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LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

GRADE 12

**NATIONAL SENIOR CERTIFICATE
SENIOR CERTIFICATE**

**ECONOMICS GRADE 12
TEST 1
TASK 2
MARKING GUIDELINES**

This MARKING GUIDELINES consist of 15 page



**SECTION A****QUESTION 1****1.1. Multiple choice**

- 1.1.1. C durable ✓✓
- 1.1.2. A 0, 4. ✓✓
- 1.1.3. B 3% ✓✓
- 1.1.4. B Laffer ✓✓
- 1.1.5. A revaluation ✓✓

(5 x 2) (10)

1.2. MATCHING

- 1.2.1. E ✓
- 1.2.2. G ✓
- 1.2.3 F ✓
- 1.2.4 C ✓
- 1.2.5 B ✓
- 1.2.6 A ✓

(6x1) (6)

1.3. ONE TERM

- 1.3.1. Gross domestic product ✓
- 1.3.2. Phillips curve ✓
- 1.3.3. Pareto efficiency ✓
- 1.3.4. Term of trade ✓

(4 x 1) (4)

SECTION A: [20]





SECTION B

Answer any 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 TWO elements of multiplier in a two sector economy.

- Marginal propensity to consume ✓
- Marginal propensity to save ✓ (2x1) (2)

2.1.2. How can an increase in the marginal propensity to save (MPS) affect the size of the multiplier?

- A marginal propensity to save causes a withdrawal of money from the circular flow and will reduce the size of the multiplier. ✓✓ (1x2) (2)

2.2. DATA RESPONSE.

2.2.1. Identify the type of economy illustrated in the diagram above.

- Open economy / 4 sector economy ✓ (1)

2.2.2. Which flow is not indicated in the diagram above?

- Real flow/ Money flow ✓ (1)

2.2.3. Briefly describe the term circular flow.

- It is the diagram indicating the flow of production, expenditure and income in the economy. ✓✓ (2)
(Accept any other relevant response)

2.2.4. Why is the gross domestic product always greater than the gross national product for South Africa?

- Foreigner's contribution to our economy is more than our contribution to their economies. ✓✓ (2)

2.2.5. What measures can the South African government employ to ensure that money does not flow out of the country easily?

- Exchange controls – Restrict the amount of foreign currency individuals and businesses can take out of the country. ✓✓
 - Tax regulations – Impose taxes on capital transfers or profits sent abroad to discourage excessive outflows. ✓✓
- (Accept any other correct relevant response) (4)





2.3. DATA RESPONSE.

2.3.1. Identify the item that refers to the prices paid by consumers for goods and services.

Gross Domestic Product (GDP) at market prices ✓ (1)

2.3.2. Name any ONE example of taxes on products.

- Value Added Tax (VAT) ✓
 - Excise duties (Sin tax, Sugar tax) ✓
 - General fuel levy ✓
 - Carbon tax on motor vehicle emissions ✓
 - Import duty / Customs duty / Import tariffs ✓
- (Accept any other correct relevant response) (1)

2.3.3. Briefly describe the term factor cost.

- The cost of factors of production used in the production process during a particular period of time. ✓✓ (2)
- (Accept any other correct relevant response)

2.3.4. Explain the impact of subsidies on production to producers of goods and services.

- Producers will benefit from lower cost of production ✓✓
 - Producers may be encouraged to increase production output ✓✓
 - Producers may be encouraged to sell their products at lower prices. ✓✓
- (Accept any other correct relevant response) (2)

2.3.5. Use the information in the above table to calculate the value of the Gross Value Added at basic prices (A). Show ALL calculations.

$$\begin{aligned} \text{Gross Value Added at basic prices (A)} &= 6\,175\,572 \checkmark \\ + 148\,361 &\checkmark \\ - 13\,104 &\checkmark \\ = 6\,310\,829 &\checkmark \end{aligned}$$

OR

$$\begin{aligned} \text{Gross Value Added at basic prices (A)} &= 7\,023\,994 \checkmark \\ + 17\,341 &\checkmark \\ - 730\,506 &\checkmark \\ = 6\,310\,829 &\checkmark \end{aligned} \quad (4)$$





