

GAUTENG DEPARTMENT OF EDUCATION

SENIOR CERTIFICATE EXAMINATION

ECONOMICS HG

Possible Answers March 2006

BIBLIOGRAPHY

The following publications were used in this paper:

1. Chetty et al., *Fundamental Economics*
2. Levin, M et al., Lex, *Enjoy Economics*
3. Ross, D.J. et al., *Nuwe wêreld van Ekonomie*
4. Swanepoel, D.J. & Van Zyl, *Ekonomie 2000*

**SECTION A
COMPULSORY**

**QUESTION 1
GENERAL**

1.1	C	1.18	C
1.2	C	1.19	B
1.3	B	1.20	D
1.4	B	1.21	B
1.5	C	1.22	B
1.6	C	1.23	B
1.7	B	1.24	B
1.8	C	1.25	D
1.9	B	1.26	C
1.10	B	1.27	D
1.11	A	1.28	C
1.12	D	1.29	A
1.13	C	1.30	A
1.14	A	1.31	C
1.15	C	1.32	A
1.16	C	1.33	A
1.17	D	1.34	C

34x3=(100)

TOTAL FOR SECTION A: [100]

SECTION B

QUESTION 2 PRICE FORMATION AND MARKETS

1. Introduction
 - Definition of a market
 - A market refers to all sale and purchase transactions that affect the price of a commodity (2) – any place or circumstance which allows buyers and sellers to meet and to bargain for prices (2). (4)

 2. Discussion :
 - **The perfect market:**
 - Perfect competition is **absolutely impersonal**.
 - No preference is shown to buy from certain businesses or to sell to specific people. (2)
 - The price of a product is determined by market forces (demand and supply) **only**. Individual buyers and sellers have no influence. (2)
 - On the perfect market, potential buyers and sellers are immediately aware of the prices at which transactions (buying and selling) take place.
- Conditions for a perfect market :**
- (a) The product to be marketed should be absolutely **homogeneous** so that each seller markets an identical commodity and the buyer cannot turn to substitutes. (2)
 - All articles must be highly standardised, easy to grade or describe. (2)
 - They must be identical in every respect to make trademarks unnecessary. (2)
 - (b) There should be a **large number of sellers** all offering a the same **product** for sale.
 - A seller who acts alone should be unable to affect the market price by varying the quantities he offers for sale. (2)
 - Price is not influenced by a manufacturer or seller, but by the market as a whole. (2)
 - No seller sells enough to create a scarcity in the market.

- (c) A **large number of buyers** who do not mind from which **seller they buy**. (2)
- Buyers do not easily form association, because all look at their own interests. (2)
- (d) **Free competition is necessary**. Anyone who wants to sell goods must be free to offer any article in any quantity. (2)
- Buyers must also be free to buy whatever they want, from any firm and in any quantity. (2)
 - No state interference and no price control. (2)
- (e) **No preferential treatment or discrimination**. Buyers and sellers base their actions solely on price. (2)
- Buy from anyone and sell to anyone. (2)
 - Identical goods at the same price on all markets. (2)
 - If a seller charges less than competitors his stock would soon be finished.
 - If a seller charges more, buyers are slow to buy from him.
 - If he does not drop his price to the previous lower level, his sales will soon drop to zero.
- (f) Efficient **transport and communication system**. (2)
- Buyers and sellers should be able to communicate easily (2) in order to complete transactions within the shortest possible time. (2)
 - Publication of prices should keep buyers and sellers informed of market conditions elsewhere. (2)
 - Suitable transport must be available to convey goods speedily from one place to another.
 - In this way changes in demand can be met promptly by suppliers.
- (g) All the participants (competitors) on the market must have **perfect (complete) knowledge** of market conditions. (2)
- Buyers and sellers must be familiar with the prices of suppliers, price quotations, conditions of demand, the economic climate (2)
 - In this way an increased demand or a changed supply on one part of the market will affect the price across the whole market.
 - Technological developments (computers and cellphones) broadened the market considerably. (2)

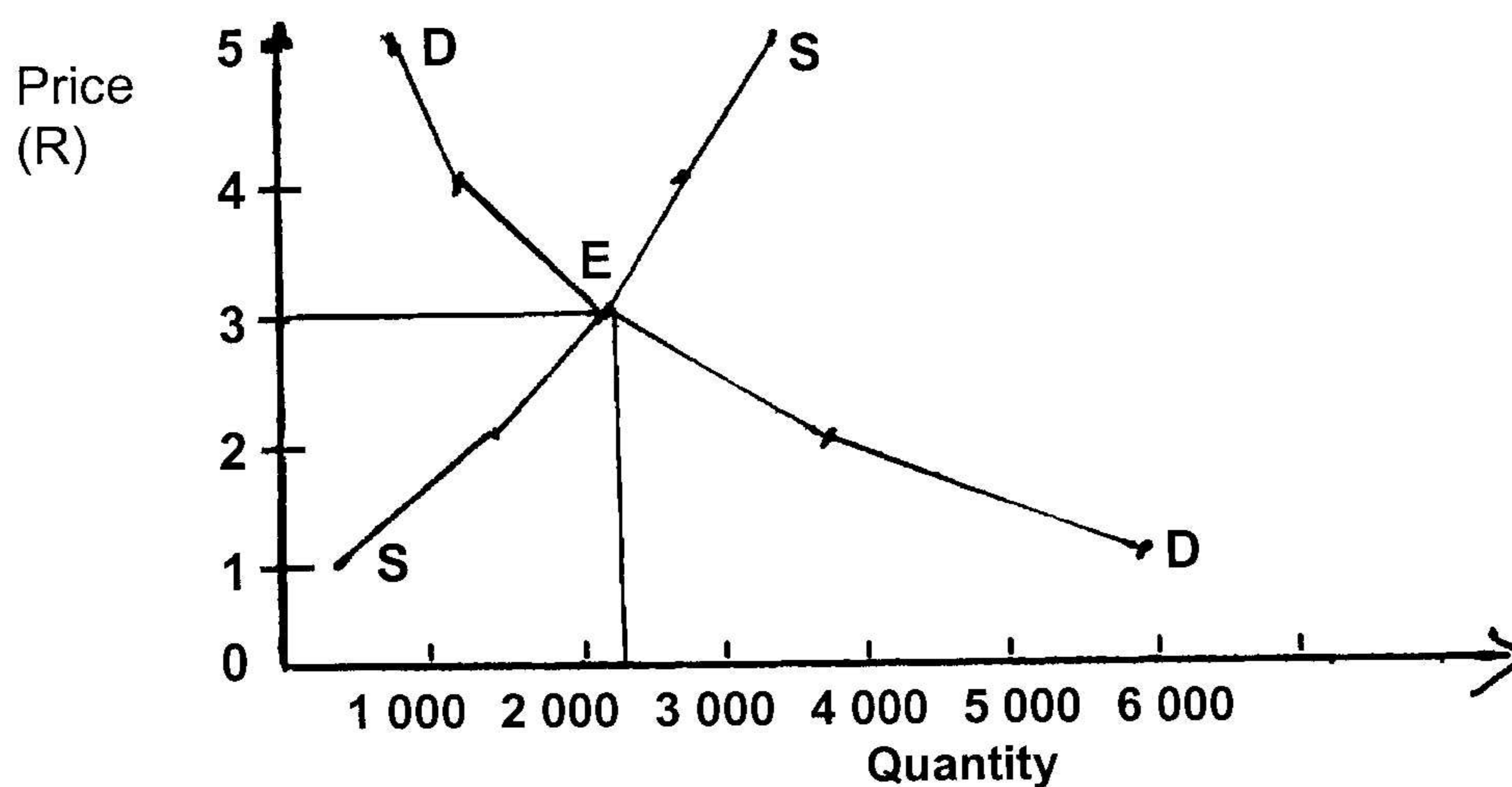
3. Market equilibrium price by supply and demand in a perfect market

