



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS PAPER 1

JUNE 2018

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 16 pages.

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

- 1.1.1 B - dumping ✓✓
- 1.1.2 A - investments ✓✓
- 1.1.3 D - demand-and-supply side ✓✓
- 1.1.4 C - ad valorem ✓✓
- 1.1.5 C - economic growth ✓✓
- 1.1.6 B - globalisation ✓✓
- 1.1.7 A - employment rate ✓✓
- 1.1.8 D - industrial ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E - Approach taken by a country's central bank to influence spending in the economy ✓
- 1.2.2 I - Proportion of their disposable income that households spend ✓
- 1.2.3 A - Compares export prices with import prices by means of indexes ✓
- 1.2.4 H - Trade policy that promotes the manufacturing of local products for foreign markets ✓
- 1.2.5 D - Buying and selling of government securities to influence the money supply ✓
- 1.2.6 G - Strategies used to encourage production ✓
- 1.2.7 C - Removal of trade barriers ✓
- 1.2.8 F - Measures headline inflation ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Money ✓
- 1.3.2 Recession ✓
- 1.3.3 Protectionism ✓
- 1.3.4 Employment Equity ✓
- 1.3.5 Fiscal ✓
- 1.3.6 Urbanisation ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions.

2.1.1 Name any TWO member countries of the BRICS trade protocol.

- Brazil ✓
- Russia ✓
- India ✓
- China ✓
- South Africa ✓

(2 x 1) (2)

2.1.2 How can indirect subsidies benefit the export producer?

The export producer can benefit by receiving

- refunds on import tariffs ✓✓
- tax rebates / tax concessions ✓✓
- production cost will decrease / increased profits ✓✓
- increased ability to compete in foreign markets / increased exports ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify the trend line in the business cycle.

K ✓

(1)

2.2.2 Which letter represents a trough in the diagram?

D ✓

(1)

2.2.3 Briefly describe the term *business cycle*.

Successive periods of expansion and contraction ✓ in economic activities ✓

(Accept any other correct relevant description)

(2)

2.2.4 Explain economic activity during phase EF in the business cycle.

- Economy is growing and improving rapidly ✓✓
 - More businesses open up and more workers are hired ✓✓
 - Increased demand for credit which increases interest rates ✓✓
 - Higher demand and higher prices for capital goods ✓✓
 - Profits and salaries increase ✓✓
 - Higher inflation ✓✓
- (Accept any other correct relevant response)

(2)

2.2.5 How can the length (BF) be used in forecasting of business cycles?

- Because the length remains relatively constant, one can forecast that the next cycle will be of a similar length ✓✓
 - If a business cycle has a length of 12 years, it can be predicted that 12 years will pass between successive peaks or troughs or that it will take 6 years for the economy to pass through a recession ✓✓
 - Longer cycles show strength which will indicate that the next cycle will also be strong (or vice versa) ✓✓
- (Accept any other correct relevant response)

(2 x 2)

(4)

2.3 DATA RESPONSE

2.3.1 Identify the base year currently used by the SARB above.

2010 ✓

(1)

2.3.2 Which sector contributed most towards the *Gross Domestic Product* of South Africa?

Tertiary sector ✓

(1)

2.3.3 Briefly describe the term *Gross Value Added (GVA) at constant prices*.

GDP where the effect of inflation on the nominal GDP has been taken into account ✓ and the figure has been changed by deflating the index ✓

(Accept any other correct relevant response)

(2)

2.3.4 How would GDP at market prices be converted to GNP at market prices?

GNP = GDP plus primary income from the rest of the world minus primary income to the rest of the world / GDP plus nett primary income ✓✓

(2)

2.3.5 **Calculate the Gross Domestic Product at market prices (A).
(Show all calculations)**

Gross value added at basic prices	2 794 601	
Plus: Taxes	(+) 30 600	✓
Min : Subsidies	(-) 5 900	✓
GDP at market prices	<u>2 819 301</u>	✓✓

OR **2 794 601 + 30 600 ✓ – 5 900 ✓ = 2 819 301 ✓✓** (4)

2.4 **Briefly explain the measures to reduce a deficit on the balance of payments.**

