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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P1

2016

MEMORANDUM

MARKS: 150

This memorandum consists of 17 pages.

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

- 1.1.1 B - injections ✓✓
 1.1.2 C - extrapolation ✓✓
 1.1.3 A - International Monetary Fund ✓✓
 1.1.4 B - medium-term expenditure framework ✓✓
 1.1.5 B - fiscal ✓✓
 1.1.6 B - economic growth ✓✓
 1.1.7 A - Expanded Public Works Programme ✓✓
 1.1.8 A - good education ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G - when leakages are more than injections ✓
 1.2.2 F - compares a country's export prices with its import prices by means of an index ✓
 1.2.3 D - evens out short term fluctuation in economic data ✓
 1.2.4 H - absence of barriers and restrictions ✓
 1.2.5 I - managed by the Reserve Bank ✓
 1.2.6 E - provides goods and services promptly and in the desired quantity and quality ✓
 1.2.7 A - also known as the labour force ✓
 1.2.8 B - consists of enterprises that produce similar products ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 Financial ✓
 1.3.2 Households/Consumers ✓
 1.3.3 Globalisation / International trade / Foreign trade / Global economy ✓
 1.3.4 Infant mortality ✓
 1.3.5 Corridors ✓
 1.3.6 Budget (main budget/national budget)/Fiscal policy ✓ (6) (6 x 1)

TOTAL SECTION A: 30

SECTION B**QUESTION 2: MACROECONOMICS**

- 2.1 2.1.1 **Name TWO macroeconomic objectives of the state.**
- Economic growth ✓
 - Full employment ✓
 - Exchange rate stability / Balance of Payment stability ✓
 - Price stability ✓
 - Economic equity ✓
- (Accept any explanation of the above mentioned objectives) (2 x 1) (2)
- 2.1.2 **How can the Reserve Bank use interest rates to stimulate the economy?**
- By reducing interest rates ✓ credit became more accessible which will lead to an increase in expenditure and stimulate economic activities ✓
- (Accept any other correct alternative response) (1 x 2) (2)
- 2.2 **DATA RESPONSE**
- 2.2.1 **Which institution published the information in the graph above?**
- Statistics South Africa / Stats SA / SSA ✓ (1)
- 2.2.2 **During which quarter of 2014 did South Africa experience a positive change in the GDP?**
- Second quarter ✓ (1)
- 2.2.3 **What are the implications of recent trends in the GDP between 2011 and 2014?**
- Implications are:
- A drop in the growth rate (✓) means less is produced ✓✓
 - Decrease in income of businesses ✓✓
 - Retrenchments / job losses /unemployment increase ✓✓
 - Decrease in income of workers ✓✓
 - Lower standard of living / increase in poverty ✓✓
- (Accept any other correct alternative response) Any (2 x 2) (4)

2.2.4 **Explain the importance of the GDP as economic indicator.**

- Indicates the economic activity within a country ✓✓
- Measures economic growth from one year to the next ✓✓
- Determines the standard of living in a country ✓✓
- Compare prosperity levels among countries ✓✓
(Accept any other correct relevant response)
(Accept the inverse effect)

Any (2 x 2) (4)

2.3 **DATA RESPONSE**

2.3.1 **Identify TWO parastatals (SOEs) in the extract.**

- Eskom ✓
- Sanral ✓
- South African Airways ✓

Any (2 x 1) (2)

2.3.2 **Explain the term privatisation.**

State-owned businesses are transferred to the private sector ✓✓
(Accept any other correct alternative response)

(2)

2.3.3 **How does the poor financial health of parastatals (SOEs) threaten South Africa's economy?**

- Bailouts given to parastatals increase government expenditure which is not budgeted for ✓✓
- Weaker economic growth does not attract investment and projects ✓✓
- Higher wage settlements might lead to further inflation ✓✓
(Accept any other correct alternative response)

Any (1 x 2) (2)

2.3.4 **Explain how the privatisation of state-owned enterprises (SOEs) can secure our fiscal future.**