* In a perfect market, prices are determined by the interaction of demand and supply

(2)

PRICE	QUANTITY SUPPLY	QUANTITY DEMAND
R 5	3 400	800
R 4	2 800	1 300
R 3	2 200	2 200
R 2	1 500	3 800
R 1	400	6 000

(4)



(2)

* Market equilibrium is reached at only one price

(2)

* At this price there is neither supply nor excess demand.

(4)

4. CONCLUSION MARKET ECONOMY

– The success of a capitalistic market depends exclusively on healthy competition.

(2)

– Limiting competition weakens the ability of the market to reflect reliable and accurate prices.

(2)

Any 25x2= [50]

QUESTION 3 ECONOMIC DEVELOPMENT

Discuss Economic Development.

A. Introduction

Definition – Economic development can be defined as the process which is necessary to bring about, over time, a significant improvement in the general living standards of the majority of the inhabitants of a country. (4)

B. Discussion

Development as an economic aim

1. The concept **development**

The concept of **development** has undergone an interesting change. In the 1950s the term **underdeveloped** (2) replaced the word **backward** in its most derogatory connotation. The sensitivity of the newer countries in this respect is understandable. In the 1960s these countries were referred to as *less developed* (2). In international organisations the term *third world countries* (2) was used to distinguish between these countries and the industrialised first world countries (2) and the second world countries of the Eastern Bloc, which were chiefly socialist.

To remove any further implications of inferiority in respect of the relatively poorer countries of the world, the term *developing countries* (2) was introduced during the 1970s. In international documents the abbreviation LDC for less developed countries also came into use.

In the widest sense of the word, (economic) development can be described as the process whereby the standard of living is improved.

Three equally important aspects of development are :

- (a) To raise the living standards of the inhabitants of a country , i.e. to increase their income and consumption levels by appropriate economic growth process. (2)
- (b) To create circumstances which will promote the growth of self-respect in people, by establishing and maintaining social, political and economic systems and institutions which can promote human dignity and respect. (2)
- (c) To extend people`s freedom of choice by providing an increasing variety of consumer goods and services. (2)

2. Difference between economic growth and economic development

Economic growth concerns the increase in the real gross domestic product per capita, as measured by the average increase in the quantity of goods and services per capita (head) of the population over time. **Economic development** is, as indicated, the process whereby the standard of living of the majority of the people in a country improves over time. The majority of the occupants use the increase in goods and services to improve their standard of living.

3+3=(6)

CHARACTERISTICS OF DEVELOPING COUNTRIES

1. LOW STANDARDS OF LIVING (2)

A basic characteristic of a developing country is the low standard of living of the majority of the population. This is generally in the form of low incomes, resulting in poverty, inadequate housing, poor health, limited education and training (even illiteracy), high infant mortality, low life expectancy and limited expectation of employment, etc. The per capita gross national product or national income as an index of the welfare of a country, is relatively low.

Any 2x2= (4)

2. LOW PRODUCTIVITY (2)

A further characteristic of developing countries is the relatively low level of productivity. The productivity of labour, measured by the output per worker is very low. This can be ascribed to poor physical health, inadequate or poor nutrition, low standards of personal hygiene.

Any 2x2= (4)

3. HIGH POPULATION GROWTH AND THE BURDEN OF DEPENDANTS (2)

In developing countries the population growth as measured by the number of births, is very high. The number of children below the age of 15 years makes up about 40% of the total population, in comparison with less than 20% in highly developed countries. The burden of dependants on the economically active population is great and hampers further economic development.

Any 2x2= (4)

4. UNEMPLOYMENT AND UNDEREMPLOYMENT (2)

The lack of adequate work opportunities gives rise to widespread unemployment and underemployment. The relatively inadequate employment and inefficient utilisation of labour result in low standards of living in developing countries. Unemployment occurs where people who are willing and able to work cannot obtain work. Underemployment occurs where people do less work than they are capable of doing. This includes labourers who work shorter hours, seasonal workers and people who are not as economically active as their full potential allows.

