



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS
MEMORANDUM
EXEMPLAR 2008**

MARKS: 300

TIME: 3 hours

This memorandum consists of 23 pages.

SECTION A (COMPULSORY)**QUESTION 1**

1.1 Various possible options are provided as answers to the following questions.

- | | | | |
|--------|-----------------------------------|----------|------|
| 1.1.1 | B (circular flow) ✓✓ | | |
| 1.1.2 | C (leading) ✓✓ | | |
| 1.1.3 | B (balance of payments) ✓✓ | | |
| 1.1.4 | C (implicit) ✓✓ | | |
| 1.1.5 | A (less and ask more) ✓✓ | | |
| 1.1.6 | A (benefit) ✓✓ | | |
| 1.1.7 | C (developing) ✓✓ | | |
| 1.1.8 | C (3 % - 6 %) ✓✓ | | |
| 1.1.9 | A (incentives and subsidies) ✓✓ | | |
| 1.1.10 | B (inflation and unemployment) ✓✓ | | |
| 1.1.11 | A (sustainable) ✓✓ | | |
| 1.1.12 | B (Robben Island) ✓✓ | (12 X 2) | [24] |

1.2 Choose, from the list, the word that best describes the statements that follow.

- | | | | |
|-------|--------------|---------|------|
| 1.2.1 | demand ✓✓ | | |
| 1.2.2 | oligopoly ✓✓ | | |
| 1.2.3 | hyper ✓✓ | | |
| 1.2.4 | product ✓✓ | | |
| 1.2.5 | private ✓✓ | (5 x 2) | [10] |

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- | | | | |
|-------|------|---------|------|
| 1.3.1 | E ✓✓ | | |
| 1.3.2 | F ✓✓ | | |
| 1.3.3 | D ✓✓ | | |
| 1.3.4 | A ✓✓ | | |
| 1.3.5 | B ✓✓ | | |
| 1.3.6 | H ✓✓ | | |
| 1.3.7 | I ✓✓ | | |
| 1.3.8 | G ✓✓ | (8 x 2) | [16] |

SECTION B

Answer any THREE questions from this section in your ANSWER BOOK.

QUESTION 2: LO1 MACRO-ECONOMICS, AS1-AS3**2.1 Answer the following questions appropriately:**

- 2.1.1 (a) leakages ✓✓
 (b) trough ✓✓
 (c) three ✓✓
 (d) depreciation ✓✓ (4 x 2) [8]
- 2.1.2 **List any THREE sub-accounts/components of the Balance of Payments.**
- Current account ✓✓
 - Capital transfer account ✓✓
 - Financial account ✓✓
 - Official reserve account ✓✓ (3 X 2) (6)
- [14]

2.2 Study the following graph and answer the questions that follow:

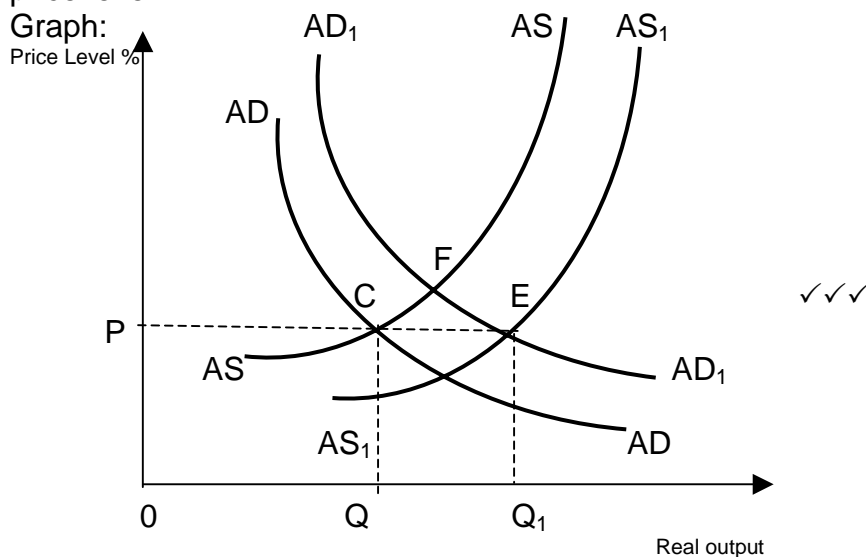
- 2.2.1 Households/Consumers ✓✓
 Business sector/Firms/Producers ✓✓ (2 x 2) (4)
- 2.2.2 It shows all the possible levels of expenditure and output ✓✓ at which the economy is in equilibrium ✓✓ (2 x 2) (4)
- 2.2.3 $k = \frac{20}{10}$ ✓✓
 $= 2$ ✓✓ (4)
- 2.2.4 **Calculate the multiplier when the $mpc = 0.8$**
- $$k = \frac{1}{(1 - 0.8)} \quad \checkmark\checkmark\checkmark$$
- $$= \frac{1}{0.2}$$
- $$= 5 \quad \checkmark\checkmark\checkmark \quad (6)$$
- 2.2.5 **Explain the relationship between the mpc and the multiplier** (2)
- The bigger the mpc , the bigger the multiplier (and vice versa) ✓✓ [20]

2.3 Discuss the new economic paradigm (smoothing of cycles) referring to the demand and supply-side policies. Illuminate your answer with graphs.

