

**GAUTENG DEPARTMENT OF EDUCATION  
SENIOR CERTIFICATE EXAMINATION**

**ECONOMICS SG**

**Possible Answers March 2006**

**SECTION A  
COMPULSORY**

**QUESTION 1  
MULTIPLE-CHOICE QUESTIONS**

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

34x3=(100)

**TOTAL FOR SECTION A: [100]**

**SECTION B**

Answer any FIVE questions in this section.

**QUESTION 2  
NATIONAL INCOME**

2.1 Choose the correct word(s) between brackets.

2.1.1	scarcity	(2)
2.1.2	production	(2)
2.1.3	citizens of a country	(2)
2.1.4	per capita income	(2)
2.1.5	finished goods	(2)
		5x2= (10)

2.2 Discuss the following concepts as problems in determining national income.

2.2.1 **Transfer payments**

- Definition of NI: Total remuneration of factors of production.
- Problem: Not all payments are part of NI.
- Examples:
  - old age pensions
  - children's allowances
  - disability pensions
  - unemployment grants
- Payment for non-productive services which means it does not increase production/national income
- If taken into consideration, it over-estimates national income
- Payments which one person receives and pays over to another person without any productive service rendered
- Not all government payments are transfer payments, e.g. expenditure on roads, hospitals, police, etc. Any 3x2= (6)

2.2.2 **Double counting**

- : **Added value**
  - The remuneration of factors of production must only be added once, otherwise double counting occurs
  - Only determine added value, i.e. the total value added at each stage of production, determines total value of final goods and services
  - Do not include intermediate goods and services
- : **Transfer payments**
  - Includes
  - Income in the form of tax is already included.

2.2.3 **Nominal vs real national income**

- Nominal national income is the value of the national income of a specific time.
  - Real national income is the value of the national income adjusted to price increase. Normally deflated to a base year. Any 3x2= (6)
- (12)**

2.3 Explain TWO methods for determining national income.

a) Production approach/method:

- Total value of all final goods and services produced
- QXMP / QX production cost.

b) Income method:

- Total remuneration of services of factors of production
- (Wages and salaries) and net operating surplus and interest and rent and profit.

c) Expenditure method:

- Determination of value of national income spent on final goods and services.
- $C + I + G + (X - Z)$ .

Any 2 x (2+2)= (8)

- 2.4 2.4.1 Make use of the table to calculate GDP at basic prices

	R Millions
Compensation of employees	40 000
+ Net operating surplus	21 000
+ Compensation on fixed capital	<u>10 500</u>
= GDP at factor cost	71 500
+ Taxes on production	14 392
- Subsidies on production	<u>( 4 500)</u>
= GDP at basic prices	<b><u>R81 392m</u></b>

- 2.4 2.4.2 Calculate GDN at market prices.

	R Millions
GDP at basic prices	81 392
+ Taxes on products	7 800
- Subsidies on products	<u>(8 000)</u>
= Real GDP at market prices	81 192
+ Primary income from the rest of the world	3 000
- Primary income to the rest of the world	<u>(16 000)</u>
= GNP at market prices	<b><u>R68 192m</u></b>

5x2= (10)  
[40]

### QUESTION 3 PRICE FORMATION

- 3.1 Choose the correct word(s) between brackets.

3.1.1 Time

3.1.2 Usage value

3.1.3 Negative

3.1.4 Perfect

3.1.5 Higher

5x2= (10)

- 3.2 Discuss THREE advantages of competition.

a) Improved production methods:

- Means lower production costs and a larger share of the market.
- Producers compete to ensure their market share.

b) Lower selling price:

- A lower price is a direct result of the competition between producers.
- If the price of the product is high, the consumer will not buy.

c) Strengthens the operation of the market system:

- Efficient use of scarce resources is ensured and the formation of power groups by consumers and or producers is countered.