Any 2x2= (4)

5. **DEFECTIVE ECONOMIC STRUCTURE** (2)

Besides a poorly developed economic infrastructure, an inadequate economic structure is a basic characteristic of developing countries. The majority of the population (as much as 80%) are dependent upon the agricultural sector. Extensive involvement in agriculture can be ascribed to low educational levels and the fact that there are no other opportunities of employment.

Any 2x2= (4)

6. **WEAKER POSITION IN INTERNATIONAL RELATIONS** (2)

A highly unequal distribution of political and economic power exists between developed and developing countries. Richer countries control the pattern of international trade and also influence the ability to transfer technology developmental aid and capital to poor countries. Rich countries can dictate the quantities and thereby influence poor countries.

Any 2x2= (4)

A characteristic of developing countries is their dependency on developed countries. With regard to transfer patterns, standards and general approach, the influence of the richer countries is clear.

Any 6x(2+2+2)=36

DEVELOPMENT STRATEGIES

- Development strategies applied in developing countries differ from country to country. Some countries have more state involvement, while other countries leave this to the free market. (4)
- In countries such as South Africa free market principles are followed, but these are supplemented by initiatives from the government sector. Conferences arranged by the government and by the business sector were held in 1979(Good Hope Conference) to lay the foundation for a partnership of collaboration between the public and the private sectors to stimulate development, among other objectives. (4)
- The institutions involved in development strategies and the Reconstruction and Development in more detail. (4)

FACTOR STRATEGIES (2)

- Factor strategies refer to the contribution of the various factors of production namely
 - human resources (2),
 - natural resources (2),
 - capital formation (2),
 - technology
 - entrepreneurship (2).

2. INSTITUTIONS INVOLVED IN DEVELOPMENT STRATEGIES (2)

- Various institutions have been set up to promote economic development in South Africa: (2)

INDUSTRIAL DEVELOPMENT CORPORATION (IDC) – The IDC was established by the South African government in 1940: (2)

DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA) (2)

CONCLUSION

Any suitable conclusion

Any 25x2=[50]

**QUESTION 4
INTERNATIONAL TRADE POLICY**

Discuss South Africa's international trade policy in detail.

(A) INTRODUCTION

- Despite the benefits of free international trade, nearly all countries erect barriers to impede or block free trade among nations at one time or another.

(B) DISCUSSION

(a) Export promotion (2)

- Implies various incentives and facilities offered to industrialists as a means of exporting – contributes to economic development. (2)

- Purpose of export promotion (2)

- (i) Improve international competitiveness
- (ii) Improve performance with regard to technology
- (iii) Optimise utilisation of resources. (2)

- Importance of export promotion
 - Political and economic factors (2)
 - Contributes to GDP (2)
 - Alleviated poverty (2)
 - Growth rate and urbanisation (2)
 - Bonuses, subsidies and advantages
 - Encourage exports
 - access to international markets (2)
 - export exhibitions (2)
 - technical support (2)
 - Subsidies
 - cash allowances (2)
 - market research cost (2)
 - finance to attract foreign buyers (2)
 - air and rail freight (2)
 - insurance (2)
- (18)
- (b) Import substitution (2)**
- It is the introduction of deliberate measures by the State to discourage the import of foreign products which could be detrimental to local businesses. (2)
- Voluntary import substitution (2)**
- Imported products are replaced with locally manufactured products. (2)
- Forced / Mandatory import substitution (2)**
- A country may be forced, through sanctions, boycotts or disinvestments to manufacture certain products themselves. (2)
- Purpose of import substitution**
- Local industries are advantaged.
 - Balance of payments problems leading to the introduction of quotas (foreign product too expensive) and import substitution (make it more cheaply ourselves) (2)
- Importance of import substitution**
- Tariff protection – diversifies industrial development
 - Create jobs – bonuses and subsidies
 - Manipulation of tariffs to cause import substitution benefits local industries.

(c) Protection

Protection is the application of a trade policy where the state **discourages** the import of certain goods and services from abroad to protect local industries against unfair competition. (2)

Arguments in favour of protection

- Protects young, infant industries
- Furthers economic stability
- Protects the interests of the workers: jobs, wage levels, standard of living
- Protects government / state income
- Furthers industrial development
- Protects natural resources
- Avoids problems on the balance of payment
- Prevents “dumping”
- Prevents overspecialisation
- Furthers national independence. (4)

Practical difficulties with the application of the protection policy

- There should be a very clear understanding of the country’s economic aims.
- Protection should be applied in the interest of the country as a whole.
- Free trade policy makes it necessary for the State to concentrate on indirect measures. (2)

Protection measures:

1. **Customs duties:** increase the price of foreign goods – local products are cheaper, protects local industries, form of revenue for the state
 Specific tariffs: a set amount per unit or mass
 Ad valorem: percentage of the value of imported product is taxed
 Single tariffs: one tariff, despite the country of origin
 Multiple tariffs: more than one tariff, depending on the country (4)

2. Import quotas

- Only a certain amount of a specific product or service may be imported at a specific time.
- Quotas reduce imports, without influencing the price of the product. (4)

Forms / Tariffs (4)

- Single quota system – limits the amount of goods / services
- Allocated quota system – quota for import only for certain countries
- Import licences – businesses first have to obtain a licence before importing (2)

3. Import deposits (2)

- A mandatory amount equal to a % of the value of the imported goods or services to be paid to the monetary authority.
- Used in importing luxury items.
- Accompanied by strict credit control measures.
- The cost of financing the deposit is an important aspect.
- Benefit – it is simple.
- Disadvantage – additional administrative duties. (4)

4. Import ban (2)

- Strictest, most drastic measure
- E.g. boycotts and sanctions (4)

5. Other forms:

- Surcharge = % levy on value of imports
- Excessively strict health regulations
- Admin procedure such as a process of customs clearance.
- One country asks the others to export less to it.

6. Problems with application of protection (2)

- Recognising the companies is difficult.
- Local industries get spoilt and cannot survive on their own.
- It can limit growth and job creation.
- Counteraction by foreign countries.
- High cost, especially on the short term. (6)

(c) CONCLUSION

Any applicable conclusion.