- Theories by the Monetarists (Friedman) and Keynesians (Keynes) extreme and only true under specific circumstances ✓✓
- Under real circumstances, government pursues economic growth irrespective of inherently stable or unstable market. Therefore governments aren't extreme, but transparent and follow pragmatic policies ✓✓
- According to the new economic paradigm it is possible for output to rise over extended periods of time without being hampered by supply constraints and inflationary pressures – embedded in demand-side and supply-side policies ✓✓

1. Demand-side policy: traditional monetary and fiscal policies focus on aggregate demand (a demand-side approach only) – does not render ideal results ✓✓

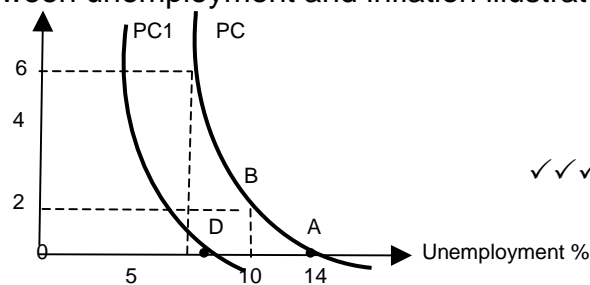
- Aggregate supply needs to be managed as well – focus on increasing flexibility of supply components. If cost of increasing production is completely flexible, a greater real output can be supplied at any given price level ✓✓
- Graph:



- **Inflation:** Aggregate demand and aggregate supply in equilibrium at point C. Aggregate demand is stimulated and moves to AD_1 , supply responds and relocates at AS_1 – larger real output without price increase ✓✓
- Supply often fixed in short term – with increase in demand to AD_1 supply stays constant – intersect at point F – real production and prices increase (inflation) – create conditions where supply is more flexible – use supply-side measures ✓✓
- **Unemployment:** Demand-side policies effective in stimulating economic growth – increases demand for labour – reduces unemployment – then inflation rises ✓✓

- Relationship between unemployment and inflation illustrated by Philips-curve (PC) ✓✓

- Graph: Inflation %



- PC-curve shows initial situation – A point of intersection of PC-curve with x/vertical-axis – natural rate of unemployment i.e. 14 % - no pressure on wages – no inflationary effects ✓✓
 - If economy is stimulated – unemployment rate falls to B i.e. 10 % wage increase – inflation at 2 % ✓✓
 - If unemployment falls to C i.e. 8 % inflation caused by wage increases at 6 % ✓✓
 - Thus inverse relationship between unemployment and inflation ✓✓
 - Supply-side policy measures can relocate Philips-curve to PC1 – shift to left – include improved education, effective training and fewer restrictions on immigration of skilled workers – demand can thus be stimulated to higher levels before increases in employment have effect on inflation rates ✓✓
- Max (4 X 2)

2. Supply-side policies: governments can arrange things in economy that supply is co-operative to changes in demand – invite increases in demand – integrate long-term measures within overall macro policy ✓✓

- Reduction of costs: greater output supplied at any given price level – AS shifts to AS1 and AD to AD1 – output expands from Q to Q1 with prices stable ✓✓
- Like:
 - infrastructural services like transport and energy costs
 - administrative costs like inspections and regulations – adds to costs
 - Cash incentives like subsidies & compensation to exporters ✓✓
- Improving efficiency of inputs: shifts AS to right – usually achieved with incentive schemes and measures such as: tax rates, capital consumption, human resources development and free advisory services ✓✓
- Improving efficiency of markets: measures to improve efficiency include deregulation, competition and levelling playing field ✓✓ (4 X 2)

[16]
[50]

QUESTION 3: LO2 MICROECONOMICS, AS2-AS3**3.1 Answer the following questions appropriately:**

- 3.1.1 (a) homogeneous ✓✓
(b) seven ✓✓
(c) demerit ✓✓
(d) imperfect ✓✓ (4 x 2) [8]
- 3.1.2 List any THREE characteristics of a monopoly.
- Faced with demand curves ✓✓
 - Decide on their production levels ✓✓
 - Exposed to market forces ✓✓
 - Face substitutes / No close substitutes ✓✓
 - Enjoy favourable circumstances ✓✓
 - Exploit consumers ✓✓
 - Are protected by barriers of entry ✓✓
 - (Any other relevant facts) (3 X 2) [14]
- 3.2 Study the following graph, and answer the questions that follow:
- 3.2.1 (i) loss = C ✓✓
(ii) normal profit = A ✓✓
(iii) economic profit = B ✓✓ (3 x 2) (6)
- 3.2.2 Normal profit is a situation where total revenue is exactly equivalent to total costs – is amount entrepreneur pays himself – expense – minimum earnings required to prevent entrepreneur from leaving production sector / AR = AC ✓✓✓ (3)
- 3.2.3 E_2 where MR = MC ✓✓✓ (3)
- 3.2.4 TR – TC = Total economic loss ✓✓
(R6 X 60) – (R8 X 60) = total economic loss ✓✓
R360 – R480 = -R120 ✓✓ (3 x 2) (6)
- 3.2.5 Total revenue = R8 X 80 = R640 ✓✓ (2)
[20]