2.4 Analyse the relationship between the financial sector and other participants in the circular-flow model.

- Financial sector includes banks and other institutions that **provide borrowing and lending services to the other participants on the circular flow model** ✓✓
- Financial institutions **act as intermediaries between the households** who want to save money **and businesses** that want to borrow money to finance their investments. ✓✓
- Commercial banks **accept deposits of money from households** as savings and pay interests on the savings. ✓✓
- The **financial sector lends money in form of loans to producers** that need to expand their operations ✓✓ for example buy more land and buildings or machinery and equipment ✓
- **Households may borrow money from financial institutions** to purchase goods and services such as houses and vehicles ✓✓
- Commercial banks **facilitate the exchange of different currencies** which allows other participants to make payments for their imports
- The **government may borrow funds** from different financial institution to cover the spending needs

(Accept any other correct relevant response)

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

(4 x 2) (8)





2.5 How can fiscal policy be used to positively influence the economy?

(8)

South Africa's fiscal policy has the following positive effects on the economy:

- Progressive income tax system makes income more evenly distributed because higher income earners pay higher tax rates while lower income earners pay lower tax rates. √√
- Decrease in direct taxes, such as PAYE, increases consumers' disposable income which will stimulate consumption expenditure. √√
- Reduction in indirect tax such as VAT will increase consumption as the prices of all products that are VAT linked will decrease. √√
- Increase direct taxes such as personal income tax can reduce inflationary pressures by lowering aggregate demand. √√
- Social grants paid by the government to households may increase consumer spending and stimulate aggregate demand in the economy. √√
- Production subsidies paid by the government to some producers reduce their cost of production which encourages them to produce more output. √√
- Funds allocated from the national budget to provide free services help to improve the lives of many poor people. √√
- Subsidies on products stimulate consumer spending as more households afford to pay lower prices. √√
- Government expenditure on infrastructure development promotes efficient operation of businesses and attract more investments in the economy. √√
- Funds allocated to redress the imbalances of the past through different programmes may help to improve the standard of living for the previously disadvantaged groups. √√
- (Accept any other correct higher order, relevant response) (Max 10)
- (Allocate a maximum of 2 marks 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 reasons for public sector failure. (2 x 1)(2)

- Management failure ✓
- Apathy ✓
- Lack of motivation
- Bureaucracy ✓
- Politicians ✓
- Structural weaknesses ✓
- Special interest groups ✓

3.1.2. Why is investment regarded as an injection in the circular flow model?

- Investment adds money into the circular flow which will subsequently lead to increase in national income. ✓✓

(1x2) (2)

3.2. DATA RESPONSE

3.2.1. Identify the tax rate at which the government maximises tax revenue.

- 50% ✓

(1)

3.2.2. Name any form of indirect tax paid by households to the government.

- Value Added Tax / VAT ✓
 - Excise duty (Sin tax, Fuel levy, Carbon tax, Sugar tax) ✓
 - Import duty / Import tariff ✓
- (Accept any other correct relevant response)

(1)

3.2.3. Briefly describe the term progressive tax.

- Tax system whereby people in higher-income groups pay higher tax rates than those in lower-income groups. ✓✓
- (Accept any other correct relevant response)

(2)

3.2.4. Explain the effect of a regressive tax system on income distribution.

- Regressive tax system makes income to be more unequally distributed ✓✓ / The income inequality amongst the population will increase ✓✓ / The gap between low-income earners and high-income earners will increase as low-income earners pay higher tax rates than high-income earners ✓✓
- (Accept any other correct relevant response)

(2)

3.2.5. Why will tax revenue decrease if the government imposes very high tax rates?

- Some businesses and individual may be forced to evade tax resulting in lower tax revenue for the government. ✓✓
- Some workers may be discouraged to enter the labour market which will reduce the tax base for the government. ✓✓
- Businesses may reduce production or withdraw their investments from the economy, which shrinks the tax base. ✓✓

(2 X 2) (4)





3.3. DATA RESPONSE.

3.3.1. Identify any ONE point in the graph that shows the initial natural rate of unemployment
 ▪ D[√] (1)

3.3.2. Name the business cycle turning point during which inflation is often the highest.
 ▪ Peak[√] (1)

Briefly describe the term new economic paradigm.