- The income generated through privatisation becomes additional funds for the government ✓✓
- The tax base will be broadened, creating more income for the government ✓✓
- It can lead to greater efficiency in the economy because there is more money available for new projects / reduce debt ✓✓
- The government can use privatisation to promote broad-based black economic empowerment ✓✓
(Accept any other correct alternative response)

Any (2 x 2) (4)

2.4 **Distinguish between *leading* and *lagging* indicators.**

Leading indicators:

- Give consumers, businesses and the state a glimpse of the direction in which the economy might be heading ✓✓
 - When these indicators rise, the level of economic activities will also rise a few months later / the specific turning points lead the reference turning points ✓✓
 - Examples of leading indicators are job advertising space, inventory and sales ✓
- (Max 4)

Lagging indicators:

- Won't change direction until after the business cycle has changed its direction / the specific turning points tend to follow the reference turning points ✓✓
 - They serve to confirm the behaviour of the coincident indicators ✓✓
 - Examples of these indicators are hours worked in construction and total of commercial vehicles sold ✓
- (Accept tabular format)
(A maximum of 1 mark allocated for examples per indicator) (Max 4) (8)

2.5 **How can inefficiencies that contributed towards public sector failure be solved?**

- Taxpayer's money can be used to ensure optimal allocation of resources ✓✓ E.g. subsidise students tuition fees on merit ✓
 - Protection of industries of strategic importance ✓✓ E.g. the textile industry that are labour intensive ✓
 - Monitor spending of government funds on social services budget related to avoid nepotism and corruption ✓✓
 - Put structures and policies in place to take care of the environment directly ✓✓ e.g. increase the number of security staff to prevent animals e.g. rhinos to become extinct ✓
 - Take care of the environment indirectly through programmes to make the communities aware of the state of the environment ✓✓ e.g. more environmental programmes on TV and grass root level ✓
 - Human rights must be honoured to ensure cooperation at all levels of government ✓✓
- (Accept solutions that relate to bureaucracy, incompetence or corruption)
(Accept any other correct relevant responses)
(A maximum of 2 marks to be allocated for examples) (8)

[40]

QUESTION 3: ECONOMIC PURSUITS

- 3.1 3.1.1 State TWO redress methods used by government to correct the imbalances of the past.
- Employment Equity / Affirmative action ✓
 - Broad Based Black Economic Empowerment ✓
 - Land restitution and redistribution ✓
- (Accept any other correct relevant responses)
(Accept explanations of the above mentioned) Any (2 x 1) (2)
- 3.1.2 How are developing countries challenged by globalisation?
- Exploitation of resources ✓✓
 - Unfair competition in global markets ✓✓
 - Demand for unskilled labour decreased ✓✓
 - The poor is getting poorer ✓✓
 - Loss of national identity ✓✓
- (Accept any other correct relevant responses) Any (1 x 2) (2)
- 3.2 DATA RESPONSE
- 3.2.1 Give ONE reason for the falling steel prices.
- Cheap imports ✓
 - Devaluation of China's currency ✓
 - Frequent power outages ✓
 - Violent industrial action ✓
 - Inadequate infrastructure ✓
 - Increasing production costs ✓
- (1)
- 3.2.2 Who is Africa's largest steel producer?
- ArcelorMittal ✓ (1)
- 3.2.3 **Why do you think China devalued its currency?**
- To keep export volumes high ✓✓
 - Increase their domestic production ✓✓
 - Support economic growth ✓✓
 - Increase job opportunities ✓✓
- (Accept any other correct relevant response) Any (1 x 2) (2)
- 3.2.4 **What was the effect of China's currency devaluation on the South Africa's steel industry?**
- Plunging (decrease in) demand for our steel ✓✓
 - Loss in profits ✓✓
 - Retrenchment / job losses ✓✓
- (Accept any other correct relevant response) Any (1 x 2) (2)

3.2.5 **In your opinion, what can the South African government do to reduce the negative effects of this crisis?**