3.3 Discuss characteristics of a typical oligopoly

- Type of product ✓✓ homogeneous (pure oligopoly) or differentiated (differentiated oligopoly) ✓✓
- Entry ✓✓ new producers have free entry although not easily illustrated - only few businesses in market ✓✓
- Control over prices ✓✓ producers generally have considerable control over price of products ✓✓
- Mutual dependence ✓✓ only few businesses – influenced by others' actions – competitors react ✓✓
- (Any other relevant facts) (4 X 4) [16]

/50/

QUESTION 4: LO3 ECONOMIC PURSUITS, AS1 – AS3**4.1 Answer the following questions appropriately:**

- 4.1.1**
- (a) growth ✓✓
 - (b) tourism ✓✓
 - (c) forced ✓✓
 - (d) Gini coefficient ✓✓
- (4 x 2) (8)

4.1.2 List any THREE advantages of export promotion

- No limitations ✓✓
 - Cost and efficiency ✓✓
 - Increased domestic production ✓✓
 - Exchange rates ✓✓
 - (Any other relevant facts)
- (3 x 2) (6)
[14]

4.2 Study the cartoon below and answer the questions that follow:

- 4.2.1** Minister of Finance ✓✓✓ (3)
- 4.2.2**
- SARB ✓✓
 - Department of Labour ✓✓
 - Stats SA
 - (Any other relevant institutions)
- (2 X 2) (4)
- 4.2.3**
- Relative performance of country can be measured (in comparison with other countries) ✓✓✓
 - A complicated economy changes throughout – makes measurement changes necessary ✓✓✓
 - Method of statistical calculation revised
- (3)
- 4.2.4**
- IMF ✓✓
 - World Bank ✓✓
 - United Nations ✓✓
- (2 X 2) (4)
- 4.2.5**
- Indicate economic development ✓✓
 - Indicate living standards ✓✓
 - Used to compare living standards ✓✓
- (3 X 2) (6)
[20]

4.3 Tabulate the major differences between the developed countries in the North and the developing countries in the South (North-South divide).

NORTH-SIDE Developed Countries	SOUTH-SIDE Developing Countries
Per capita income – 87 % produced by 15 % of world's population ✓✓	85 % of world's population living on 1/5 of world's income ✓✓
Life expectancy is high in developed countries = 75 years ✓✓	Life expectancy in developing countries is low due to malnutrition, disease and ill health = 48 years ✓✓
Level of education: high – everyone literate ✓✓	Level of education low – only 46 % adult literacy. ✓✓
Trade: rich countries subsidise production – developing countries cannot compete ✓✓	Trade: developing countries are marginalized by subsidies. ✓✓
Mass consumption of oil and coal – damage to ozone layer – air, water, noise pollution and toxic waste ✓✓	Focus on agriculture – soil conditions, adequate rainfall and health of crops – degradation and depletion of land, water and vegetation – do not produce sufficient food – hunger and malnutrition ✓✓
(4 X 2)	(4 X 2)

(Any other relevant facts)

[16]

/50/

QUESTION 5: LO4 CONTEMPORARY ECONOMIC ISSUES, AS1-AS4**5.1 Answer the following questions appropriately:**

- 5.1.1 (a) CPIX ✓✓
 (b) DEAT ✓✓
 (c) negative ✓✓
 (d) Earth ✓✓ (4 x 2) [8]

5.1.2 List THREE forms of pollution.

- Air ✓✓
 - Water ✓✓
 - Land ✓✓
 - Residual waste (household waste, obsolete consumer durables and litter) ✓✓
 - Production pollution (affects land, sea and atmosphere like acid rain, smoke, gases, toxic chemicals, pesticide contaminants, liquid chemical effluents, noise pollution, scenic degradation and oil spillages) ✓✓
 - (Any other suitable facts) (3 X 2) (6)
- [14]