- It is possible for output to rise at a high rate for an extended period of time without being tripped by supply constraints and without provoking inflationary pressures. ^{√√}
 (Accept any other correct relevant responses) (2)

3.3.4. Explain the relationship between unemployment and inflation in the graph.
 • The Phillips curve shows the negative or inverse relationship between unemployment and inflation (2)

3.3.5. Explain a reason for the curve to move to PC1.
 ▪ Implementing the supply-side policies^{√√}
 ▪ Improving labour skills and productivity through better education, and training ^{√√}
 (Accept any other correct relevant responses) (4)

3.4. Briefly explain free floating and the fixed exchange rate systems.

Free floating exchange rate

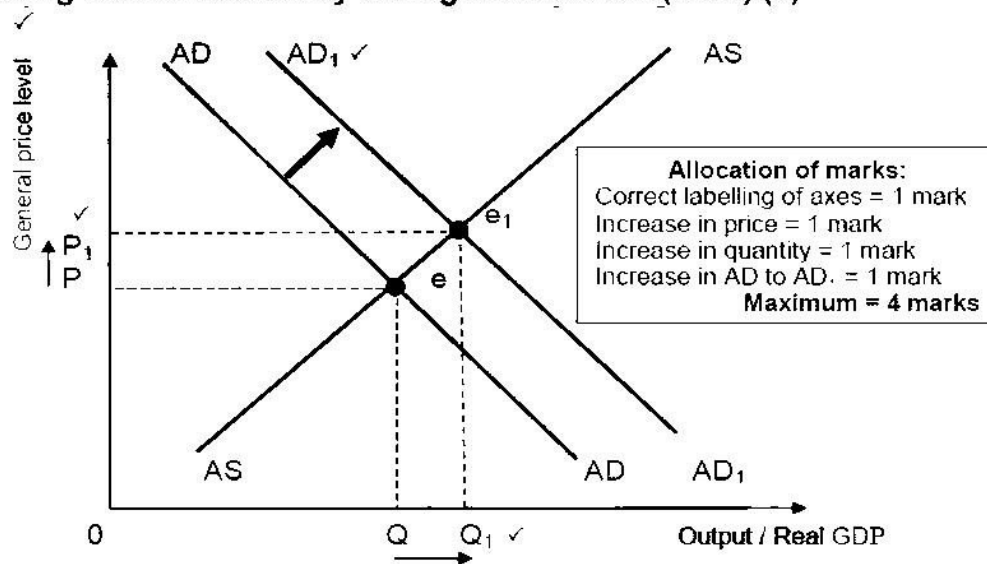
- The value of the currency is determined purely by the forces of the market. i.e. demand for rand and supply of rand. ^{√√}
- The government does not intervene in the foreign exchange market to influence exchange rates. ^{√√}
- The exchange rate fluctuates as market conditions change^{√√}
- Any differences in supply and demand are automatically corrected in the market. ^{√√}
- South Africa uses a free-floating exchange rate system that allows the currency to adjust to global conditions ^{√√} (2 x 2) (4)

Fixed rate of exchange

- The government determines or pegs the exchange rate based on the value of another currency such as the US dollar. ^{√√}
- The central bank buys and sells foreign exchange to maintain the exchange rate at the set level. ^{√√}
- The government can devalue the exchange rate to a lower level in terms of other currencies or revalue it to a higher level. ^{√√} (2 x 2) (4)
 (Accept any other correct relevant response)
 (Allocate a maximum of 4 marks for a mere listing of facts/ examples) (8)



3.5. With the aid of a correctly labelled graph, explain the effects of demand-side policies in stimulating economic activity during a recession. (2 x 4) (8)



- Demand-side policies involve expansionary monetary such as a decrease in interest rates that encourage borrowing that **would increase** consumption and investment. ✓✓
 - Expansionary fiscal policy that involves a decrease in tax and an increase in government spending will increase spending as well. ✓✓
 - Both policies will result in a shift aggregate demand from AD to AD1 while aggregate supply remains at AS. ✓✓
 - Real GDP will increase from Q to Q1 when aggregate demand increases ✓✓
 - The general price level will increase from P to P1 ✓✓
 - The demand-side policies may be used to stimulate economic growth although inflation may increase ✓✓
- (Accept any other correct relevant response)
 (A maximum of 4 marks will be allocated for mere listing of facts/examples)
 (Max 4) (8)

