA RESPONSE**4.3.1 Name ONE currency used in the graph above.**

Rand's ✓
Dollars ✓ (1)

4.3.2 Identify the original exchange rate equilibrium.

E (R16.00 for \$10). ✓ (1)

4.3.3 Briefly describe the term *devaluation*.

An official lowering of the value of a country's currency within a fixed exchange-rate system. ✓✓ (1 x 2) (2)

4.3.4 Why did the demand for dollars per day decrease?

- The Rand depreciated, due to lower demand and payments of imports. ✓✓
- Decrease in payments for services from the USA. ✓✓
- South Africa paid less interest and dividends on US capital invested in South Africa. ✓✓
- A decrease in capital transferred to the USA by South African investors. ✓✓
- A decrease in the number of South African tourists spending money in the USA. ✓✓

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

4.3.5 What type of interventions can be implemented to influence an free floating exchange rate?

- The value of the currency is determined purely by the forces of the market, demand for rand and supply of rand. ✓✓
 - SARB can buy or inject dollars into the market. ✓✓
 - The monetary authority (Central Bank of a country) intervenes to affect the level of the exchange rate only on rare occasions if market conditions are disorderly. ✓✓
- (Accept any correct and relevant response) (2 x 2) (4)

4.4 Discuss supply side reasons for international trade.

Natural resources.

- Natural 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 there are such resources. ✓✓
- Each country has its own unique mix of natural resources that makes it possible for them to produce certain goods/services more efficiently and at a relatively lower price. ✓✓
- South Africa's gold and diamond resources has given us an advantage in producing and exporting gold and diamonds. ✓✓

Climatic conditions.

- Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
- Many crops can only be cultivated in certain climatic conditions and areas, or in certain kinds of soil. Topography, e.g. Brazil is the biggest producer of coffee in the world. ✓✓

Labour resources.

- The quality, quantity and cost of labour also differ between countries. ✓✓
- Some countries have highly skilled labour with high productivity rates. This enables them to produce goods/services at a lower price than they are produced in other countries. ✓✓
- Certain individuals have greater ability and aptitude for certain tasks. It's a worldwide phenomenon that some countries have developed a skill and aptitude for the production of certain commodities, (e.g. the Swiss and watch making). ✓✓

Technological resources.

- Some countries have access to technological resources that enable them to produce certain goods/services at lower unit costs. ✓✓
- Improved production processes, the availability of equipment and machinery, and other technological factors, all influence the supply of goods/services and thereby contribute to cost differences between countries, e.g. Japan. ✓✓

Specialisation.

- Some countries specialize in the production of certain goods and services. ✓✓
- By specializing in the production of certain goods/services, a country is able to take advantage of economies of scale and therefore produce the goods at a comparatively cheaper unit cost e.g. Japan has specialized in the production of certain electronic goods and they sell them at a much lower price than they can be produced in other countries. ✓✓
- This often results in mass production because of division of labour automation and mechanization. ✓✓

Capital.

- Can't be obtained as easily in some countries as in others. ✓✓
- Developed countries usually enjoy an advantage over developing countries. ✓✓
- Due to a lack of capital some countries can't produce all the goods they require themselves, or they may not have the favourable conditions of other countries. ✓✓
- In many countries there is a lack of physical infrastructure and this hampers local production of goods/services. ✓✓

(Accept any other correct and relevant response) (4 x 2) (8)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

4.5 Interpret leading and composite indicators as features underpinning forecasting in business cycles.

Leading economic indicators.

- Indicators that change before the economy changes. ✓✓
- Give consumers, business leaders and policy makers a glimpse of where the economy might be heading. ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time. ✓✓
- E.g. job advertising space/inventory/sales ratio. ✓

Composite indicators.