5.2 Study the following information and answer the questions that follow:

- 5.2.1
- They do not have sufficient income resources ✓✓✓
 - They want to improve resource location ✓✓✓
 - It provides an additional source of revenue to the provinces ✓✓✓ (3)
- 5.2.2 (any 1 X 3)
- Taxes ✓✓
 - Levies ✓✓
 - Duties ✓✓
 - Surcharge ✓✓
 - User-charges + Vehicle license fees ✓✓
 - Loans ✓✓ (any 3 X 2) (6)
- 5.2.3
- Inflation will increase ✓✓ transport costs will increase and lead to higher product prices ✓
 - Tourism – positive ✓✓ better service delivery by province ✓
Tourism – negative ✓✓ higher petrol prices ✓
 - Environment will benefit ✓✓ more capital available to improve ability of management regarding resources ✓ (3 X 3) (9)
- 5.2.4 indirect ✓✓ (2)
- [20]

5.3 Discuss the causes of demand (-pull) inflation

- Increased consumption ✓✓ through less savings ✓✓ reduction in taxes ✓✓ easy access to credit ✓✓
- Investment spending ✓✓ lower interest rate improves expectations of businesses – invest more – increase in demand – aggregate demand increases faster than aggregate supply, price rises ✓✓
- Government spending ✓✓ infrastructure like capital projects ✓✓ consumption spending on education, health, protection and safety ✓✓ social spending on public works programmes and social grants ✓✓
- Export earnings ✓✓ foreign growth: trade with foreign countries bring demand for locally produced goods – demand increases as well as the price ✓✓ commodities demand expands and contracts like business cycles do

(4 X 4)

**[16]
/50/**

QUESTION 6: LO3 – AS3 & 4 AND LO4 – AS4, ECONOMIC PURSUITS & CONTEMPORARY ECONOMIC ISSUES**6.1 Answer the following questions appropriately**

- 6.1.1 (a) Physical ✓✓
 (b) developed ✓✓
 (c) the environment ✓✓
 (d) non-renewable ✓✓ (4 x 2) [8]

6.1.2 List any THREE arguments in favour of protection

- Raising revenue for the government ✓✓
- Protecting the whole industrial base ✓✓
- Protecting particular industries ✓✓
- Protecting domestic standards ✓✓
- (Any other relevant facts) (Any 3 x 2) [14]

- 6.2.1 (a) No labour market experience / Lack of educational and training / lack of skills. ✓✓ (2)
 (b) Get highly educated ✓✓✓ only 1 % of highly educated people is unemployed ✓✓✓ (6)
 (c) Promote eco-tourism through guest houses, ✓✓ lodges, guest farms, hiking trails; indigenous arts promoted ✓✓ (4)
 (Any other relevant facts)

- 6.2.2 Bursaries to further studies ✓✓ subsidies to make production possible in the formal sector ✓✓ (Any other relevant facts) (Any 1 X 2) (2)

- 6.2.3 (a) Technicians ✓✓ 88 % ✓✓ (4)
 (b) Poor remuneration / Lack in education ✓✓ (2)
 [20]

6.3 Public sector intervention to ensure environmental sustainability

- Granting property rights ✓✓ allow people property rights to prevent extinction of fauna and flora species / property rights to clean air – developed countries pay for the right to pollute ✓✓
- Charging for use of environment ✓✓ government levies fee on consumers and producers for waste produced and dumped / emission charges levied on industries and vehicle owners for gas waste ✓✓ charges must be proportional to waste produced ✓✓
- Environmental taxes ✓✓ tax imposed on output, known as green taxes ✓✓ e.g. tax on tyres – rate of tax should be equal to marginal external cost ✓✓
- Environmental subsidies ✓✓ provide subsidies to reduce environmental damage e.g. new techniques or equipment to save energy ✓✓
- Marketable permits ✓✓ businesses allowed to sell licenses to others – If pollution is reduced by one, the other allowed pollution can be traded in a permit market ✓✓ (Any 4 X 4) [16]

TOTAL SECTION B: 150

SECTION C

Answer any TWO questions from this section in your ANSWER BOOK.

- I. Essay responses should include an introduction, body and conclusion. For the introduction and conclusion 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.
- II. Other long answer-questions: For the presentation of facts (cognitive context), 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.

QUESTION 7 (LO1 MACRO-ECONOMICS, AS3)

‘Fiscal policy is the government’s policy in respect of the nature, level and composition of government spending, taxation and borrowing. Through fiscal policy government aims to achieve particular economic goals.’

Discuss the features, composition and effects (including a clearly labeled Laffer curve) of fiscal policy.