A maximum of 5 marks to be deducted if a candidate did not do an introduction, discussion and conclusion.

18x3=[50]

QUESTION 5 THE STATE

Discuss the Economic Policy of the State in detail

(A) Introduction:

1. The economic policy of the State and principles of the economic policy:

Definition of State Economic policy: The deliberate intervention by the State in the working of the economy to improve it partially or completely. As a result of this, general standards of living could improve. (2)

(B) Discussion

The general economy embraces the following three principles: (2)

- (a) The general standard of living of the population as a whole must be improved. This is usually measured with the aid of income figures – per capita income. (4)

- (b) The State aims to improve the functioning of the economy. When the standard of living improves, there is usually an improvement in the efficiency of the economic machine. The standard of living will improve along with the efficiency of the economy if the quality of competition is improved, and if the State provides those goods and services which are not provided for by the market mechanism (or which would not be provided by private enterprise because the profit motive carries more weight than the service motive). The State can also improve the standard of living if it eliminates external influences and costs to society such as pollution. (4)

- (c) The State aims to implement methods which will affect the economy favourably. There is a close relationship between economic policy and general policy. Political aims in the sphere of economy are included in and achieved through economic policy. (4)

2. Aims of economic policy

The course of the economy is determined by the following four aims of economic policy : (2)

- (a) Economic growth simply means an increase in total production, or an increase in the GDP. Inflation may increase the GDP artificially. Thus the GDP must be calculated at constant values (prices) in order to determine the real increase in the GDP or production.

What can the government do to promote economic growth?

An important aim would be to withdraw as few resources (money) as possible from the economy and release as many as possible into the economy. Tax relief will stimulate consumption and production. Privatisation of public enterprise can also stimulate production. (4)

- (b) Full employment in the economic sense refers to a “satisfactory” level of employment. It means that there is work for all those who want to work. A hundred percent employment figure is almost impossible, especially in the case of seasonal workers. (4)
- (c) Price stability is possible only if inflation is curbed. Government efforts and measures in this respect have not been very successful. Inflation is caused by a number of factors, each of which must be treated on its own merits. (4)
- (d) Balance of payment equilibrium refers to a position where a favourable ratio exists between the various economic variables (imports, exports, capital flows). In the case of an imbalance, adjustments are necessary to restore equilibrium (e.g. adjustments of domestic prices, exchange rates, imports and exports). (4)
- (e) Economic equity is not always achieved. High prices are attached to some factors of production and low prices to others. The market mechanism often creates an unequal distribution of income. Some people become extremely wealthy while others are miserably poor. A more equal distribution of income can be achieved in two ways:
- (1) A progressive tax could tax the higher income groups at a higher rate and the lower income groups at a lower rate. (4)
- (2) Equity could also be obtained if the state gives assistance such as free health care to poor people. (4)

3. Carrying out economic policy

In order to achieve these objectives the following methods may be used:

- (a) **Monetary policy** is applied with the aid of the Reserve Bank. It aims to control the money flow and credit. The Reserve Bank has the following means of disposal : (2)
- Changing the official bank rate (rate of rediscounting bills of exchange) (2)
 - Open market transactions – buying and selling of government stock and other stock. (2)
 - Changing the cash and liquid asset reserves of commercial banks. (2)
 - Influencing interest rate patterns in practice. (2)
 - Moral persuasion – advising and warning banks to be careful. (2)

- (b) **State financial policy** involves the manipulation of tax structures as follows: (2)
- Encouraging industrial development by means of tariff protection. (2)
 - Encouraging private enterprise by means of tax concessions. (2)
 - Reducing government expenditure. (2)
 - Promoting exports by means of subsidies. (2)
 - Promoting decentralisation of industry to create employment opportunities for unskilled workers. (2)
 - Stabilising economic growth and combating inflation. (2)
 - Reducing government debt by utilising surpluses for capital projects. (2)
 - Reducing the tax burden on individuals by keeping the rate of taxation as low as possible, especially for the lower and middle income groups. (2)
- (c) **Foreign trade** policy is mainly directed at the following : (2)
- The promotion of exports (by a section of the Board on Tariffs and Trade) by means of trade agreements, trade representation and advice. (2)
 - Giving export incentives to bona fide exporters. (2)

The purpose of these measures is to ensure a permanently favourable balance of payments.

CONCLUSION

Any suitable conclusion.

* Max of 5 marks deducted for no introduction, body and conclusion.

Any 25x2= [50]

TOTAL FOR SECTION B: 2x50=[100]

SECTION C

QUESTION 6 NATIONAL INCOME

6.1.1 True

6.1.2 True

6.1.3 False

6.1.4 True

6.1.5 True

5x2=(10)

- 6.2 Some of the methods to improve economic growth are productivity and investment. Discuss the other THREE.
- 6.2.1 Availability of factors of production (2)
- The key to economic growth is increased output per factor of production.
 - Factors of production of the correct quality must be available in the quantity required to generate economic growth. (2)
- 6.2.2 Technological development (2)
- Technological progress has always been crucial to economic growth. (2)
 - For example, major surges in economic growth resulted from the advent of the steam engine, the internal combustion engine and the computer. (2)
- 6.2.3 Effective government policy
- Effective government policy is a very important means of promoting economic growth in a country.
 - All players in the economy eagerly await the annual budget speech made by the Minister of Finance, Mr T. Manuel.
 - The economic policy of the State has been described as the most important agent in the creation of a climate in which economic growth can take place. 3x4=(12)
- 6.3 Discuss domestic expenditure in an open market.
1. **National expenditure**
- Domestic expenditure indicates how expenditure occurs within the borders of the country. (2)
 - National income consists mainly of these three sectors. In an open economy, like that of South Africa, with a large foreign trade, a fourth sector has to be added. In the latter case it is called domestic expenditure (within the borders of the country vs national expenditure).