- Borrowing money from the IMF ✓✓
- Import substitution will reduce imports of goods because it will be produced in the country ✓✓
- Export promotion will increase in aggregate supply and reduce prices. Exports are promoted through cheaper prices ✓✓
- Higher interest rates help to decrease spending on imports ✓✓
- An increase in import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls.(Trade liberalisation) ✓✓
- Exchange control allows central banks to ration foreign exchange ✓✓
- Reduction of foreign reserves by SARB to correct deficits if we adopted a managed floating exchange rate ✓✓
- Changes in exchange rate, i.e. currency depreciation/devaluation makes imports expensive (reduction) and exports cheaper for foreign countries (increase exports) ✓✓
- An increase in tax reduces disposable income which decreases demand in imports ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples) (4 x 2) (8)

2.5 **Why should South Africa follow a policy of free trade?**

A policy of free trade should be followed by:

- allowing specialisation which reduces the cost per unit of a product (economies of scale) ✓✓
- improving sales locally and abroad leading to increased profits ✓✓
- ensuring a variety of goods which increases the choices of consumers and increase ✓✓
- accelerating economic growth which promotes greater savings and investment ✓✓
- allowing developing countries to take advantage of foreign expertise which may be unavailable domestically ✓✓
- promoting increased efficiencies, product improvement and technological advancement ✓✓
- promoting competition and improving resource allocation ✓✓

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

(Accept any other correct relevant response)

(8)
[40]

QUESTION 3: ECONOMIC PURSUITS**3.1 Answer the following questions.****3.1.1 Name any TWO social indicators.**

- Demographics ✓
- Nutrition and health ✓
- Education ✓
- Services ✓
- Housing and urbanisation ✓

(2 x 1) (2)

3.1.2 What can government do during a period of recession to stimulate the economy?

The government can

- apply an expansionary fiscal policy ✓✓
- reduce taxes / lower personal income tax ✓✓
- increase government spending ✓✓
- provide new infrastructure ✓✓
- support SMME's and informal sector activities ✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 Name ONE vehicle manufacturer, which have production plants in South Africa.**

- BMW ✓
- Ford ✓
- Volkswagen ✓

(1)

3.2.2 Identify ONE advantage of vehicle production plants located in South Africa in the extract.

- Diversified manufacturing ✓
- Compete in the global economy ✓
- Accelerate growth and development ✓
- Investment opportunities ✓
- Enjoys production advantages ✓
- Lead to trade agreements ✓

(1)

3.2.3 Briefly describe the term *free trade area*.

A free trade area is where restrictions such as tariffs and quotas have been removed ✓✓

(2)

3.2.4 **What is the purpose of the Southern African Development Community?**

Further socio-economic cooperation and integration as well as political and security cooperation amongst Southern African states ✓✓

(Accept any other correct relevant response) (2)

3.2.5 **How could the government address poverty in South Africa through the manufacturing sector?**

Government could address poverty by:

- encouraging industrial development through effective industrial policies that will encourage labour intensive production processes ✓✓
 - contributing in paying direct and indirect subsidies to limit the cost of production and favour the end consumer (lower prices) ✓✓
 - paying concessions to manufacturers to ensure affordable end products ✓✓
 - paying incentives to ensure diverse production with a bigger choice for the consumer ✓✓
 - creating a positive climate for investment in mostly labour intensive production processes ✓✓
 - applying macro-economic policies that encourage production of a large component of the final product domestically to limit unemployment ✓✓
 - supporting the establishment of SMME's ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **When, according to the graph was unemployment at its highest level?**

Second Quarter 2017 ✓ (1)

3.3.2 **Which institution compiled the unemployment figures?**

StatsSA ✓ (1)

3.3.3 **Briefly describe the term *unemployment*.**

Unemployment refers to those people within the economically active population who are willing and able to work ✓ but cannot find a job ✓

(Accept any other correct relevant response) (2)

3.3.4 What is the negative impact of high unemployment on the youth?

- It limits their future growth and development ✓✓
- It will discourage them to further their studies or look for decent employment ✓✓
- It will affect their humanity and well-being ✓✓
(Accept any other correct relevant response)

(2)

3.3.5 How can the government reduce unemployment in the economy?

The government can reduce the level of unemployment by

- applying the skills development programmes to ensure better remuneration that will stimulate demand and production ✓✓
- incentivising business communities to absorb youths and provide them with relevant training and skills/internships required to utilise the latest technology required in production processes ✓✓
- incentivising youth participation in the economy through tax rebates and tax cuts ✓✓
- providing employment through the EPWP ✓✓
(Accept any other correct relevant response)