- To impose a tariff on certain steel products ✓✓
- To facilitate the process between the steel industry being impacted and the labour unions to limit the lay-offs ✓✓
- To improve Eskom's capacity to deliver electricity ✓✓
- To subsidise the steel industry due to its strategic importance and labour intensive nature ✓✓

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

3.3 **DATA RESPONSE**

3.3.1 **Identify ONE country that forms part of BRICS.**

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

(1)

3.3.2 **Which member country is interested in signing a nuclear power deal with South Africa?**

Russia ✓

(1)

3.3.3 **Explain the concept emerging economies.**

- Developing countries that succeed in attracting fixed and portfolio investments from developed economies ✓✓
 - Developing economies that show acceleration in industrialisation and economic growth ✓✓ (2 x 2)
- (Accept any other correct relevant response)

(4)

3.3.4 **How can South Africa benefit from the New Development Bank BRICS?**

- Having access to funds for infrastructure and development ✓✓
- Will have access to suitable and sustainable development projects ✓✓
- Having access to funds at favourable interest rates ✓✓ (2 x 2)

(4)

3.4 Distinguish between *economic growth* and *economic development*.**Economic Growth**

- An increase in the productive capacity of an economy over time ✓✓
- It is an increase in the real GDP ✓✓
- Focuses on goods and services ✓✓

Economic Development

- The process by which the standard of living improves ✓✓
- Measured in GDP per capita ✓✓
- Focuses on empowerment of people ✓✓

(Accept tabular format)

(Any 2 x 4) (8)

3.5 How can special economic zones (SEZs) contribute to regional development?

- The government will use the new programme specifically to promote the creation of a regionally diversified industrial economy ✓✓
 - Establishing new industrial hubs in underdeveloped regions of the country ✓✓
 - This programme is crucial for government's strategic objectives of industrialization, regional development and job creation ✓✓
 - It will improve South Africa's attractiveness as a destination for FDI as well as domestic investment ✓✓
 - It gives a greater opportunity for regional development because it is not linked to a port or airport ✓✓
 - SEZ's accommodates the foreign market for goods and services as well as the domestic market ✓✓
 - Because of a special tax incentive, more industries are established ✓✓
- (Accept any other correct relevant response)

(Any 4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS & ECONOMIC PURSUITS

- 4.1 4.1.1 **Name TWO import substitution methods.**
- Tariffs ✓
 - Quotas ✓
 - Subsidies ✓
 - Foreign exchange control ✓
 - Physical control standards e.g. embargo ✓
 - Diverting trade e.g. import deposits ✓
- (2 x 1) (2)
- 4.1.2 **Why is industrial development a necessity in South Africa?**
- **Generate income** - Industries will accommodate thousands of workers who will receive an income ✓✓
 - **Boost economic growth** – Industrial development will ensure an increase in the production of goods and services ✓✓
 - **Increase job creation** – Labour intensive industries will offer many new job opportunities ✓✓
 - **Increase the export of value-added products** – Industries can add value to the many natural resources available in our country ✓✓
- Any (1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **What tax scale is referred to in the heading of the extract?**
- Progressive ✓
- (1)
- 4.2.2 **What important element of redress is found in the extract?**
- Redressing the inequality of income / poverty ✓
- (1)
- 4.2.3 **Explain the negative impact of high tax rates.**
- Tax payers develop tax resistance ✓✓
 - Avoidance / Evasion of tax ✓✓
- Discourage people from:
- Entering the labour market ✓✓
 - Accepting promotions ✓✓
 - Working longer hours ✓✓
- (Accept any other correct relevant response) Any (2 x 2) (4)

4.2.4 **Calculate the tax payable of a person whose taxable income is R200 000 per year. Show ALL calculations.**

(R18 100 X 26%) ✓ = R 4 706 ✓ plus R32 742 ✓

Total tax payable = R 37 448 ✓ (4)

4.3 DATA RESPONSE

4.3.1 **Which international institution provided the data in the extract?**

World Bank ✓ (1)

4.3.2 **When did the income disparities in South Africa increase drastically?**

2009 ✓ (1)

4.3.3 **Which index describes the percentage of the population living below the poverty line income?**