- (a) **Expenditure by households** (2)
- Households are by far the most important sector regarding expenditure of final goods or services.
 - More than 70% of the total national income is paid to employees as wages, which then is spent satisfying daily existence needs.
 - Private consumption expenditure is made up as follows
 - Durable goods – furniture, cars and jewellery
 - Semi-durable goods – clothing, household appliances and glassware.
 - Non-durable goods – food, medicine and petroleum products
 - Services – household services, rent, medical services. (2)
- (b) **Expenditure by businesses** (2)
- Production concerns spend large amounts annually in purchasing capital goods with a view to manufacture consumption and capital goods. (2)
 - Private enterprises have spent R37 353 m on fixed expenses (or a sum of 71,8% of total investment) (5)
- (c) **State expenditure** (2)
- Certain services are undertaken by the State for its citizens.
 - These services include expenses like police services, education, health, etc. (2)
 - Consumer expenditure by the general authorities was R69 706 m in 1992. (5)

(d) **Expenditure by the foreign sector** (2)

– The total expenditure by the former three sectors is known as **national expenditure**. (2)

– If expenditure by the foreign sector is also included, we talk of **domestic expenditure**. (2)

– Foreign trade makes up an important part in South Africa's open economy.

– Many goods purchased by households, businesses and the State, originate from abroad.

– Goods produced locally which are not all sold on the local markets are exported. (5)

4x(1+2+2)=[18]

6.4.1 Calculation: Per capita income = $\frac{\text{National income}}{\text{Population}}$ (1)

$$= \frac{R430\,000}{39} \quad (2)$$

$$= R11\,025,62 \rightarrow \quad (1)$$

6.4.2 Real income = $\frac{R500\,500}{1} \times \frac{100}{145}$ (2)

$$= R345\,172,4 \quad (1)$$

6.4.3 1997 = $\frac{430\,000}{1} \times \frac{100}{124,6}$

$$= R345\,104,3$$

1999 = R345 172,4 (2)

Yes, small / slight increase. (1)

[50]

QUESTION 7
PRICE FORMATION AND MARKETS

- 7.1.1 True
- 7.1.2 True
- 7.1.3 False
- 7.1.4 False
- 7.1.5 False 5x2=(10)
- 7.2 Discuss FIVE factors that have an influence on the elasticity of demand.
- (1) Substitution (1)
- If good substitutes within the same price range are available, the demand for goods and services is very elastic. Consumers will look for substitute products if the price of an article is increased. The demand for products will increase if the prices decrease. Alternatively, the demand for articles will tend to be inelastic if no substitute products are available. (3)
- (2) Income and wealth (1)
- Articles that are too expensive to be bought without much thought (especially with a limited income) have an elastic demand.
 - A decrease in price will lead to an increase in demand by the lower-income groups. The demand of the lower-income groups for goods and services tends to be more elastic than that of the higher-income groups. Lower income is more sensitive to price changes as there is less money available. (2)
- (3) Nature of the commodity (1)
- Essential goods have an inelastic demand. These goods are purchased regardless of price changes, e.g. maize meal. Luxury goods have an elastic demand as they are not necessary for survival. If prices increase, consumers will buy fewer luxuries. Commodities whose value is defined by scarcity and status have an inelastic demand, e.g. diamonds. Elasticity of demand can also be influenced by the availability of a product. (2)
- (4) Relative importance of an article in the total expenditure of the consumers (1)
- If the percentage of income spent on a certain type of product is low e.g. matches, these products tend to have inelastic demand, e.g. bread. A price increase in these articles would not affect demand. Their prices are low enough so that even daily purchases do not have a large effect on expenditure. (2)

(5) Possible uses (1)

Multi-purpose goods have an increased market potential. If the price decreases, demand for the product will increase more than if the article could be used for one use only. Multi-purpose articles have an elastic demand. (2)

(6) Habit-forming articles have a relatively inelastic demand e.g. tobacco and alcohol. Small price changes do not affect the quantity of these goods. (3)

(7) Time (1)

The demand for a product is more elastic if there are long periods between price changes. The result of a change in price does not have an immediate effect on demand because consumers have become used to buying that product. Businesses find it difficult to adapt their production systems to new inputs due to higher prices of old inputs. (2)

6x(1+2)=[18]

7.3 Explain the role of competition in a free-market economy. (15)

- In a free-market economy, people are forced to compete with each other. (2)
- If a consumer urgently needs an article and he has the means (money) at his disposal, he will outbid his neighbour. (2)
- The interaction of market forces (supply and demand) often settles differences between buyers and sellers. (2)
- Sellers will often manipulate prices to try to gain an advantage in the market. (2)
- Buyers compete for goods and services available on the market. (2)
- Competition forces prices down to the advantage of the consumer. (2)
- If a buyer tries to get the lowest possible price, the danger is that another buyer may be prepared to pay the higher price and get the product. (2)