(2 x 2)

(4)

3.4 Briefly discuss *demographics* as social indicator.

- Government and businesses need to know the size of the country's population for their planning (population growth) ✓✓
- Governments need to know the infrastructure projects and social programmes they need to invest into as priority ✓✓
- Governments and businesses need to know about the availability of labour and the size of the population of their markets ✓✓
- Countries populations are counted when census are held according to different time periods ✓✓
- South Africa's population numbers 55 million and it is estimated that it will grow even more in 2021 ✓✓
- Life expectancy expresses the number of years a new-born infant will live if the prevailing patterns of mortality remains the same throughout his or her life ✓✓
- It is important for governments to know what the average life expectancy is because working humans require a range of social services and are simultaneously the tax base for the country ✓✓
- The Human Development Index is an indicator of human development where the standard of living, quality of health care and general standard of education is considered ✓✓

(4 x 2)

(Accept any other correct relevant response)

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

(8)

3.5 **How can the monetary policy be used to stimulate the economy of South Africa?**

The monetary policy should be used to **stimulate the economy** by:

- decreasing interest rates that will influence credit creation by making credit cheaper ✓✓
- stabilising the exchange rates by encouraging capital inflows in order to take care of a deficit on the current account of the balance of payments ✓✓
- applying open markets transactions where credit creation is encouraged by the SARB to buy securities in the open market and money as a result flows into the banking system ✓✓
- applying moral suasion where the SARB consults with banks and persuade them to act in a manner that is desirable in terms of the economic conditions that prevail at the time ✓✓

(Accept any other correct relevant response)

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

(8)
[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**4.1 Answer the following questions.****4.1.1 Name any TWO examples of indirect tax.**

- Value added tax (VAT) ✓
- Excise duties / sin tax ✓
- Custom duties ✓
- Fuel levy ✓

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

4.1.2 What important role do small, micro and medium enterprises (SMME's) play in the economy?

- It acquires and improves business management skills ✓✓
- Help to broaden the employment base ✓✓

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

4.2 DATA RESPONSE**4.2.1 According to the extract what was the deficit in the balance of payments in 2016?**

R76 bn ✓ (1)

4.2.2 Identify the term that calculates the difference between goods imported and goods exported.

Balance of trade ✓ (1)

4.2.3 Briefly describe the term *balance of payments*.

A systematic record of all transactions between one country and other countries over a particular time period ✓✓ (2)
(Accept any other correct relevant response)

4.2.4 What is the significance of the balance on the *current account*?

It give an indication whether a country is living within its means (indicates a surplus or a deficit) ✓✓ (2)

4.2.5 How can a surplus on the balance of payments affect the South African economy positively?

The surplus of the balance of payments can affect the economy positively by

- reaching the production potential of the country ✓✓
 - building the reserves of the country due to a surplus ✓✓
 - investing more in infrastructure ✓✓
 - increased value of the rand ✓✓
 - attracting more foreign direct investment ✓✓
 - reducing the tax burden due to less money borrowed to pay off public debt ✓✓
 - stimulating economic growth and create job opportunities ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 Which part of the north/south divide is reflected by the small fishes in the cartoon?

The South ✓ (1)

4.3.2 According to the information above, why is foreign direct investment (FDI) so important for development in countries?

It is of critical importance to fast-track the improvement of developing countries / used for industrial development ✓ (1)

4.3.3 What is the message in the cartoon?

The North - through the mediation of the WTO - is offering the South (poor-developing countries) financial support, but the South are sceptical / afraid of the intention of the North ✓✓
(Accept any other correct relevant response) (2)

4.3.4 How does mass production by developed countries affect the environment negatively?

They are mainly responsible for damage to the ozone layer, pollution and dumping toxic waste ✓✓
(Accept any other correct relevant response) (2)

4.3.5 How are developing countries disadvantaged by a lack of foreign direct investment?

Developing countries will be disadvantaged by

- slow economic growth ✓✓
- lack in the growth of employment opportunities / high unemployment ✓✓
- no improvement in the quality of human life ✓✓
- a lack of economic integration and development ✓✓
- ineffective use of available resources ✓✓