Head Count Index ✓✓ (2)

4.3.4 **Give a reason why poverty in South Africa declined between 2000 and 2006.**

- Increased social grants ✓✓
 - Increase in the informal sector ✓✓
 - Implementing skills developing programme ✓✓
- (Accept any other correct relevant response) (2)

4.3.5 **What is the relationship between the *Lorenz curve* and the *Gini coefficient*?**

- The further the Lorenz curve is away from the line of equality, the higher will be the Gini coefficient ✓✓
 - The closer the Lorenz curve is to the line of equality, the lower will be the Gini coefficient ✓✓ (2 x 2) (4)
- (Accept any other correct relevant response)

4.4 Distinguish between the *money market* and the *capital market*.**Money Market**

- Term: Short term loans and very short-term funds ✓✓
- Who are trading on this markets: Individuals and business enterprises ✓✓
- Examples: Banks, Insurance companies ✓
- Products: Bank debentures, treasury bills, government bonds are traded ✓✓
(Max 4)

Capital Market

- Term: Long-term funds ✓✓
- Who are trading on these markets: By individuals and business enterprises ✓✓
- Examples: The Johannesburg Stock Exchange is a key institution in the capital market ✓
- Products: E.g. Mortgage Bond and Shares are traded ✓✓
(Accept tabular format) (Max 4) (8)

4.5 In your opinion how can South Africa's *monetary policy* contribute to a higher economic growth rate?

- The Reserve Bank should protect the value of the rand by stabilising prices within the inflation targets which will enhance Direct Foreign Investments ✓✓
 - By lowering inflation rates it will lead to lower prices/easy availability of credit which will encourage spending and production therefore an increase in local production will take care of the current account deficit in the balance of payments ✓✓
 - By promoting the exportation of local production the current account deficit in the Balance of Payments can be lowered (decreased) ✓✓
 - The Reserve Bank can lower the repo rate thereby promoting the granting of credit / increase the aggregate money supply ✓✓
 - The increase in domestic production will stabilising the exchange rate which will encourage capital inflow from other countries and eventually will stimulate local production ✓✓
- (The link between any monetary policy instrument e.g. open market transactions and a higher economic growth rate should be credited)

(8) (8)

[40]

TOTAL SECTION B: 80

SECTION C

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction A good starting point will be a definition of the topic.	Max. 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate	Max. 26
Additional part: Give own opinion/Critically discuss/ Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/ Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/ Interpret/ Briefly debate	Max. 10
Conclusion: Any higher-order conclusion should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MACROECONOMICS

In the global economy countries strive to export more than they import to maximise the benefits of international trade.

- Examine the supply reasons for international trade. (26 marks)
- Use a graph and explain how an increase in exports to the USA will affect the value of the rand. (10 marks) [40]

INTRODUCTION

There are many reasons for international trade. Countries may have a surplus of some goods and a shortage of other goods, and they will trade in order to correct these imbalances ✓✓

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

MAIN PART:**BODY****Natural resources** ✓

- These resources are not evenly distributed across all countries of the world ✓✓
- They vary from country to country and can only be exploited in places where these resources exist ✓✓
- South Africa is well endowed with different natural resources but less well endowed with skilled labour and capital ✓✓
- whilst Japan and Ireland have relative abundance of skilled labour but they lack natural resources ✓✓

Labour resources ✓

- Labour differs from country to country in terms of skills, knowledge, training, quality, quantity and cost between them ✓✓
- Some countries have highly skilled, well-paid workers and high productivity levels ✓✓
- E.g. Switzerland ✓

The availability of capital ✓

- Some countries need to modernize their industries and economies with advanced machinery, equipment and plant but cannot manufacture this equipment because they lack the capital to do so ✓✓
- This has increased the need for international trade ✓✓

Lack of entrepreneurship ✓

- Countries that have good entrepreneurial skills offer more goods and services for trade ✓✓
- Efficiency determines the supply of goods and services produced at lower prices and reduces the opportunity cost of acquiring them ✓✓