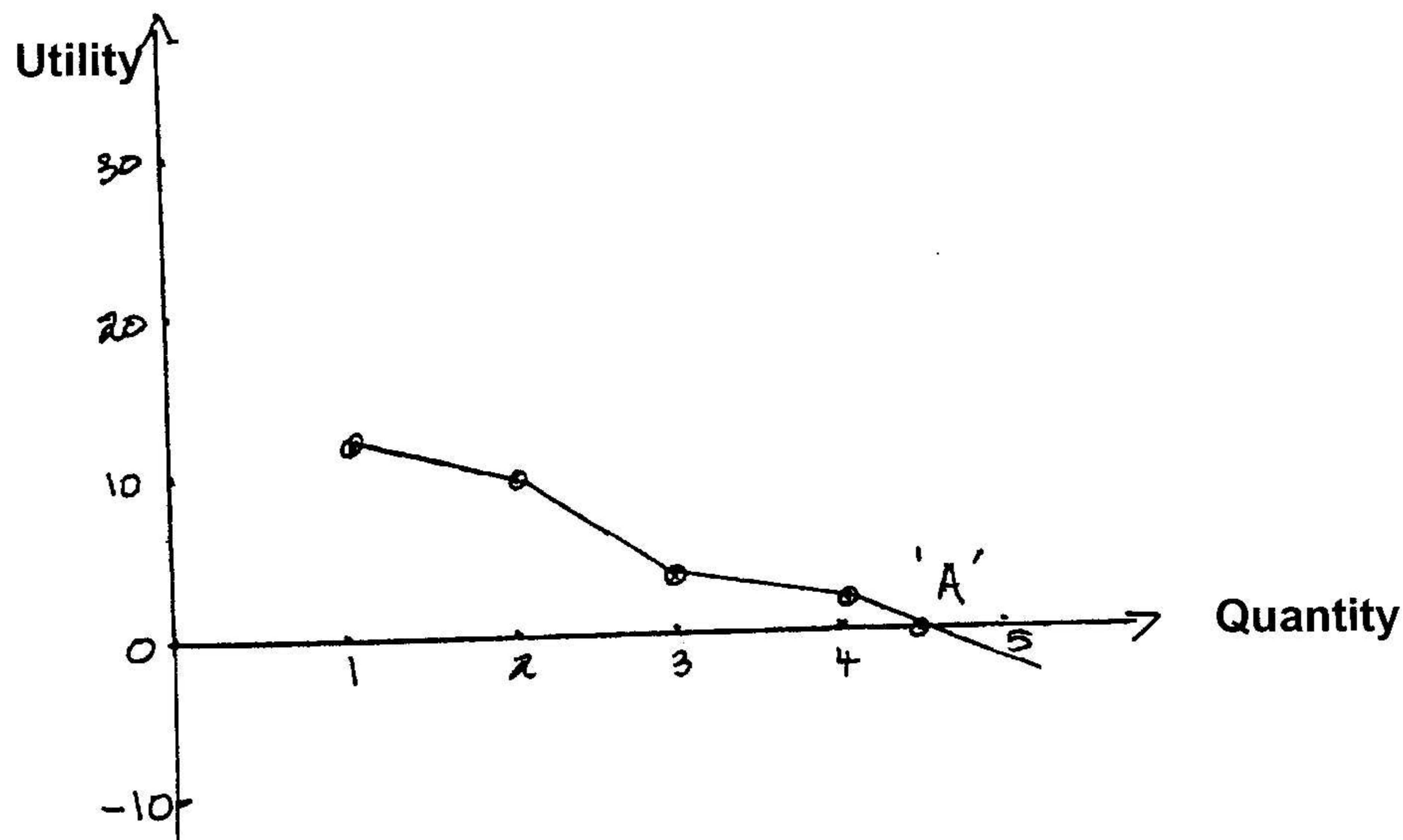
[12]

7.4

Number of sodas	Total utility	Marginal utility
1	12	12
2	22	10
3	28	6
4	30	2
5	28	-2

(5)

GRAPH FOR MARGINAL UTILITY



A = SATURATION POINT, $4\frac{1}{2}$ sodas.

(5)

(10)

[50]

QUESTION 8 ECONOMIC DEVELOPMENT

8.1.1 False

8.1.2 True

8.1.3 False

8.1.4 True

8.1.5 True

5x2=(10)

8.2 The Industrial Development Programme (I.D.F.) in South Africa has two focuses. One is the Spatial domestic Initiative (SDI) and the other, financial incentives. Discuss the SDI.

(15)

- The SDI programme endeavours to attract infrastructure and business investments to underdeveloped areas with the primary aim of creating employment.

(2)

- The programme makes it possible for private sector business to take advantage of economic potential of underdeveloped areas in private-public partnership (P.P.P`s). (2)
- In a PPP a private sector business may for instance provide the fixed capital to build the factory and the overhead capital to buy raw materials and employ labour and manage the business, while the government provides the fixed capital for the infrastructure such as roads, water and electricity. (2)
- Businesses benefit from profits and government benefits from various kinds of taxes and loans, and less unemployment. (2)
- South Africa`s industrial development policies are committed to the fostering of sustainable industrial (not only manufacturing) development and growth, particurly in areas where poverty and unemployment are at their highest. (2)
- The SDI enables government to enforce this commitment across national, provincial and local government boundaries. (2)
- The goal is to ensure that business investments are more investments in numbers and value every year, and that synergy, in the sense that various kinds of investments compliment one another, is maximised. (2)
- South Africa`s SDI has two elements, namely, a domestic spatial element and a Southern African Development Community (SADC) spatial element. These spatial elements are known as **corridors**. (2)
- Corridors are spatial areas that offer particular advantages to mining, manufacturing and other businesses. (2)
- The advantages include the presence of existing or potential infrastructure and specialisation of products and / or services. For example, the Phalaborwa sub-corridor in the Northern Province offers opportunities for mining and related activities. (2)

8x2=[16]

8.3 Urbanization is at times a necessary condition for economic development. Discuss THREE advantages of urbanization relating to economic growth.

- (i) Urbanisation is an essential condition for economic development. The comparable advantage of cities because of people accumulating, extended industries and efficient infrastructure further economic growth. (5)
- (ii) Urbanisation goes with a greater demand for community services, such as water supply, transport, education, health, etc. The greater demand leads to an improved quality and a more cost-effective supply. (5)
- (iii) The more rapid pace of living is attractive to many people, it leads to improved competition and furthers productivity. (5)

- (iv) Population growth rate. The higher the level of development of urban dwellers, the lower the population growth rate. The birth rate depends to a large extent on industrialization, educational level, economic level, urbanisation. (5)
Any 3x5=(15)

- 8.4.1 Employment
Combatting poverty (3)
- 8.4.2 Labour Entrepreneurship (2)
- 8.4.3 That it consists of activities aimed at avoiding taxes, labour legislation etc. (2)
- 8.4.4 (a) casual employment – no contracts
(b) Family members – personal relationship
(c) Social relationships – no guarantees (3)
(10)
[50]