FEATURES:

1. It is goal-bound ✓✓
 - Central government use budgetary process of consultation and persuasion, to determine economic and social goals ✓✓
 - Provincial and local governments execute approved budget goals ✓✓
2. It is demand biased ✓✓
 - Fiscal policy is a main policy instrument in demand-side policies – elements also used to realize supply-side objectives ✓✓
 - E.g. when government improves infrastructure, use taxation as incentive, allows rapid depreciation of assets and subsidizes human resource development ✓✓
3. It is cyclical ✓✓
 - Business cycle has direct effect on fiscal policy – during upswing income and profits increase – increase in aggregate demand and expenditure – increase in income tax and profit – government’s income higher – higher levels of spending ✓✓
 - Opposite happens in downswing – therefore fiscal policy should be anti-cyclical, so that smoothes out extreme fluctuations ✓✓ (max 12)

COMPOSITION:

Instruments of fiscal policy is government spending and taxation: balanced budget; if expenditure > income: deficit; if income > expenditure: surplus ✓✓

1. Government spending ✓✓
 - Government spending classified in 2 formats: functional and economic ✓✓
 - Spending to provide public and merit goods (free or subsidized prices), pay interest on debt; redistribute income; influence aggregate demand; influence aggregate supply ✓✓

2. Taxation ✓✓

- Government imposes taxation to: raise revenue for expenditure; discourage consumption of demerit goods; convert external into private costs; discourage purchase of imports; redistribute income; influence level of aggregate demand; influence level of aggregate supply ✓✓

3. State debt ✓✓

- Main budget must balance – if deficit: loans incurred to balance; if surplus: savings set off against debt ✓✓
- After adding extraordinary transfers and receipts = net borrowing requirement – borrowing adds to loan debt, known as public debt ✓✓

(max 12)

EFFECTS (INCLUDING LAFFER CURVE)

Fiscal policy effects depend on period of business cycle – during upswing policy contracts – during downswing policy expands ✓✓

1. Income distribution ✓✓

- Progressive taxes make income more evenly distributed and regressive taxes make income less evenly distributed – proportional taxes leave distribution unchanged ✓✓
- Spending on social goods, security and welfare payments supplement income of poor more than the rich ✓✓
- E.g. 20 % of SA population enjoyed cash income from welfare and social security in 2005 ✓✓

2. Consumption ✓✓

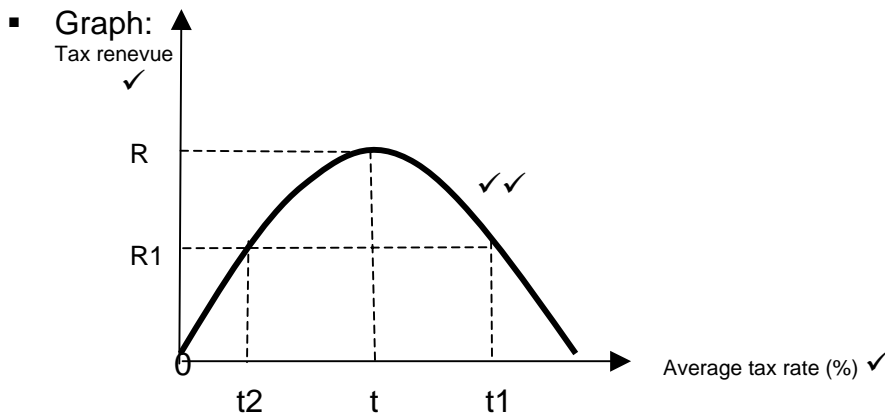
- Direct and indirect taxes will affect total and pattern of consumer spending ✓✓
- Direct taxes reduce disposable income – effect on consumption depend on propensity to consume and level of saving ✓✓ - direct taxes will reduce consumption with little savings
- Income multiplier kicks in when government spending increases due to higher levels of employment, higher income, and consumer spending ✓✓

3. Price level ✓✓

- Direct taxes reduce inflationary pressure – lower aggregate demand ✓✓
- Result in cost-push inflation – stimulate workers - claim higher wages ✓✓
- Rise in indirect taxes raise general price level ✓✓
- Inflationary and deflationary spending depends on availability of production factors ✓✓

4. Incentives ✓✓

- Taxation ✓✓ direct taxes (income and company tax) reduce incentive to work, save, invest and take risks ✓✓ High and progressive rates keep people from entering job market ✓✓
- Laffer-curve: if average tax rate was zero no revenue would be raised – if tax rate raised above zero, tax revenues increase – curve slope upwards – then peaks (t) – thereafter tax rates become so high (t₁), fall in output is more than rise in tax rate ✓✓
- Suggests that cut in high rate of income tax from t₁ to t increase tax revenue from R₁ to R – encourage people to work – reduce tax evasion and avoidance ✓✓
- By decreasing taxation from t₁ to t₂ have no effect on revenue of state, but reduces tax rate by $\frac{2}{3}$ ✓✓
- In most countries tax rates are below t - SA's tax rates also reduced ✓✓
- Government spending ✓✓ grants and subsidies serve as incentives for vital municipal services and feeding schemes ✓✓



5. Discretion ✓✓

- Minister of Finance uses discretion e.g. how much to reduce income tax or spend on new infrastructure ✓✓
- Discretion limits: deficit rule (3 % of GDP); borrowing rule (only for capital expenditure); debt rule (not exceed 60 % of nominal GDP) ✓✓
(Graph: 4 marks max 16)

(40)

Use the following rubric in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context; average writing style
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates significant ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)
[50]

QUESTION 8 (LO2 MICRO-ECONOMICS, AS2)

'A monopoly is a good example where profit maximization implies under-provision and over-charging of goods and services. This type of market is usually an unregulated market that fails to produce an ideal state of affairs.'