- It is a grouping of various indicators of the same type into a single value. ✓✓
- The single figure forms the norm for a country's economic performance. ✓✓

(Accept any other correct and relevant response) (4 x 2) (8)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

TOTAL SECTION B: 80

SECTION C

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

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

- Discuss in detail the markets within the **FOUR-SECTOR** model. (26 marks)
- Interpret the purpose of the **System of National Accounts** as outlined by the United Nations. (10 marks)

INTRODUCTION

The circular flow model is a simplified representation of the interaction between the participants of the economy. Markets coordinate economic activities and determine prices for goods and services. ✓✓
(Accept any other correct and relevant response)

(Max. 2)

BODY**MAIN PART****THE FOUR MARKETS IN THE CIRCULAR FLOW****Goods, products market.** ✓

These markets are mainly for consumer goods and services, but also supply goods and services to the other participants in the circular flow (government, firms and foreign markets). ✓✓

- In economics a distinction is made between goods and services:
 - Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need. ✓✓
 - Buying and selling of goods that are produced in markets e.g.:
 - Capital goods market for trading of buildings and machinery. ✓✓
 - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods. ✓✓
 - Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets. ✓✓

Factors market/Resources market/Input markets. ✓

- The factor market includes the labour, property and financial markets. ✓✓
- Households sell their factors of production on the factors market; natural resources are sold for rent, labour are sold for wages and salaries, capital are sold for interest and entrepreneurship are sold for profit. ✓✓

Financial markets. ✓

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds. ✓✓
- E.g. banks, insurance companies & pension funds. ✓

Money markets. ✓

- In the money market, short term loans and very short-term funds are saved and borrowed by consumers and business enterprises. ✓✓
- Products sold in this market are bank debentures, treasury bills and government bonds. ✓✓
- The SARB is the key institution in the money market. ✓✓

Capital markets. ✓

- In the capital market long term funds are borrowed and saved by consumers and business enterprises. ✓✓
- Products sold in this market are mortgage bonds and shares. ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market. ✓✓

Foreign exchange markets. ✓

- On the foreign exchange market businesses buy and sell foreign currencies to pay for imported goods and services. ✓✓
- These transactions occur in banks and consist of an electronic money transfer from one account to another. ✓✓
- The most important foreign exchange markets are in London, New York and Tokyo. ✓✓
- The South African rand is traded freely in these markets (we trade our currency on a free-floating exchange market). ✓✓
- E.g. when a person buys travellers cheques to travel abroad. ✓✓ (Max. 26)
(Accept any other correct and relevant responses)

ADDITIONAL PART

- The System of National Accounts (SNA) is a set of international guidelines for the development of economic accounts and for reporting such statistics to international organisations in a manner comparable across countries. ✓✓
- The SNA outlined by the United Nations serves several purposes: It provides a comprehensive framework for organizing economic data, allowing for the systematic analysis of national economies. ✓✓
- It provides a comprehensive framework for organizing economic data, allowing for the systematic analysis of national economies. ✓✓
- SNA facilitates the comparison of economic performance across different countries by establishing common concepts, definitions, classifications, and accounting rules. ✓✓
- It offers a tool for policymakers to assess the impact of their decisions on the economy, enabling the formulation and evaluation of economic policies. ✓✓
- SNA helps in understanding the structure of an economy, including the production, income, consumption, and accumulation of wealth, which is crucial for informed decision-making. ✓✓
- SNA helps in understanding the structure of an economy, including the production, income, consumption, and accumulation of wealth, which is crucial for informed decision-making. ✓✓



- It supports the monitoring of economic trends, such as GDP growth, inflation, and employment, providing essential information for economic forecasting and planning. ✓✓
- In summary, the SNA serves as a fundamental tool for understanding, analysing, and comparing the economic performance of nations, aiding policymakers, researchers, and analysts in making informed decisions. ✓✓

(Max. 10)

(Accept any other correct and relevant response)

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

- Markets are important indicators in a mixed market economy, it indicates how many units will be produced and demanded at a certain price. ✓✓
- Competition drives down prices and increases quantity and quality, thus improving the standard of living. ✓✓
- Different products/goods are traded in the different markets and the prices of these products/goods are dependent on the forces of supply and demand. ✓✓

(Max. 2) **[40]**

(Accept any correct and relevant response)