QUESTION 9 INTERNATIONAL TRADE

- 9.1.1 False
- 9.1.2 True
- 9.1.3 True
- 9.1.4 False
- 9.1.5 True 5x2=(10)
- 9.2 Discuss FIVE reasons for international trade
- (1) National resources are not distributed evenly across the globe (1)
- Some countries have an excess of certain natural resources and can export these to other countries. (2)
 - By expanding these goods (e.g. South Africa`s minerals) the country can earn large amounts of foreign exchange. (2)
- (2) Climatic conditions differ (1)
- Certain products can only be grown in areas with a specific rainfall.
 - South Africa, due to its irregular rainfall, will never develop into a major agricultural producer.
 - However, it only needs to import a few agricultural products from other countries to satisfy its needs. (2)

- (3) Labour talents and technological development differ between countries (1)
- Some countries have better trained labourers and more advanced technology than others.
 - Productivity of these countries is therefore higher, and their production costs are lower.
 - The processed goods are then imported at a high cost. (2)
- (4) Effective wants (demand) (1)
- The demands of individuals, groups or countries differ greatly.
 - Taste often plays a role in the demand for foreign goods.
 - Contact between countries in the form of tourism, migration, trade commissions and exhibitions stimulates people`s minds, creating a demand for new goods. (2)
- (5) Income (1)
- An increase in income will lead to an increase in demand for local and international goods and services.
 - Nowadays, people travel more, broaden their horizons, and expand their needs. (2)
- (6) Established industries in highly developed countries (1)
- They have a production advantage over industries in developing countries as they are technologically more advanced.
 - This has a worldwide pattern – industrial goods are produced by highly developed countries, and raw materials and semi-finished goods from developing countries. (2)
- (7) Mass production coupled with lower unit costs (1)
- This offers an advantage to certain countries in specific goods because of specialisation.
 - The excess produced in a country which cannot be absorbed by the local market.
 - Trade comissions and exhibitions and marketing campaigns introduce these goods to international markets. (2)

- (8) Capital may be limited (1)
- Due to low levels of savings, and sometimes sanctions, some countries are unable to raise enough capital for large-scale expansion in industries.
 - Raw materials may then be exported to other countries, to be processed into a different form. (2)
- (9) The development of modern communications and transport (1)
- Countries have attained a closer relationship in terms of time and economic development.
 - Cellular telephones and microwave inter-satellite connections mean that businessmen can make contact almost anywhere in the world.
 - Communication creates new wants with people in foreign countries.
 - International trade is therefore essential. (2)
- (10) International migration (1)
- This helps to establish ties between countries.
 - Immigrants bring foreign goods with them and compel local suppliers to import such articles from their countries of origin. (2)
- Any
5x(1+2)=(15)
- 9.3 Discuss the FIVE stages of in the economic integration process. 5x3=[15]
- (1) Free trade area (1)
- This is the simplest form of economic integration.
 - Two or more countries agree to the free movement of goods across their borders.
 - Each country keeps its tariffs and other restrictions for other countries outside the area. (2)
- (2) Customs union (1)
- A customs union is the second step in economic integration.
 - The countries agree to charge a uniform tariff on goods imported from countries that are not members of the union. (2)
- (3) Common markets (1)
- Goods and services, together with factors of production (capital and labour) are permitted to move freely between the member countries.

- (4) Monetary union (1)
- Countries forming a monetary union establish a common monetary policy together with a common currency or a fixed rate of exchange between existing national monetary units (currencies). (2)
- (5) Economic union (1)
- This is the most advanced form of integration.
 - Member countries follow a common economic policy (a common fiscal and monetary policy) (2)
- 5x(1+2)=(15)
- 9.4.1 South Africa's imports, exports will become expensive for Americans and the demand for South African exports will decrease. An increase in the price of the rand will result in a decrease in exports. (3)
- 9.4.2 R1 = \$0,5
R12 = \$6 (4)
- 9.4.3 The South African Reserve Bank can intervene by selling more rands (increase the supply of rand) on the exchange market, allowing the rand to decrease to a value equal to \$ 0,20. (3)
- [50]**

QUESTION 10 THE STATE

- 10.1.1 True
- 10.1.2 False
- 10.1.3 False
- 10.1.4 True
- 10.1.5 False 5x2=(10)
- 10.2 Discuss the role of the state as entrepreneur in South Africa

The state as an entrepreneur

For various reasons, the state has created goods and services of which the following are the most important:

- (i) There are production areas where essential goods and services are *under-valued* by the market mechanism. Education, health services, sanitation, refuse removal, public parks and recreational services are areas where the provider must have the desire to serve the community rather than make a profit. Private enterprise is reluctant to enter these areas of production and the state must therefore provide these goods and services. (5)

- (ii) Certain essential goods and services require *huge capital outlay*. Private enterprise is not prepared to provide these services. These include services such as transport, post and telecommunication services, power generation, and strategic industries, armaments manufacturing (Armcor), irrigation schemes, fisheries and those industries that require a *long waiting period* before proceeds on capital inputs are earned (such as forestry). The transport and postal services have already been commercialised as Transnet, Telkom and the Post Office, respectively, while Iscor and Sasol have also been privatised. (5)
- (iii) Another reason for the state to act as an entrepreneur is to achieve political and socio-economic aims (such as deconcentration and development of industries in a regional context in order to uplift and develop remote areas.) (5)
- (iv) Through the years, industrial development has been mainly concentrated in the four metropolitan areas of South Africa. Industrial concentration is a cumulative process and, unless the state creates a climate for industrial development in less developed areas, this process will continue, while the undeveloped areas (the densely populated rural areas) remain as they are. (5)
- (v) Various development corporations were instituted for this purpose (development of industries) and the Development Bank of South Africa was established. The state aims to promote and stabilise economic growth and ensure a high level of employment and creation of employment opportunities. (5)
- (vi) Financial institutions in the public sector are specifically organised to provide certain collective functions on behalf of the state (state funds, certain forms of insurance and the buying and selling of foreign currency). (5)
- Any 3x5=(15)