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

4.4 Differentiate between *endogenous* and *exogenous* approaches to business cycles.

Endogenous	Exogenous
Factors that will affect the economy from <u>within</u> the market system ✓	Factors that will affect the economy from <u>outside</u> the market system ✓
Markets are <u>inherently unstable</u> ✓	Markets are <u>inherently stable</u> ✓
<u>Government intervention is needed</u> ✓	<u>Government should not intervene</u> ✓
Also known as the <u>Keynesian</u> explanation ✓	Also known as the <u>Monetarist</u> explanation ✓
<u>Price mechanism gives rise to</u> upswings and downswings ✓	Monetarists believe that disequilibrium is caused by <u>incorrect use of policies</u> e.g. monetary policy ✓
For example: changes in patterns of consumer spending, investment spending ✓ (Max. 4)	For example: Natural Disasters / War / Terrorism ✓ (Max. 4)
(Accept any other correct relevant response) (Allocate a maximum of 4 marks for the mere listing of facts/examples)	

(8)

4.5 How effective is *productivity* as an economic indicator?

Productivity as an economic indicator is effective by:

- using a productivity index that shows outputs relative to inputs – the higher the outputs relative to inputs, the more productive an economic unit ✓✓
- using a more productive economic unit that is more competitive and has a better chance of being profitable and succeeding ✓✓
- forcing productivity to keep up with increases in labour cost, or otherwise it will lead to a country that is less competitive ✓✓
- helping countries to invest in policies that will improve their productivity ✓✓
- focusing more on higher education and training ✓✓ goods market and labour market efficiency ✓✓ financial market development ✓✓ and technological readiness in South Africa ✓✓

(Accept any other correct relevant response)

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

(8)
[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MACROECONOMICS

- **Discuss the macro-economic objectives of the state.** (26 marks)
- **How successful has the South African government been in reaching its macro-economic objectives?** (10 marks) [40]

INTRODUCTION

The government provides goods and services that are under-supplied by the market and therefore plays a major role in regulating economic activity and guiding and shaping the economy ✓✓ (Max 2)

BODY: MAIN PART**Objectives**

- **Economic growth** ✓
 - Refer to an increase in the production of goods and services ✓✓
 - Measured in terms of real GDP ✓✓
 - For economic growth to occur, the economic growth rate must be higher than population growth ✓✓
 - Growth and development in a country benefit its citizens because it often leads to a higher standard of living ✓✓
- **Full employment** ✓
 - It is when all the people who want to work, who are looking for a job must be able to get a job ✓✓
 - High levels of employment is the most important economic objective of the government ✓✓
 - The unemployment rate increased over the past few years ✓✓
 - Informal sector activities must be promoted because it is an area where employment increase ✓✓
- **Exchange rate stability** ✓
 - The economy must be managed effectively and effective fiscal and monetary policy must be used to keep the exchange rate relatively stable ✓✓
 - Depreciation and appreciation of the currency create uncertainties for producers and traders and should be limited ✓✓
 - The SARB changed the exchange rate from a managed floating to a free floating exchange rate ✓✓
- **Price stability** ✓
 - Stable price causes better results in terms of job creation and economic growth ✓✓
 - The government's inflation target is 3% - 6% and they are successful in keeping inflation within this target ✓✓
 - Interest rates, based on the repo rate are the main instruments used in the stabilisation policy ✓✓
 - The stable budget deficit also has a stabilizing effect on the inflation rate ✓✓

- **Economic equity ✓**

- Redistribution of income and wealth is essential to reduce poverty ✓✓
- South Africa uses a progressive income tax system where the higher income earners pay more tax ✓✓
- Taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services ✓✓
- Free social services are basic education; primary health and financing basic economic services ✓✓
- Cash grant to the poor/vulnerable, for example child grants and disability grants ✓✓

(Max. 26)

(Accept any other correct relevant response)

(Allocate a maximum of 8 marks for the mere listing of facts/examples)

BODY: ADDITIONAL PART

- Learner responses can be positive or negative
- Follow the argument and see if the candidate can produce enough evidence to support his/her answer

The government is successful in reaching these goals by:

- reducing unemployment through the EPWP. If it was not for the programme, the unemployment rate would have been even higher ✓✓
- managing to keep inflation within the 3–6% target ✓✓
- improving economic equity (BEE through affirmative action, gender equity) ✓✓
- operating on a free floating exchange rate system in line with international benchmarks ✓✓

The government is not successful in reaching its goals through:

- a decreasing economic growth rate; in the last 5 years the average real gross domestic product growth has been below 2% ✓✓
- increasing unemployment rates - unemployment rate have increased to 27.7 in 2017 which was the highest since 2009 ✓✓
- fluctuating value of the rand - in the past 5 years the value of the rand fluctuated against the major trading partners' currencies ✓✓
- BEE only benefitting a few individuals due to corruption and misrepresentations such as fronting ✓✓

(Accept any other correct relevant response)

(Any 5 x 2) (Max.10)

CONCLUSION:

While government has achieved some successes, the fulfilments of some of the objectives are compromised by factors like lack of accountability, corruption, budgeting, nepotism and incompetence ✓✓

(Accept any other correct and relevant higher order response)

(Max. 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

- Discuss in detail the following as South Africa's initiatives in regional development:
 - Special Economic Zones (8)
 - Corridors (8)
 - Spatial Development Initiatives (10) (26 marks)
- How effective is South Africa's regional development policies in terms of international benchmarking? (10 marks) [40]

INTRODUCTION

This is the promotion of economic development in areas where poverty, unemployment and income inequality are high in order to uplift them ✓✓
(Accept any other correct relevant introduction) Max (2)

BODY: MAIN PART**SPECIAL ECONOMIC ZONES (SEZ's)**

- These are geographical areas of a country set aside for specifically targeted economic activities ✓✓
- These activities are supported through special arrangement that may include laws and support systems that promote industrial development ✓✓
- They are meant to expand the manufacturing sector ✓✓
- Create additional industrial hubs so that the national industry base will be regionally diversified ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development ✓✓
- There are plans to reduce tax to 15% as an incentive to attract new industries ✓✓
- The aim of creating SEZ is to attract :
 - only new business ✓
 - business which are developing a new product line ✓
 - business which are expanding their volume ✓
- The DTI has indicated that the existing IDZs where special tax incentives do not apply, would be graduated into SEZs ✓✓
- It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment ✓✓ (Max 8)

CORRIDORS

- Corridors in South Africa are spatial areas that 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 ✓✓
- These corridors are development areas within South Africa and are the development priorities of all development agencies ✓✓
- The DTI provides help in support of the development corridors ✓✓
- the Maputo corridor, that starts in Gauteng and extends through Mpumalanga to the Maputo port, offers opportunity to the transport industry or the Phalaborwa sub-corridor in the Limpopo Province offers opportunities for mining and related activities ✓✓ (Max 8)

SPATIAL DEVELOPMENT INITIATIVES (SDI's)

- This is an area with high levels of unemployment and poverty that has been identified by the government for a co-ordinated effort to develop the economic potential of the area ✓✓
- The area chosen for an SDI must be under-developed and have the potential for sustainable growth ✓✓
- The development focuses on high level support in areas where socio-economic conditions need concentrated government assistance ✓✓
- These initiatives help to spread economic activities equally in the country ✓✓
- All investment is based on public-private partnerships ✓✓
- It is a government strategy of investment that involves the department of trade and industry (DTI) and transport (DoT) ✓✓
- It focuses on government attention across national, provincial and local government levels to ensure that investment are fast-tracked ✓✓ and that the maximum synergy between the various types of investments ✓✓
- These projects are expected to create new jobs well into the future ✓✓
- The success of these projects relies on a strong move towards international competitiveness, regional cooperation and a more diversified ownership base ✓✓
(Accept any other correct relevant response) (Max 10)
(Allocate a maximum of 8 marks for the mere listing of facts/examples) (Max 26)

ADDITIONAL PART

South Africa's regional development policies is effective in complying with international benchmarks by:

- effectively managing strategies free of corruption through good governance ✓✓
- effectively integrating between different areas by means of spill-over benefits to other industries ✓✓
- building partnerships between central government, local authorities, civil society and special interest groups and the private sector ✓✓
- providing sufficient resources in resource-poor areas e.g. infrastructure ✓✓
- establishing competitive businesses not in need of ongoing financial aid from government ✓✓
- involving people from the region in training, education, improving productivity and providing essential goods and services to the region ✓✓
- concentrating on issues at grass roots level, to ensure that development starts from below ✓✓
- focusing on total development covering all human life, e.g. education, health and nutrition ✓✓ (Max 10)

(Accept any other correct relevant higher order response)

(Marks should be awarded if development policies do not comply with benchmarks)

CONCLUSION

Economic decentralisation would guarantee that greater emphasis of the development of the country and comprehensive use of resources are used effectively for the improvement of the well-being of the country ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150