Write an essay' explaining in detail the reasons for market failures.

INTRODUCTION

- Sometimes free markets fail to produce quantities of goods and services that people want at prices that reflect marginal utilities and relative scarcities – known as market failure ✓✓✓
- Market failure means that best available or optimal production outcome has not been achieved – failure of markets to achieve optimum resource allocation ✓✓✓
(max 3)

BODY**REASONS:**

1. Externalities ✓✓
 - Sometimes in ideal market conditions some people gain or others suffer due to prevailing of externalities ✓✓
 - Are costs and benefits that convert private costs and benefits to social costs and benefits ✓✓
 - 4 concepts:
 - Private costs (internal costs) ✓✓ costs consumers incur when buying goods e.g. price of bicycle of R990 ✓✓
 - Private (internal) benefits ✓✓ benefits of those who buy and produce goods like joy to the consumer or profit for the producer ✓✓
 - Social costs ✓✓ cost to producers and society at large – includes additional costs like disposing waste products, decreasing appeal of area ✓✓
 - Social benefits ✓✓ positive externalities like clean water leading to few illnesses, healthier workforce, higher productivity ✓✓
 - Private costs and benefits have price – externalities do not have a price – is cost or benefit to third parties ✓✓
 - Externalities are difference between social costs and benefits and private costs and benefits ✓✓
2. Public goods ✓✓
 - Markets incomplete – do not meet demand for certain goods – public sector provides these goods known as public goods, divided into community (water drainage and light houses) and collective goods (parks, pavements) ✓✓

- Features of public goods:
 - non-rivalry ✓✓ consumption by one person does not reduce consumption by another individual e.g. lighthouse ✓✓
 - non-excludability ✓✓ consumption of public goods cannot be confined to those who pay for it (free riders e.g. radio and television licenses) ✓✓
 - social benefits outstrip private benefits ✓✓ large social benefits relative to private benefits e.g. health care and education ✓✓
 - infinite consumption ✓✓ once provided, marginal cost of supplying one more individual is zero (traffic lights) ✓✓
 - non-reject ability ✓✓ individuals may not be able to abstain from consuming them even if they want to (e.g. street lighting) ✓✓
- Public goods not provided by price mechanism – producer cannot withhold goods for non-payment ✓✓
- State finance public goods through taxation and provide it themselves ✓✓
- In SA – most goods and services private goods – have rivalry in consumption and excludability ✓✓

3. Merit and demerit goods ✓✓

MERIT GOODS:

- Some goods highly desirable for general welfare – not highly rated by market – leads to too little consumed – market failed ✓✓
- E.g. health care and education, safety – merit goods – special form of private goods ✓✓
- Few people would pay for education if they had to meet full cost – results in market failure ✓✓
- In pure market system – consumers' spending on merit goods determined by private benefits ✓✓
- Merit goods have positive externalities – social benefits derived from their consumption exceed private benefits ✓✓
- Common method to overcome eminent market failure – for state to provide them ✓✓
- Options:
 - provide them in part (focus on primary health care and education in general) ✓✓;
 - statutory requirements (youth compelled to stay in school until age of 15) ✓✓;
 - outsourcing: contract private sector to provide some merit goods (some education and training and health care services) ✓✓

DEMERIT GOODS:

- E.g. cigarettes, alcohol and non-prescription drugs – over-consumed ✓✓
- Consumer unaware of true cost of consuming them = negative externalities ✓✓
- Government can ban their consumption or reduce it through taxation and provide information about their harmful effects ✓✓

4. Imperfect competition ✓✓

- Competition often impaired by power in market economies – power lies with producers ✓✓
- Conditions of imperfect competition: restrict output, raise prices where price exceeds marginal cost, prevent new businesses to enter, prevent full adjustment to changes in demand ✓✓
- Modern market does not allow for price negotiations ✓✓
- Advertising promote producer sovereignty – encourage consumer to buy products – delay products from market until it is in businesses' financial interest ✓✓
- E.g. businesses had technology to produce long-life light bulbs, allows cars to

be driven by fuels other than fossil fuels, cure for common cold ✓✓

5. Lack of information ✓✓

- Lack of information to make rational decisions
- Consumers ✓✓ maximize their utility – need detailed information – technology increase information ✓✓
- Workers ✓✓ unaware of job opportunities, advantages and disadvantages, health risks of current jobs ✓✓
- Entrepreneurs ✓✓ lack of information about costs, availability and productivity of some factors of production – operating on basis of incorrect info about reliability and life span of machines in use ✓✓