Climatic conditions ✓

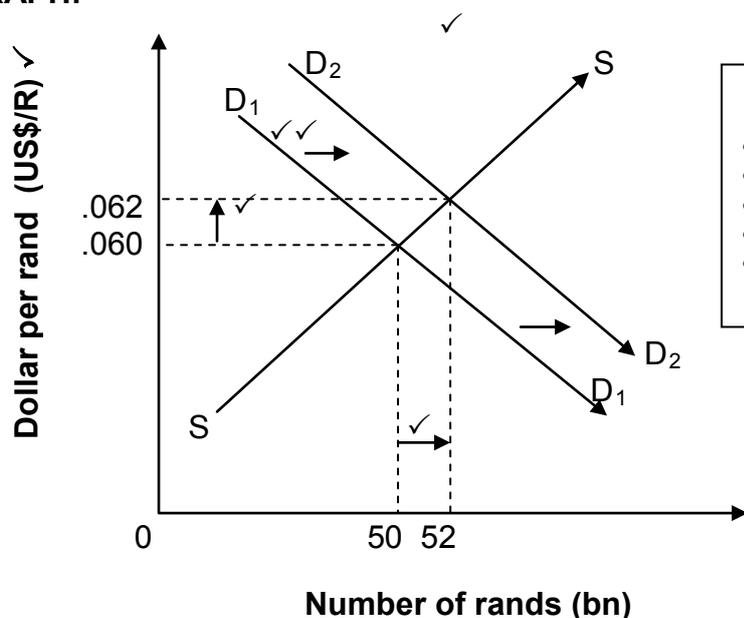
- These conditions make it possible for some countries to produce certain goods at a lower price than other countries ✓✓
- E.g. Brazil is the biggest producer of coffee ✓
- Countries have different climatic conditions and are therefore able to produce different products ✓✓

Technological resources ✓

- The development levels and innovation processes of countries will always differ and as a result other countries may have them in abundance while others may not ✓✓
- Countries like Germany, the United States, are able to use capital that embodies high levels of technology while other countries do not have access to the latest technology ✓✓
- These countries that have high technological labour force are able to produce certain goods and services at a low unit cost ✓✓
- E.g. US and Germany ✓

Specialisation ✓

- The production of certain goods and services allows some countries to produce them at a lower cost than others ✓✓
- E.g. Japan produces electronic goods and sells these at a lower price ✓
- International trade enables countries to specialize in the production of goods and services in which they have a comparative advantage ✓✓
- Most of such surplus production gets exported to other countries and the revenue earned from these exports can be used to finance imports ✓✓ (Max 26)

ADDITIONAL PART**GRAPH:****Marks allocated for graph:**

- Labelling of/on axes = 1
- Demand and supply curves = 1
- **Shift** of demand curve = 2
- Movement of Price = 1
- Movement of quantity demanded = 1

Maximum: 6 marks**EXPLANATION:**

- An increase in exports to the USA will lead to an increased demand for rand from D_1 to D_2 ✓✓
 - The quantity of rand demanded increase from 50 to 52bn ✓✓
 - The price of rand in terms of dollar increase from .060 dollar per rand to .062 dollar per rand ✓✓
- Max (3 x 2)
(Max 10)
- (Accept any other relevant explanation)

Please note: If candidates labelled the axis as the price of dollar in terms of rand e.g. \$1 = R15, then there will be a shift of the supply curve to the right, which will decrease the value of the dollar. This implies that the value of the rand will increase. This explanation must relate to the correct graph (an increase in the supply of dollars and a decrease in the price of dollar – the rand has strengthened).

CONCLUSION

The need to integrate shall never become obsolete as nations of the world need each other for the survival of all and for development purposes ✓✓

(Accept any other correct relevant higher-order conclusion) (Max. 2) **[40]**

QUESTION 6: ECONOMIC PURSUITS

The annual analysis of the economic performances of countries is very important. This is done by international institutions and governments to determine how countries performed in comparison with others.