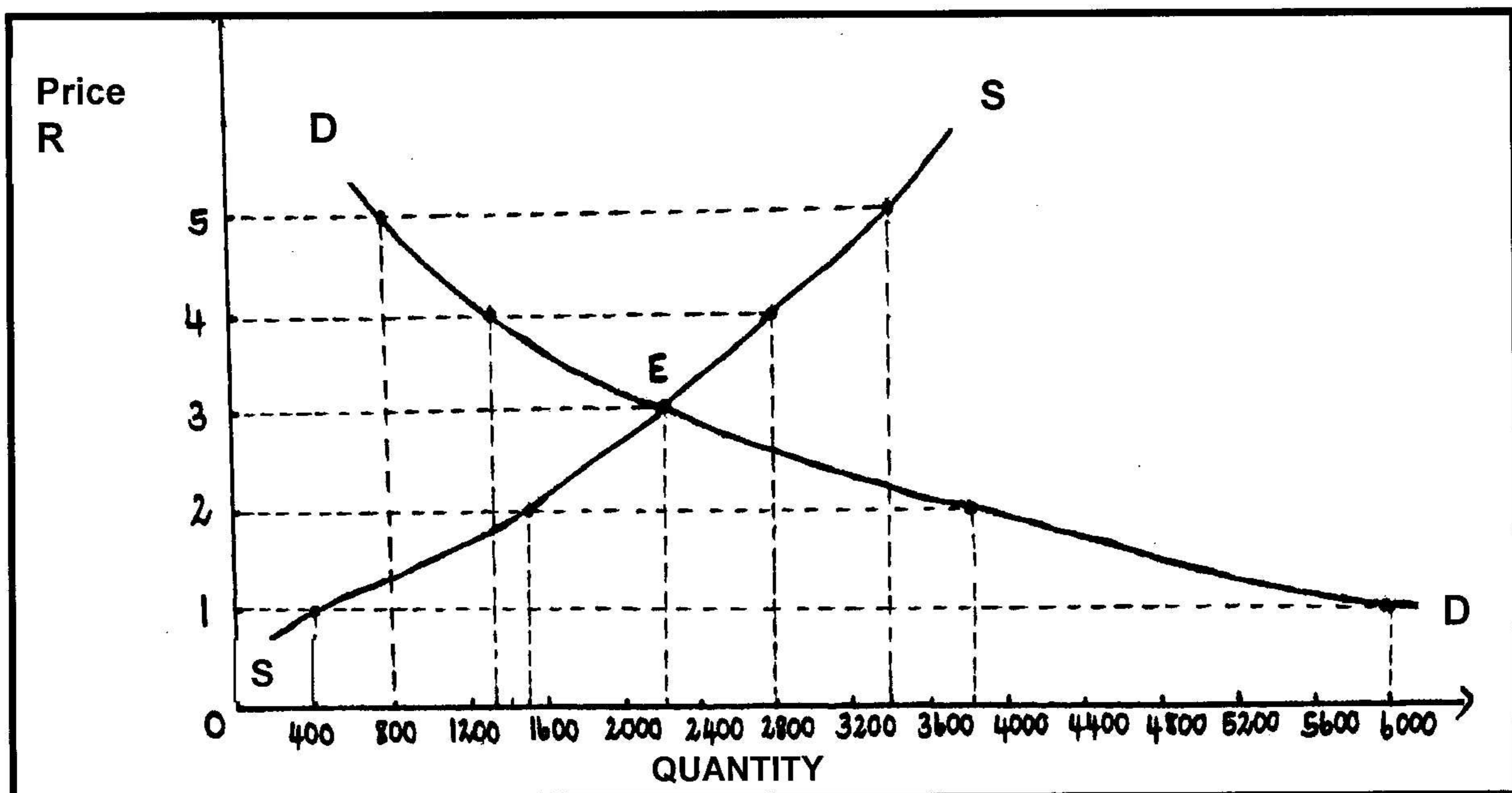
Any 3 x (2+2)= (12)

3.3 Discuss TWO factors that can have an influence on a person's wants.

- a) Changes in standards of living:
  - Have an influence on the nature and extent of wants normally as a result of an increase in income.
- b) An increase in income:
  - As the income increases new wants are created.
  - Persons in higher income groups have other needs than those in the lower income groups.
- c) Advertising campaigns:
  - Campaigns in the media can have an influence on the wants of consumers.
- d) Technological development:
  - Advanced technology brings new products to the market, thus creating new wants.
- e) The development of international trade:
  - International communities have different needs and tastes.
  - Contact with these countries develops new wants and creates opportunities for imports and exports.
- f) Changes in prices:
  - If one product is too expensive, it will be replaced by a cheaper alternative, e.g. margarine instead of butter.