6. Immobility of factors of production ✓✓

- Most markets do not adjust rapidly to changes in supply and demand – due to lack of info, resources not mobile ✓✓
- Labour ✓✓ takes time to move occupationally and geographically – adjust slowly and inadequately ✓✓
- Unskilled workers ✓✓ not able, willing or have time to gain necessary skills ✓✓
- Physical capital ✓✓ infrastructure like telephone lines – can move from one location to another at irregular intervals ✓✓
- Structural changes ✓✓ occur slowly – demand increases or decreases – technology used like robots – takes time for labour-intensive textile production to be switched to computer assisted production ✓✓

7. Imperfect distribution of income and wealth ✓✓

- Market system neutral to issue of income distribution ✓✓
- Discrimination distorts earnings of women, minority groups and disabled persons and those subject to illnesses and incapacity ✓✓ (max 40)

CONCLUSION

Any suitable conclusion. NOT a repetition of any facts from above. ✓✓ (max 2)

Use the following rubric in conjunction with the above to assess the learner's response

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

[5]

QUESTION 9: LO3 ECONOMIC PURSUITS, AS2

Analyse the information in the table below and evaluate South Africa's growth and development policies in terms of international best practice, in the format of a formal letter to the Minister of Finance.

(The candidate should be able to give a little background on the growth and development policies of South Africa as part of the first paragraph)

Since 1994, the South African government has pursued international mainstream economic and development policies, making use of both demand-side and supply-side approaches. If the outcomes of these policies are satisfactory, the approaches used in pursuing them would also be satisfactory. ✓✓

The market approach could also be followed where, ✓✓

Demand factors such as : Consumer spending, Investment spending, Government spending, Exports and imports and ✓✓

Supply factors such as: Natural resources, Labour, Capital, Technology and entrepreneurship are being discussed. ✓✓

Any 4 marks

[4]

(In the following paragraphs the candidate should be able to describe the specific policy and then evaluate it against international best practice)

Growth policies: (Any FOUR policies)

Economic growth : ✓✓

South Africa is a developing country; in terms of the World Bank a lower-middle income country. ✓✓

The average economic growth rate was 3.1 % per year between 1994 and 2005, in comparison to an average of 1 % per year over the previous decade. ✓✓

After the implementation of GEAR (1996), the budget deficit reduced to less than 3 % of the GDP was accepted as benchmark. ✓✓

Inflation: ✓✓

Inflation decreased continuously from 9 % in 1994 to 3,4 % in 2005. ✓✓

The SARB dropped monetary targets and adopted inflation targets, initially in a 3%-6% range. ✓✓

Interest rates, based on the repo rate, are the main instrument used in the stabilisation policy. ✓✓

The consistently stable budget deficit also had a stabilizing effect on the inflation rate. ✓✓

Employment: ✓✓

Employment in the non-agricultural sector of the economy decreased. ✓✓

The GEAR strategy suggested that a climate was needed that was conducive to employment creation by private sector. ✓✓

Labour productivity in the formal economy increased by 4.2 % per year over the 10 years period until 2005. ✓✓

The unemployment rate increased from 14 % in 1994 to 26.5 % in 2005, yet employment increased – mainly because of informal sector activities. ✓✓

Exchange rate stability: ✓✓

The South African currency depreciated considerably between 1994 and 2002. Then from 2005 it appreciated. ✓✓

International reserves increased from 3 % of GDP in 1994 to 18.7 % in 2005. ✓✓

The SARB switched from managed floating to a free-floating exchange rate system. ✓✓

2 Marks - Heading

2 Marks - Discussion

[16]

Development Policies: (Any FIVE policies)

Macroeconomic policies : ✓✓

The successful implementation of macroeconomic policies is as much important for the rich as for the poor. ✓✓

The per capita GDP increased from 1,6 % in 1998 to 3,5 % in 2005.- the standard of living of the whole population improved. ✓✓

Redistribution through the tax system was also successful ✓✓ and has made possible a substantial increase in the distribution of benefits in cash and kind; macro-economic policy benefits, housing and service benefits. ✓✓

Microeconomic policies: ✓✓

Employment in the formal and informal sector increased by about 32 %. (3,6 % per year). From 1996 to 2005, which was higher than the average real growth rate of 3,2 %. ✓✓

Social Policies: ✓✓

Almost 34,1 % of the South African population are poor in terms of the international benchmark poverty line income (\$2 a day) ✓✓

Poverty reduction is, therefore, a serious policy matter for the government, with the result that a number of policies focus on basic needs for the poor. ✓✓

Such as :

- Social security grants
- Benefits in kind
- Services
- Primary Health care
- Education

Redress: ✓✓

International organizations such as the UN articulate the importance of the empowerment of the indigenous peoples of developing countries. ✓✓

The South African government passed both empowerment and affirmative action acts and has introduced a range of other measures to ensure redress takes place. ✓✓

Black Economic Empowerment (BEE): ✓✓

The Broad Based Black Economic Empowerment Act, No.53 of 2003, provides the legal basis for the transformation of the South African economy. ✓✓

