 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY WORKSHEET ANSWER SHEET**

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| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **08/04/2020** |
| **TOPIC** | **MACROECONOMICS TOTAL MARKS: 80** | **TERM 1**  **REVISION** | **X** | **TERM 2 CONTENT** | (Please tick) |

**QUESTION 1 MACROECONOMICS 40 MARKS – 40 MINUTES**

**• Discuss any FIVE problems of public sector provisioning in South Africa in detail. (26 marks)**

**• How can the unfair distribution of income in South Africa be resolved? (10 marks) [40]**

**INTRODUCTION**

* All countries need a public sector to provide services that the markets fail to deliver/ The public sector consists of the central government responsible for national matters (e.g. security), provincial government responsible for regional matters e.g. housing and local government responsible for street lighting √√

(Accept any other correct relevant response) **(Max 2)**

**MAIN PART**

1. **Lack of Accountability** √

* Accountability means to give an explanation for one’s decisions, actions and expenditures √√
* The people require the state to use the taxes for the purpose for which they are raised and not to abuse the powers it was granted √√
* People employed by the state do not always serve the interests of the public √√
* They seek to maximize their salaries, status and power and are not required to produce a profit and loss statement. They are budget driven√√
* The state tries to overcome this problem by making civil servants accountable to the public √√

In South Africa, accountability is underpinned by:

- Ministerial responsibilities: ministers are spokespersons for their departments. √√

The Director General of each department is accountable for the activities of the Department √√

- Portfolio Committees: monitor individual departments and make recommendations to Parliament √√

- Treasury control: the national treasury is responsible for expenditure control √√

The Treasury committee, chaired by the Minister of Finance, evaluates all requests for additional funding throughout the year √√

- The Auditor-General reports on each government department √√ The AG reports on the standard of financial management and points out fraudulent and unauthorized spending √√ **(Max 6)**

1. **Inefficiency** √

Accountability does not guarantee efficiency. √√

Public goods must be efficiently provided (Pareto efficiency where the welfare of the community is at its maximum and it is therefore impossible to increase the welfare of one individual without making another worse off) √√

*Three major reasons for inefficiency:*

* *Bureaucracy*: √ (official rules and procedures) √√ Officials may focus on correct procedures and rules and are indifferent to the quantity (e.g. the number of patients attended to √√) and quality of the service (e.g. explaining the use of the medicine) √√ Some may be insensitive to the needs of their clients √√
* *Incompetence*: √ i.e. lack of skill or ability to do a task properly √√ This may be due to improper qualifications, lack of training, experience and an attitude of apathy. √√
* *Corruption:* √ i.e. exploiting of a person’s position for personal gain √√ Taking bribes, committing fraud, nepotism, behaving dishonestly and committing discrimination. √√ (Max 6)

1. **Difficulty in assessing needs √**

* In the private sector, the forces of demand and supply dictate prices √√
* The market prices act as signals to the producers, communicating the needs of consumers and the quantity demanded √√
* State-owned enterprises do not operate according to the forces of demand and supply √√
* It therefore becomes difficult for state-owned enterprises to assess the needs of consumers and they are prone to under-or over-supplying public goods √√ (Max 6)

4. **Pricing policy** √

* In the private sector, price is determined by the intersection of the demand and supply curves, at the point where quantity demanded equals quantity supplied √√
* State-owned enterprises do not work within the market system of demand and supply √√ This creates problems in determining the price for public goods and services √√
* The state sets the price of goods in the following ways:

- Free of charge e.g. police – completely funded by taxes √√

- User charges e.g. Toll road- a fee is levied on the user √√

- Subsidies where the state may charge the user a reduced fee √√ •

* The price strategy used depends on:

- **technical factors** (i.e. How easy it is to charge a fee e.g. a toll road) √√

- **economic factors** (e.g. provision of electricity - difficult to provide for free) √√

- **political factors** (e.g. free health care to the unemployed and very poor) √√ (Max 6)

5. **Parastatals (SOEs- state owned enterprises)** √

* Created in one of two ways by Government starting an enterprise or by Government nationalising an existing enterprise √√
* They have to act within the framework of the public policy √√
* Some parastatals do not understand their constitutional obligations and are not able to deliver on the economic and social rights √√
* SOEs have limited liability but have been moves to restructure SOEs (profit-seeking with the limited liability) √√

(Max 6)

6. **Privatisation** √

* Some economists believe that the problems associated with public provision of goods and services are good grounds for handing state-owned enterprises to the private sector. √√

|  |  |
| --- | --- |
| **Privatisation** | the process by which state-owned-enterprises and stateowned assets are sold to private individuals √√ |
| **Nationalisation:** | the process whereby the state takes control and ownership of privately-owned assets and privately-owned enterprises √√ |

* There are three arguments in favour or against privatization:

1. The costs of maintaining and managing state-owned enterprises are very high. √√

Positive –

- These costs result in higher taxes and higher public debt. √√

- Transferring ownership of these enterprise and assets to the private sector could result in lower personal income tax and it could reduce public debt √√

Negative –

- Privatisation may lead to job losses (to ensure maximum profits) √√

- Privatisation may further lead to price increases to ensure sustainable profits √√

b) Some people believe that private enterprises are more efficient than public enterprises. √√