Any 2 x (2+2)= (8)

3.4 Graph



(10)  
[40]

**QUESTION 4**  
**ECONOMIC DEVELOPMENT**

4.1 Choose the correct word(s) between brackets.

- 4.1.1 industrial development programme
- 4.1.2 urbanisation
- 4.1.3 growth
- 4.1.4 developing
- 4.1.5 unemployment

5x2= (10)

4.2 Discuss THREE financial incentives available for entrepreneurs.

- a) Duty-free incentives:
  - This is to encourage domestic and foreign businesses to settle in IDZ's and to produce goods and services for export.
  - Duty-free import incentives will be given to businesses within an IDZ.
- b) Small and medium enterprise development programme (SMEDP):
  - Specialises in goods manufacturing food processing, tourism, recycling, etc.
  - Businesses with assets of R100 million or less, qualify and must be competitive in their own right.
- c) Skill support programme (SSP):
  - This consists of cash grant to a value of 50% of the costs of training new staff resulting from an expansion or a new project.
- d) Critical infrastructure programme:
  - This is for large enterprises whose projects require infrastructure such as roads, electricity, water purification, etc.
- e) Strategic Industrial Programme
  - For strategic and large enterprises.
  - Will include a cash grant on capital investment.

Any 3 x (2+2)= (12)

4.3 Discuss TWO reasons for urbanisation.

- a) Population growth in urban areas:
  - Rural areas are characterised by high population growth.
  - As a result of better medical care, the death rate is lower in urban areas than in rural areas.
- b) Settlements or towns:
  - Settlements or villages are declared as towns and become part of an urban area as long as they have their own municipality.

- c) Migration:  
 – Rural areas are often incapable of supporting increasing numbers of people because of the poverty and lack of job opportunities.
- d) Attractiveness of cities  
 – Entertainment and recreational facilities draw young people.
- e) Most of the economic services are found in cities.  
 – E.g. commerce, transport, education and health.
- f) Where agricultural products in usable form are delivered to markets, secondary industries in factories develop.  
 – These factories are established mainly in our near cities.
- g) The city with its great demand for labour, offers more job opportunities at higher wages.
- Any 2 x (2+2)= (8)

## 4.4

- 4.4.1 Informal sector (2)
- 4.4.2 Activities of the informal sector:  
 – Hawkers and street sellers  
 – Production and construction, e.g. furniture manufacturing  
 – Services, e.g. hairdressers, sangomas  
 – Illegal activities, e.g. drug-dealers, gambling, etc.
- 4x2= (8)  
**[40]**

### QUESTION 5 INTERNATIONAL TRADE

- 5.1 Match columns
- 5.1.1 B  
 5.1.2 F  
 5.1.3 E  
 5.1.4 C  
 5.1.5 A
- 5x2= (10)
- 5.2 Discuss FOUR reasons with reference to international trade why developed countries have an advantage over developing countries.
- a) Characteristics of labour, qualities of the entrepreneur and technological knowledge differ:  
 – The labourers of developed countries are better trained and the technology more modern.  
 – Other countries have developed particular skills and are almost an automatic monopoly e.g. Swiss watchmakers.

- b) Increase in income:
    - Developed countries consist of high income and therefore the demand for local and international goods will increase.
  - c) Capital is as easily accessible in developed countries as in developing countries:
    - Can produce all the goods they need and even export to other countries.
  - d) International migration:
    - People move to developed countries for better job opportunities.
  - e) The development of transport and communication.
    - The developed countries are able to make contact and establish economic ties with other countries, e.g. the development of the Internet.
  - f) Cost differences:
    - Developed countries normally export those goods that they can produce with the greatest advantage.
- Any 4 x (1+2)= (12)

### 5.3 Distinguish between

- Voluntary import substitution
    - Goods that were previously imported are now produced locally by manufacturers on their own free will.
    - This reduces the dependency on foreign countries.
    - Consumer goods and other light industrial goods were of the first products that were produced locally. e.g. Pharmaceutical industry
      - vaccines at Onderstepoort.
  - Enforced/compulsory import substitution
    - This occurs when a country is forced by foreign countries to start producing certain goods because of boycotts, disinvestments or sanctions.
- (8)

- 5.4 5.4.1 Explain the meaning of the above picture.
- Gold is being transformed into jewellery.
  - Jewellery/Finished goods are exported to other countries.
- (4)

5.4.2 State and briefly explain TWO groups that export promotion is divided into.

- a) Direct subsidies:
    - Direct financial assistance is given to local producers in the form of subsidies and incentives.
    - Results in state expenditure.
  - b) Indirect subsidies:
    - Implies that state revenue is sacrificed.
    - Done through tax rebates.
    - Organisations also involved are SAFTO and the IDC.
- 2 x (1+2)= (6)