- Analyse the following economic indicators that are used to measure the performance of the economy:
 - Productivity (10 marks)
 - Foreign trade (16 marks)
- Why are comparisons of economic performances of countries important? (10 marks) [40]

INTRODUCTION

Economic indicators are statistics that show general trends in the economy and are used to analyse the economic performance and predict the future performance of the economy ✓✓ (Max 2)

(Accept any other correct relevant introduction)

BODY**MAIN PART****Productivity**

- It is possible to calculate THREE kinds of productivity, namely labour, capital and multi-factor productivity ✓✓

Labour productivity ✓

- is watched most closely, particularly in relation to real wage increases ✓✓
- E.g. In South Africa productivity increased less than labour remuneration ✓
- The economy as a result battled to stay out of a recession ✓✓
- Labour productivity is measured by dividing the real GDP by the number of workers employed ✓✓

Remuneration per worker ✓

- If productivity increases are lower than the real wage increases, inflationary pressures will occur ✓✓
- The relationship between productivity and wages is crucial for employers and workers and they are therefore important indicators ✓✓
- For the employers to survive in vigorous markets ✓✓
- For the employees to survive on their salaries ✓✓ (Max 10 marks)

(Accept analysis of other kinds of productivity)

Foreign trade

- In our increasingly globalized world, international trade is most important ✓✓
- Exports serve to stimulate employment and imports serve to widen the choice of consumers ✓✓

The terms of trade ✓

- This is the ratio of exports and import prices ✓✓
- Although the terms of trade express prices only, changes in them have quantity (volume) effects ✓✓
- Changes in terms of trade serve as indicator of changes that may spill over into the balance of payments ✓✓
- If this happens the currency may depreciate or appreciate ✓✓

The exchange rate ✓

- An exchange rate is the price of one country's currency in terms of another country's currency ✓✓
- Most currencies have a number of exchange rates, similar to the rand ✓✓
- If the rand appreciates against the US dollar it may depreciate against the euro ✓✓
- Changes in an exchange rate affect the prices for imports and prices of exports ✓✓ e.g. a depreciation of the rand against the dollar will result in US goods and services becoming more expensive domestically and earnings from exports to the US increasing, although the volume will remain the same and the opposite will happen when the rand appreciates ✓

(Max. 16 marks)

(26)

ADDITIONAL PART

- By comparing the economic performances of countries through international benchmarking, a country's performance on a specific aspect by using a specific indicator, is measured ✓✓
- This comparison to other countries' performances regards the same aspect, expressed by using the same indicator ✓✓
- By evaluating South Africa's performance with that of other developing countries, facing similar challenges, makes the comparison more fair and useful ✓✓
- Investment banks can use these indicators in forecasts on the returns that could be expected if they invested their capital in a particular country ✓✓
- International trade expects payments to be made by using the current exchange rate ✓✓
- Exchange rates will determine the actual amounts that are received and paid to and by South Africa - a free-floating rate of exchange is used ✓✓
- Indicators allow a country to identify what it is doing well and where it needs to focus more attention ✓✓
- A country can develop an even better sense of its performance in specific areas and can identify countries that it can learn from ✓✓
- Economic and social indicators are compiled in a specific way for countries to be able to receive international trade aid and funding from organisations ✓✓
- Such benefits may not be given to those countries requesting such assistance if these indicators are not available ✓✓
- Foreign countries, governments, international institutions and NGOs are globally involved in a myriad of activities, such as providing financial aid, making grants, giving loans and rendering free services ✓✓
- Human rights which are highlighted in children and women, labour organisations, gender discrimination, racial discrimination and crime ✓✓

- Environmental indicators such as pollution, ecosystem destruction, globally threatened animal species, fresh water sources and underground water withdrawals ✓✓
- Government indicators that highlights corruption and nepotism, consistency of services such as water and energy supply, justice in terms of arrests, prosecutions and convictions and frequency of elections ✓✓ (Max. 10)

CONCLUSION

In order to grow and develop the economy it is critical to monitor these tools for planning and operational purposes ✓✓

(Accept any other correct relevant higher-order conclusion)

(Max. 2)

[40]

TOTAL SECTION C:

40

GRAND TOTAL

150