QUESTION 6: MACROECONOMICS**40 MARKS – 40 MINUTES**

- **Discuss in detail the reason(s) for public sector failure.** (26 marks)
- **Critically evaluate the impact of an increase in the basket of food items exempted from VAT on the economy.** (10 marks)

INTRODUCTION

- Public sector failure occurs when the state/government fails to provide goods and services to the people. ✓✓
 - Public sector failure occurs when government intervention in the economy leads to an inefficient allocation of resources and leads to an overall decline in economic welfare. ✓✓
 - Targets are missed (e.g. GDP, Inflation, Economic development). Incompetence in the use of monetary and fiscal policy and the implementation thereof. ✓✓ (Max. 2)
- (Accept any other correct and relevant response)

BODY**MAIN PART****Management Failures** ✓

- Politicians tend to promote policies and continue to spend money on projects as long as they can get votes in return. ✓✓
- These policies might involve the inefficient allocation of resources. ✓✓
- Many Public sector entities has a lack capacity due of a lack of skills. ✓✓
- This means that funds are often not spent and must be returned to the treasury. ✓✓
- Ignorance, e.g. lack of leadership, experience and training, might result In the improvement of the welfare of someone at the expense of someone else. ✓

Apathy ✓

- Government officials show little or no interest in delivering an efficient service to the public. ✓✓
- Successful public production relies on long-term accountability. ✓✓
- If not addressed properly, then it could lead to inefficiency, corruption, violence and poor service delivery. ✓✓

Lack of Motivation ✓

- Frontline workers rarely receive incentives for successful service delivery. ✓✓
- There is little or no stipulations for quality and quantity, effective and productive service delivery and this leads to limited service delivery, low quality goods at high costs. ✓✓



Bureaucracy ✓

- Bureaucrats tend to obey rules and regulations without judgement. ✓✓
- They tend to be more interested in obeying the rules than the efficient delivery of goods and services to the people. ✓✓
- This leads to limited service delivery at a high cost & poor quality. ✓✓

Politicians ✓

- Those who aim is to be re-elected and who pursue vote-maximising strategies to secure or retain their political offices. ✓✓
- Such politicians have a short-term horizon which is limited to the date of the next election. ✓✓

Serious structural weaknesses in the economy/Privatisation ✓

- Some objectives may work against each other, e.g. government redistributes income and wealth too aggressively, or the implementation of rules to combat covid-19 effects the functioning and growth of the economy. ✓✓
- This can result in social goals not been attained. ✓✓

Special interest groups ✓

- Attempts by interest groups such as farmers or organised labour to influence government to their own advantage. ✓✓ (Max. 26)
- (Accept any other correct and relevant response)

ADDITIONAL PART

- The main aim is to provide relief to poor South Africans and potentially add protein to the list to address malnutrition. ✓✓
- VAT is an inherently regressive tax without any zero-rated items, as the amount paid by lower-income households as a share of disposable income is higher than that of richer households. ✓✓
- Zero-rating is a poor tool for supporting poor households. At best, rich households receive as much benefit as poor households, but they mostly tend to benefit much more than their lower-income counterparts. ✓✓
- The benefit to rich households is so large that the reduced VAT rate actually has a regressive effect in benefiting the rich much more in absolute terms. ✓✓
- However, it also said that the benefit to the rich is far larger as they consume larger quantities of zero-rated goods. ✓✓
- South Africa's VAT-exempt list currently includes 19 basic foods such as brown bread, maize meal, milk, rice, vegetables, and eggs. ✓✓
- Other concerns raised were the cost of foregone revenue, that zero-rating could encourage imports, and that the benefits would not be passed on to consumers. ✓✓ (Max. 10)

(Accept any other correct and relevant response)

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

CONCLUSION

The government has a responsibility to supply goods, services and infrastructure, to the country as whole. Misallocation of tax payer's money can impact on the five main objectives of government, mainly limiting economic growth and job creation, this will lead to a lack of, or no economic development. ✓✓

(Max. 2) **[40]**

(Accept any other correct and relevant response)

TOTAL SECTION C: 40
GRAND TOTAL: 150