**QUESTION 6**  
**THE STATE**

6.1 Choose the correct word(s) between brackets.

6.1.1 Administrative

6.1.2 Regressive

6.1.3 Partial

6.1.4 Welfare

6.1.5 1 April – 31 March

5x2= (10)

6.2 Discuss THREE requirements of a good tax system

a) Productive (effective):

- Must produce sufficient revenue to cover the expenses of the government at all times.

b) Elastic:

- Should be easy to increase or decrease the proceeds from taxes whenever circumstances demands.

c) Economical:

- The collection of taxes must proceed smoothly and involve as little cost of collection as possible.
- Taxpayer must also incur as little expenses as possible when paying his taxes.

d) Certain:

- To the government, this means that the tax levied must be collected.
- To the taxpayer, it means that the taxpayer must know exactly how much has to be paid in taxes so that provision can be made.

Any 3 x (2+2)= (12)

6.3 Explain the concept **capital gains tax**

- Tax levied on the gain that is made when a capital asset is disposed of.
- Only a certain part of the gain is taxed at a progressive rate.
- This implies that a person in the high income group will pay more than a person with lower income to ensure equity.
- Most capital assets will be affected.
- Exclusion – first private vehicles and home ownership.
- One of the assets that are included are share ownership.

Any 4 x 2= (8)

6.4 6.4.1 Progressive tax

(2)

6.4.2 Proportional tax

(2)

Regressive tax

(2)

6.4.3 R35 000 minus 7 700 (tax) = **R27 300**

(4)

[40]



**QUESTION 7**  
**IMPORTANT ECONOMIC SUBJECTS**

**7.1 LABOUR RELATIONS**

7.1.1 Choose the correct word(s) between brackets.

- a) – peaceful labour relations
  - b) – recognised
  - c) – binding
- 3x2= (6)

7.1.2 Discuss FOUR limitations that apply to trade unions.

- a) No financial assistance to workers:
    - Labour union may not give financial assistance to any person to enable him to strike.
  - b) Strikes:
    - No strikes after agreement of publication.
    - Workers/Members may not strike for a period of one year after an agreement has been published.
    -
  - c) Compulsory registration:
    - The labour union must be registered.
  - d) Financial records:
    - The labour union must keep all financial records.
  - e) Non-contravention of laws
    - The labour union may not contravene any laws.
- Any 4 x (1+2)= (12)

7.1.3 Define **trade union**

A trade union is a permanent organisation of workers in a particular undertaking who unite with the purpose of regulating relations between themselves and their employers.

(2)  
[20]

**7.2 PRODUCTIVITY AND UNEMPLOYMENT**

7.2.1 Choose the correct word(s) between brackets.

- a) increase
  - b) productivity
  - c) literacy level
- 3x2= (6)

7.2.2 Discuss FOUR measures to combat unemployment

- a) Economic growth:
  - A growth rate of at least 5% per year is required to provide work for the new comers into the labour market.

- b) Building of low cost houses:
  - The building of low cost houses in disadvantaged communities will bring job opportunities to those that have building experience.
- c) Inward industrialisation:
  - Goods can be provided by means of labour-intensive processes so that job opportunities can be created.
  - A process for increasing the effective demand for locally manufactured products.
- d) Education and training:
  - This is the most important factor to alleviate unemployment.
  - People that have their necessary skills will be in demand.
  - Technical and in-service training contributes to the higher skills of the labour force.
- e) Population policy:
  - Smaller families have higher standards of living and higher skills.
- f) Improvement of the informal sector.
  - People who cannot find a formal job opportunity, normally resort to the informal sector.
  - The removal of restriction on this sector will create more job opportunities.

Any 4 x (1+2)= (12)

### 7.2.3 Define **productivity**

- This is the ratio between output (production) and input/resources. (2)
- [20]**

## 7.3 INFLATION

### 7.3.1 Choose the correct word(s) between brackets.

- a) fiscal
  - b) disadvantaged
  - c) demand pull
- 3x2= (6)

### 7.3.2 Discuss FOUR Consequences of inflation.

- a) Psychological influence:
  - Consumers may fear that a moderate inflation rate will increase, which will undermine investor confidence.
- b) Debt ratios are negatively affected.
  - Debtors are favoured at the cost of creditors. Due to inflation, the real value of the amount owed decreases, which favours the debtor.