TOTAL SECTION B: 40





SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p>Introduction</p> <p>The introduction is a lower-order response:</p> <ul style="list-style-type: none"> • A good starting point will be to define the main concept related to the question topic. • DO NOT include any part of the question in your introduction. • DO NOT repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	Max. 2
<p>Body</p> <p>Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/ Assess/Debate A maximum of 8 marks may be allocated for headings/examples.</p> <p>Additional part: Critically discuss/Evaluate/Critically evaluate/Deduce/ Compare/Distinguish/Suggest/Interpret/Debate/How A maximum of 2 marks may be allocated for mere listing of facts.</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion</p> <p>Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40



**QUESTION 4: MACROECONOMICS****40****MARKS – 30 MINUTES**

- Discuss in detail the features underpinning forecasting of business cycles. (26 marks)
- How can an increase in economic activity may impact on businesses? (10)

INTRODUCTION

- A business cycle can be described as successive periods of contraction and expansion of economic activities √√
- The process of making predictions about changing conditions of future events that may significantly affect the economy √√

BODY: MAIN PART**LEADING ECONOMIC INDICATORS** √

- These are indicators that change before the economy changes √√
- They 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 √

LAGGING ECONOMIC INDICATORS √

- They do not change direction until after the business cycle has changed its direction. √√
- They serve to confirm the behaviour of co-incident indicators. √√
- E.g. the value of wholesalers' sales of machinery √
- if the business cycle reaches a peak and begins to decline then we are able to predict the value of new machinery sold √√

CO-INCIDENTAL ECONOMIC INDICATORS √

- They simply move at the same time as the economy moves √√
- It indicates the actual state of the economy. √√
- E.g. value of retail sales √.
- If the business cycle reaches a peak and then begins to decline, then the value of retail sales will reach a peak and then begin to decline at same time √√

COMPOSITE INDICATORS √

- Composite indicators summarise a group of indicators of the same type into a single value √√
- The single figure forms a norm for a country's economic performance √√
- Composite indicators can be consolidated into single values of a composite leading, coincident and lagging indicator. √√

LENGTH √

- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy √√
- Longer cycles show strength √√

AMPLITUDE √

- It is the vertical difference between the total output between a peak and a trough √√
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles √√
- The larger the amplitude the more extreme the changes are that may occur. √√
- E.g. During the upswing inflation may increase from 5% to 10%. (100% increase)



**TREND** ✓

- A trend is the movement in a general direction of the economy ✓✓
- It usually has a positive slope because production capacity of the economy increases over time. ✓✓
- Trends are useful because they indicate the rate of increase or decrease in level of output ✓✓

EXTRAPOLATION ✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓
- E.g. if it becomes clear that the business cycle has passed through a trough and has entered into a boom phase, forecasters might predict that the economy will grow in the months that follow ✓✓
- It's also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓

MOVING AVERAGE ✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time ✓✓
- E.g. the moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- They are calculated to iron out small fluctuations and reveal long-term trends in the business cycle ✓✓

ADDITIONAL PART**An increase in economic activity may impact on businesses as follows:**

- Demand for goods and services produced by businesses increases as households receive more income from more employment opportunities. ✓✓
- Businesses may incur higher labour cost by employing more workers to produce more goods and services. ✓✓
- Manufacturers may need to use more technologically advanced production techniques to increase productivity. ✓✓
- Businesses' profits will increase due to higher sales of goods and services. ✓✓
- Exporters may generate more foreign exchange from selling more goods and services to export markets. ✓✓
- Businesses may import production inputs at lower cost as the rand appreciates during economic upswing. ✓✓
- Retail businesses may need to increase their inventory levels as more consumer goods and services will be purchased. ✓✓
- New businesses are established as potential investors become optimistic with the economy. ✓✓

(Accept any other correct higher order, relevant response) (Max 10)**(Allocate a maximum of 2 marks for mere listing of facts / examples)****CONCLUSION**

- The country can be enabled to prepare suitable policies to deal with different changes in the economy reflected by the indicators and features ✓✓
- Policy makers should closely watch all these indicators because external factors are very significant for South African business cycles ✓✓
- Different methods can be used in forecasting like the quantitative method that is based on mathematical models or qualitative methods being used in long term forecasting. ✓✓