Positive –

- These people argue that the profit motive in the private sector ensures that firms operate efficiently and produce goods and services at the lowest possible price. √√

- State-owned enterprises, on the other hand, are bureaucratic, inefficient, unresponsive to consumer needs, poorly managed, uncreative and have low levels of productivity. √√

- Privatisation is thought to lead to greater economic efficiency and better management of the enterprise. √√

Negative-

- Private owned enterprises cannot provide goods and services at the same low prices than SOE’s and might result in market failure √√

c) *Since state-owned enterprises do not operate according to the profit motive, they sometimes incur large losses, which result in budget deficits.* √√

Positive –

- These budget deficits have to be financed by higher taxes or increased public debt. Privatisation eliminates these fiscal problems. √√

Negative –

- Privatisation might exclude a large part of the population who cannot afford higher prices charged by private enterprises, especially merit / consumer goods providing in basic needs √√ (Max 6)

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

(Accept any other correct relevant response)

(A maximum of FIVE problems must be discussed. The listing and explanation of the FIVE problems in a positive way, counts a maximum of 3 marks. The rest of the marks should explain the problematic nature of each aspect) (Max 26)

**ADDITIONAL PART**

To ensure fair income distribution consider:

* measuring income distribution on a regular basis the Gini-Coefficient is used on a regular basis as a requirement by the UN
* delivering social services effectively in all areas especially rural areas √√ •
* using tax monies effectively to ensure a fair redistribution and eliminate the misuse of funds / uproot corruption and nepotism √√ •
* effectively using the fiscal policy measures will ensure an even distribution of income √√ •
* taxing incomes progressively to lower the tax burden on the lower income groups and relying more on the higher income groups √√ e.g. income tax √

(Allocate a maximum of 2 marks for the mere listing of facts/ examples) (Max 10)

(Accept any other correct relevant response) (A maximum of 4 marks may be allocated for redress policies, e.g. BEE, land restitution, affirmative action)

**CONCLUSION**

Efficient public sector provisioning in South Africa is key to a much better growth rate, higher employment rate and a better standard of living of all √√

(Accept any other correct relevant higher order response)(Max 2) **[40]**

**QUESTION 2 MACROECONOMICS 40 MARKS – 40 MINUTES**

**South Africa's international trade policy consists of export promotion and import substitution.**

**• Discuss export promotion as part of South Africa's international trade policy under the following headings:**

**− Reasons (8)**

**− Methods (8)**

**− Disadvantages (10) (26)**

**• Analyse the arguments in favour of a free-trade policy. (10)**

**INTRODUCTION**

* Export promotion involves providing incentives to encourage local businesses to produce goods for export √√ •
* When government pay incentives to encourage the production of goods that can be exported √√ (Accept any other correct relevant introduction**) Max (2)**

**MAIN PART**

**Reasons for export promotion**

* The country achieves significant export-led economic growth √√
* Export promotion enlarges the production capacity of the country √√
* Export markets are much bigger than local markets √√
* Larger production units creates more job opportunities √√ •
* It leads to lower retail prices √√

**Methods of export promotion:**

* Incentives: √

− The government supplies information on export markets in order to stimulate exports √√

− Other examples are research on new markets, concessions on transport charges, export credit √

* Subsidies: √

− Incentives which encourage exporters to increase the amount of their production √√

− It includes direct and indirect subsidies:

* + Direct subsidies: Cash payments to exporters √√
  + Indirect subsidies: Refunds on import tariffs and general tax rebates √√
* Trade neutrality: √

− Subsidies, equal in size to import duties, are paid √√

− Neutrality can be achieved through trade liberalisation √

**Disadvantages of export promotion**

* The real cost of production is hidden: √

− It reduces the total costs by subsidies and incentives √√

− The real cost of production is concealed by the subsidies √√

− The product may thus never be able to compete in the open market √√ •

* Lack of competition: √

− Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market √√

− Total potential trade is therefore reduced with subsidies rather than without subsidies√√

* **Increased tariffs and quotas:** √

− Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production √√

− Powerful overseas businesses can afford to offer similar products at much lower prices √√

− Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business who received the subsidy √√

* Protection of labour-intensive industries: √

− Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage √√

− Export promotion results in the protection of labour-intensive industries by developed countries√√

(Allocate a max of 8 marks for mere listing of facts/examples) Max (26)

**ADDITIONAL PART**

* Specialisation: The theory of comparative advantage shows that world output can be increased if countries specialise in what they are relatively best at producing √√
* If countries specialise in producing goods for which they have a comparative advantage, world trade and consumption will be maximised √√
* Trade allows economies of scale to be maximised and thus unit costs are reduced √√
* Economies of scale are a source of comparative advantage √√
* Free trade gives consumers the choice of what to buy from the whole world and not just from what is produced domestically √√
* Consumers' welfare is thus increased because some consumers will prefer to buy foreign goods rather than domestic goods √√
* Choices is enlarged √√

(Accept any other correct relevant response) (Max 10)

**CONCLUSION**

In the light of the negative impact of free trade it is critically important to protect smaller developing economies against uneven competition from the developed economies √√

(Accept any other correct relevant higher order response) (Max 2) **[40]**

**TOTAL MARKS 80**