- c) Disadvantages people dependant on a fixed income:
  - Many people, e.g. pensioners will be hard hit by inflation. Their pensions are not increased at the same rate as inflation and their real income decreases.
- d) Discourages savings:
  - If the inflation rate is high, people will be discouraged from saving. A person who for example gets an 8% return on his investment while the inflation rate is 10%, will experience a negative real return on his investment of 2%.
- e) Decreases the real value of money:
  - The real value of money decreases as the general price level increases.
  - Less goods and services can be bought with the same amount of money.
- f) Causes balance of payments problems:
  - If inflation increases in the export country, its production costs will increase and its products will cost more abroad. Its exports will therefore decrease.
- g) Stimulates production and profits:
  - Enterprises usually pass higher input costs on to the consumer.
  - Should the input costs increase at a slower rate than the inflation rate, the price of the final product will benefit and be able to make more profit.
- h) State receives more in tax:
  - Because enterprises are making more profits, the State will also receive more tax.
  - Individuals whose salaries are increased every year will also pay more tax.
- i) Disadvantages the lower income group more:
  - Increases in food prices will disadvantage the lower income group more than people in higher income brackets.

Any 4 x (1+2)= (12)

### 7.3.3 Demand-pull inflation:

- This implies that too much credit is available in the economy and the demand for goods and services is greater than the supply, which will cause prices to increase.
- Excess demand pulls prices upwards.

(2)  
[20]

## 7.4 STRATEGIC RESOURCES

### 7.4.1 Choose the correct word(s) between brackets.

- a) Uranium
- b) ESKOM
- c) export

3 x 2 (6)

7.4.2 Discuss FOUR reasons why water is important for primary industries.

- a) Flood control:
  - Dams that are built, prevents valuable water from draining into the sea and fertile soil from being washed away.
- b) Hydro-electric power:
  - Is the cheapest method of generating power especially in areas where coal is not easily accessible, e.g. Orange River Project.
- c) Agriculture and irrigation:
  - Uses the most water in South Africa but is necessary to provide the nation with enough food and also creates job opportunities.
- d) Mining development:
  - Without water, the mines cannot be developed.

Any 4 x (1+2)= (12)

7.4.3 Describe solar energy as an alternative energy source.

- The energy of the sun's rays is used on a limited scale by means of flat receiver plates to generate electricity.
- The rays of the sun penetrate a transparent plate which covers a black absorption surface.
- Heat/thermal energy is conducted from the absorption surface by means of piped water.
- E.g. the heating of water for household purposes; to generate electricity.

(2)

[20]

Any two subsections= [40]

### QUESTION 8 GENERAL

8.1 Choose the correct word(s) between brackets.

8.1.1 customs duties

8.1.2 reserve account

8.1.3 Minister of Finance

8.1.4 IDC

8.1.5 Urbanisation

5x2= (10)

8.2 Discuss TWO groups of production factors which can influence economic growth.

- a) Size and quality of labour force:
  - Education and training are important as well as motivation, health, etc.
- b) Quantity and quality of capital:
  - The ability and willingness to save is important.
  - Capital formation is important for economic growth.

- c) Technology:
- Research and development.
  - An increase in production leads to an increase in income.
- d) Availability of natural resources:
- Example: mineral resources in South Africa.
  - Promotes economic growth.
- Any 2 x (2+2)= (8)

### 8.3 Floating rates of exchange.

- a) Free-floating rates of exchange (clean floating):
- The value of a currency is determined by the market forces and there is no intervention by the authorities.
- b) Controlled (dirty) floating:
- Rates are determined by market forces within limits. When these limits are reached.
  - The Reserve Bank intervenes by buying or selling foreign exchange.
- c) Group (snake) floating:
- A number of currencies float together as a group against other currencies, e.g. the EURO which is used by the countries in the European Monetary Union.
- d) Independent floating:
- The value of the currency of a country is determined independently from any other currency.
  - South Africa has an independent floating of the Rand.
  - These types of exchange rates market forces (supply and demand of currencies) are responsible for the determination of the exchange rate.
- Any 3 x (2+2)= (12)

### 8.4 8.4.1 Functional classification of State expenditure: (name 3)

- Public services
  - Protection services
  - Social services
  - Economic services
  - Unallocated expenses
- Any 3 x 2= (6)

### 8.4.2 Stadiums in the financial procedure of the budget:

1. Planning
  2. Authorisation
  3. Execution
  4. Auditing
- Any 2 x 2= (4)

**[40]**

**TOTAL: 300**