QUESTION 5: MACROECONOMICS

40 MARKS – 30 MINUTES

- Discuss, in detail, the objectives of the public sector. (26 marks)
- How will public sector failure negatively influence economic stability in South Africa? (10 marks)

[40]

INTRODUCTION

- The government responds to market failure by establishing and maintaining state-owned enterprises to provide public goods and services/ Public sector is the part of the economy that is made up of all entities that are owned and controlled by the government / Macroeconomic objectives are the goals or targets that the public sector wants to achieve for the whole economy

(Accept any other correct relevant introduction)

(Max. 2)

BODY MAIN PART

MACROECONOMIC OBJECTIVES OF THE STATE

Economic growth. ✓

- An increase in the production of goods and services by the economy. ✓✓
- It is measured in terms of an increase in the real gross domestic product. ✓✓
- For economic development to occur, the economic growth rate must be higher than the population growth rate. ✓✓
- A high economic growth rate also means there will be fewer people who are dependent on the state to satisfy their basic needs. ✓✓
- The state tries to ensure that there is continual growth in this capacity because it leads to an improvement in the standard of living. ✓✓

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. ✓✓
- Informal sector activities must be promoted because it is an area where employment increases. ✓✓
- In the short-run, the state accelerates employment creation through direct employment schemes, targeted subsidies and expansionary macroeconomic packages. ✓✓

Exchange rate stability. ✓

- Exchange rate stability occurs when the exchange rate remains stable so as to reduce uncertainty in foreign trade ✓✓
- Depreciation and appreciation of a currency create uncertainty for producers and traders and should therefore be limited. ✓✓
- Government uses its monetary and fiscal policies to ensure that the exchange rate remains relatively stable for as long as possible. ✓✓
- BoP equilibrium influences the flow of goods, services and capital in a country. ✓✓
- Exchange rate stability has a strong impact on the inflation rate and other macroeconomic variables. ✓✓
- More money inflows into a country results in a surplus on the Balance of Payments account. ✓✓





- The SARB changed the Exchange rate from a Managed floating to a Free- floating exchange rate. . √√
- Promoting domestic production will increase exports. √√

Price stability. √

- Price stability occurs when the general price of goods and services remains relatively constant over time √√
- Market economies produce better results in terms of economic growth and employment when prices are relatively stable. √√
- In South Africa relative price stability means that the inflation rate remains within the inflation target of 3–6%.
- Interest Rates, based on the Repo Rate are the main instruments used to achieve price stability. . √√
- If inflation exceeds the upper limit of the range, the Reserve Bank must consider increasing the interest rate to cool down the heated economy. √√
- The benefit of the inflation target is a greater degree of transparency in monetary policy. √√

Economic equity. √

- A redistribution of income and wealth is **essential** in market economies. √√
 - There are sections of society that earn a large **amount** of money while others earn very little. √√
 - Progressive income tax and tax on profits, **wealth** and expenditure are used to finance free social services. √√
 - Basic education, primary healthcare, basic economic services and cash grants to poor and other vulnerable people, will enhance economic equity. √√
- (Accept any other correct relevant response) (Max 26)

ADDITIONAL PART

The public sector failure impacts negatively on economic stability by:

- Causing price instability which depress consumer spending √√
 - Causing policy uncertainty which may reduce investors' confidence √√
 - Increasing unemployment as the economy fails to create new job opportunities √√
 - Discouraging exporters due to exchange rate instability √√
 - Reducing the volume of exports which may increase the balance of payments (BOP) deficit √√
 - Exposing the economy to a recession due to lack of real GDP growth √√
 - Increasing the fiscal burden due to wastage of resources especially by parastatals √√
 - Decreasing production of goods and services as parastatals/state-owned enterprises fail to supply key input services. √√ e.g. energy and transport √
 - Increasing the cost of doing business in the economy as a result of inefficiencies √√
- (Accept any other correct relevant higher order response) (Max 10)

CONCLUSION

- The state plays a significant role in achieving the macroeconomic objectives by guiding the economy through the national budget √√
- (Accept any other correct relevant higher order conclusion) (Max 2)

TOTAL SECTION C: 40

GRAND TOTAL: 100