The speed and extent of empowerment and transformation were agreed upon in terms of so called charters between government and various industries. ✓✓

The DTI published a scorecard that is used to measure progress of businesses and industries which include some of the following elements : ✓✓

Management and control ✓✓	} Any 1x2
Employment equity ✓✓	
and social responsibility ✓✓	

Land redistribution and restitution: ✓✓

The government aims to redistribute 30% of agricultural land to previous disadvantage individuals and groups. ✓✓

By 2004 some 1,5 % of agricultural land had been redistributed. ✓✓

Some 61 % of claims for land restitution had been finalised. ✓✓

Affirmative action: ✓✓

Affirmative action rules are described in the Employment Equity Act, no 55 of 1998, ✓✓ and apply to employers with 50 or more employees or those with an annual income of, for e.g., R2 million in agriculture and R10 million in industry. ✓✓

2 Marks - Heading
2 Marks - Discussion

[20]

Use the following rubric in conjunction with the above to assess the candidate's letter:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	LETTER FORMAT
1	Letter format and the presentation of facts is inappropriate
2	Letter format is acceptable but the presentation of facts needs improvement
3	Letter format is satisfactory and the presentation of facts is appropriate
4	Letter format is very good and the presentation of facts is comprehensive
5	Letter format is excellent and the presentation of facts is outstanding

(10)
[50]**QUESTION 10: LO4 CONTEMPORARY ECONOMIC ISSUES, AS2**

'Tourism can be an engine of growth, capable of dynamiting and rejuvenating other sectors of the economy. We must see tourism as a means for a better life for all. Tourism is the world's largest industry and every year it pumps millions of dollars into some of the poorest countries.'

Discuss the effects of tourism on the South African economy, highlighting its impact on GDP, employment, poverty, externalities, the environment and infrastructure.

Tourism is effecting the economy in the following ways:

GROSS DOMESTIC PRODUCT (GDP)

One economic fact about tourism is certain, is the fact that it impacts more on the service industry than on agriculture or manufacturing. ✓✓

Its contribution is directly and indirectly :

Direct contribution : ✓✓

Economic developments of the tourism sector is important, its total direct contribution to the economy is estimated at R93,6 bn for 2004, ✓✓

when GDP amounted to R1 387 bn. ✓✓

(according to the World Travel and Tourism Council - WTTC)

This means that tourism contributes 6.8 % in total. ✓✓

Indirect contribution: ✓✓

Tourism is basically a service based industry partly responsible for the service sectors growth in South Africa. ✓✓

In developing countries the sector is responsible for around 40 % of GDP, ✓✓ while it is responsible for more than 65 % of GDP in developed economies. ✓✓ In South Africa it is similar to that of developed countries. Services contributed more than 65 % of GDP in 2004. ✓✓

EMPLOYMENT: ✓✓

The WTTC estimated that tourism in South Africa created 1.12 million jobs in 2004. Tourism is the world largest generator of jobs for the following reasons: ✓✓

Its labour intensive ✓✓
It employs many skills ✓✓
It can provide immediate employment ✓✓
It provide entrepreneurial opportunities ✓✓

Any 2 x 2 [4]

POVERTY: ✓✓

Tourism is widely recognized as one of the fastest and more effective redistribution mechanisms in development. ✓✓

It brings development to the poor in rural areas. ✓✓

Many of the prime tourism attractions are located in the rural areas and not in the city centers. ✓✓

It offers opportunities in to diversity sources of income for poor people by :

Allowing them a stake to operate small scale tourism. ✓✓

Empowering them to exploit opportunities on the job and other training ✓✓

Creating partnership with mainstream tourism businesses supplying goods or services. ✓✓

EXTERNALITIES: ✓✓

Both positive and negative impacts.

Positive: ✓✓

Large amounts of revenue ✓✓

Transportation growth ✓✓

Negative : ✓✓

Undue environmental damage ✓✓

Uses resources and produces waste ✓✓

Short term benefits – negative long-term effects ✓✓

Pollution ✓✓

Any 2 x 2 [4]

ENVIRONMENT: ✓✓

Any form of industrial development impact upon the physical environment in which it takes place. ✓✓

Tourists have to visit the places of production in order to consume the output which created environmental stress. ✓✓

The following are four main categories of stressor activities :

Permanent environmental restructuring ✓✓

Waste product generation ✓✓

Direct environmental stress ✓✓

Effects on population dynamics ✓✓

INFRASTRUCTURE: ✓✓

An adequate, physical, economic and basic services infrastructure is essential for tourist destination areas which includes : ✓✓

Transport infrastructure ✓✓
Communication infrastructure ✓✓
Energy infrastructure ✓✓
Basic services infrastructure ✓✓

Effects = 8 marks each

Headings 1 x 2 = 2

Discussion 2 x 2 = 4

5 Effects x 8 = 40

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context; average writing style
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates significant ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)

TOTAL SECTION C: 100

GRAND TOTAL: 300