10.3 Tax on wealth

- (i) Examples of tax on welfare include property taxes, capital gains taxes, estate tax and transfer duties. The principle is that the more properties one has at one's disposal, the more the tax payable. (3)
- (ii) The main source of revenue of local authorities is the property tax that people living in towns and cities must pay. (3)
- (iii) The tax is calculated as a certain percentage of the value of fixed property plus any improvements. Thus, the higher the value of the property, the more is the tax payable. (3)
- (iv) Capital gains taxes arise when property is sold and yields a profit, for example, if growth fund units, holiday homes, caravans and other similar assets are sold. (3)

- (v) The sale of ordinary dwellings and motor vehicles is excluded from this tax. Transfer duty is payable on the sale of property, and represents a fixed percentage of the property value. (3)
- (vi) Estate duty is payable on legacies (inheritance) above a certain value. The tax is recovered from deceased estates, and the heirs receive only the remainder. (3)
- 5x3=[15]

- 10.4.1 (i) Progressive – A
(ii) Proportional – B

- 10.4.2 Proporsioneel – 20%
Progressive – 30%

QUESTION 11 IMPORTANT ECONOMIC TOPICS

11.1 LABOUR RELATIONS

(a) True

(b) True

(c) False

3x2=(6)

- 11.1.2 Discuss the institutions and mechanisms used to resolve labour disputes.

Collective bargaining

(1) Trade Unions

- Workers, through their labour unions, negotiate with employers on the basis of collective bargaining. (3)

(2) Bargaining council

- Established for a particular industry, e.g. iron and steel industry, public and education sector. (3)

(3) CCMA

- If a dispute that cannot be resolved now arises, it can be referred to the CCMA which became operational in 1996. (3)

(4) Workplace forums

- Employees and employers can voluntarily establish a workplace forum where issues relating to working conditions can be discussed. (3)

(5) Labour Court and Labour Appeal Court

- Disputes that cannot be resolved by any of the above institutions are brought before the Labour Court, which has a judge as the president. (3)
5x3= [15]

11.1.3 A trade union is any number of employees in a particular concern, industry, trade or occupation who unite with the purpose of regulating relations between themselves and their employers. (4)
[25]

11.2 Productivity and unemployment

11.2.1 (a) False

(b) False

(c) True not under all circumstances 3x2=(6)

11.2.2 Discuss THREE most important types of unemployment

(a) **Frictional unemployment** (1)

(i) At any given time, a certain percentage of the labour force will be unemployed, either because they are trying to enter the labour force or because they are changing jobs. (2)

(ii) This is a result of normal labour turnover, and is usually of short duration. (3)

(b) **Cyclical unemployment** (1)

- This relates to the business cycle – when the economy is in a recession, consumption declines, together with the demand for labour. People lose their jobs. (2)

- In the subsequent upswing in the economy, there is an increased demand for labour, and people are employed. (2)

(c) **Structural unemployment** (1)

- This refers to the overall inability of the economy to provide employment for its total labour force. (2)

- Employment opportunities do not increase fast enough to absorb people who are already unemployed and those newly entering the labour market. (2)

- Technological unemployment – labour-saving equipment can result in people becoming unemployed, even though productivity may increase. (2)
3x(1+2+2)=[15]

11.2.3 **Define productivity**

It can be defined as the relationship between the goods and services produced in the economy of the country, in an industry, or in an individual organisation, and the resources used to produce them to indicate the production efficiency.

(4)
[25]

11.3 Inflation

11.3.1 (a) True

(b) False

(c) False

3x2=(6)

11.3.2 Discuss FIVE consequences of inflation for the consumer.

(1) **Decline in the real value of savings**

– When inflation increases, and the purchasing power of money decreases, the real value of money saved declines. (2)

– This results in the person who saves being worse off at the end of the period over the period which he has saved, depending on the rate of interest. (2)

(2) **Debtors and creditors**

– A period of inflation benefits debtors to the disadvantage of creditors.

– The original debt was incurred when money had a higher real value (more purchasing power) repay debt with money worth less.

(3) **Inflation deprives the monetary unit of its value as an economic measure.**

– The monetary unit loses its value and the buying power decreases, leading to a lack of confidence and stability.

(4) **Inflation influences the distribution of income and wealth.**

– People whose income grows more slowly than the inflation rate (e.g. pensioners and people dependent on fixed income such as interest) are negatively affected as their real worth declines.

(5) **Investors**

- People investing in value documents such as effects, often benefit from inflation, as the value of their effects increases faster than the rate of inflation.
- Prices achieved in growth funds will at least keep pace with the rate of inflation.

11.3.3 A condition in which high unemployment rates and inflation occur at the same time.

(4)
[25]

11.4.1 (a) False

(b) True

(c) False

3x2=(6)

11.4.2 Discuss South Africa's resources

Coal

- South Africa has a relatively large coal reserve.
- This is the most important source of energy and provides around 83% of the country's primary energy needs.
- It is used by SASOL to produce oil, and is also used in both industry and households to generate electricity (through ESKOM).
- South Africa is a large exporter of coal.

Uranium

- South Africa rates third in the world production of uranium.
- It is used to generate electricity, in medicine, and in the food industry.
- It is used for the generation of nuclear power (e.g. Koeberg Nuclear Power Station).

Wind

This is used for pumping water which generates electrical power on a small scale. It is unreliable, although it is available in vat. On farms windmills are used to pump water.

Natural gas

- Is used for heat in households and factories.
- South Africa has natural gas deposits near Mossel Bay which led to the establishment of PetroSA (Mosgas).
- Gas is pumped from the ocean to the shore where it is processed. (15)
Water = Hydroelectricity

11.4.3 – Would be impossible without water. The far-sighted policy of the Department of Water Affairs and Forestry, the Rand Water Board and other bodies controlling water supply has laid the foundation for the sound development of industries in South Africa.

- Without sufficient water, the establishment of key industries could not contribute significantly to the national income. (4)

[25]

2x25=[50]

TOTAL FOR SECTION C: [200]**TOTAL: 400**