



LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

VHEMBE EAST DISTRICT

GRADE 12

ECONOMICS CONTROLLED TEST 1

MACRO ECONOMICS

2026/03/19

MARKS: 100

DURATION: 1.5 HRS

NB: STARTING TIME STRICTLY 08:30

This question paper consists of 10 pages

INSTRUCTIONS AND INFORMATION

1. Answer **THREE** questions as follows in the **ANSWER BOOK**.
 - **SECTION A:** COMPULSORY
 - **SECTION B:** Answer any **ONE** of the two questions.
 - **SECTION C:** Answer any **ONE** of the two questions
2. Write the question number above each answer.
3. Answer only the required numbers of questions. Answers in excess of the required number will not be marked.
4. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
5. Number the answers correctly according to the numbering system used in this question paper.
6. Read the questions carefully.
7. Start each question on a new page.
8. Use only black or blue ink.
9. You may use a non- programmable pocket calculator.
10. Write legible and present your work neatly.

SECTION A: COMPULSARY**QUESTION 1****20 MARKS – 20 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.5) in the ANSWER BOOK, for example 1.1.5. D.

1.1.1 Long-term funds are borrowed or saved on the ... market.

- A capital
- B goods
- C money
- D factor

1.1.2 A negative economic growth for at least two consecutive quarters is known as...

- A investment
- B recession
- C unemployment
- D inflation

1.1.3 The curve that illustrates the relationship between tax rate and tax revenue is known as...

- A Lorenzo
- B Engel
- C Phillips
- D Laffer

1.1.4 A situation whereby one country can produce goods cheaper than other countries given the same amount of inputs/resources.

- A Comparative advantage
- B Economic advantage
- C Absolute advantage
- D Interaction advantage

1.1.5 A closed economy is best described as a... sector economy.

- A Four
- B One
- C Two
- D Three

(5 x 2) (10)

- 1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-G) next to the question numbers (1.2.1. to 1.2.6) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Portfolio investment	A When a state-owned enterprise is sold to private sector enterprise.
1.2.2 Special drawing rights	B The upper turning point of the business cycles.
1.2.3 Privatisation	C The lowest turning point of the business cycles.
1.2.4 Taxes	D Buying and selling of equities and shares.
1.2.5 Peak	E Compulsory payment to the government by households and firms operating within the country.
1.2.6 Deregulation	F Gives member countries opportunity to obtain financial support from International Monetary Fund(IMF) G Removal of unnecessary laws, by-laws and power imbalances that inhibits free operations.

(6 x 1) (6)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.4) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

- 1.3.1 Movement of factors of production, goods and services between participants in the economy.
- 1.3.2 Factors that originate outside the economy that cause business cycles.
- 1.3.3 Goods that are harmful to the society when produced and consumed.
- 1.3.4 The value of one country's currency exchanges for another country's currency.

(4 x 1) (4)

TOTAL SECTION A: [20]

SECTION B

Answer any **ONE** of the two questions in this section in the ANSWER BOOK.

QUESTION 2:**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO examples of non-durable goods. (2 x 1) (2)

2.1.2 What is the effect on the South African rand when demand for US dollars decreases? (1 x 2) (2)

2.2 Study the table below and answer the questions that follow

National expenditure of South Africa.		
	RMILLIONS	
	2023	2024
Final consumption expenditure by households	4 517 795	4 752 670
Final consumption expenditure by government	1 349 798	1 410 827
Gross capital formation	1 083 191	1 034 457
Gross Domestic Expenditure	6 950 784	7 197 953
Residual item	28 636	12 076
Gross Domestic Expenditure	6 979 420	7 210 029
Export of goods and services	2 340 295	2 337 484
Less imports of goods and services	2 282 041	2 195 064
Gross Domestic Product at market price	7 037 674	A

Source: SARB Quarterly bulletins

2.2.1 Identify the method used to calculate gross domestic product in the table above. (1)

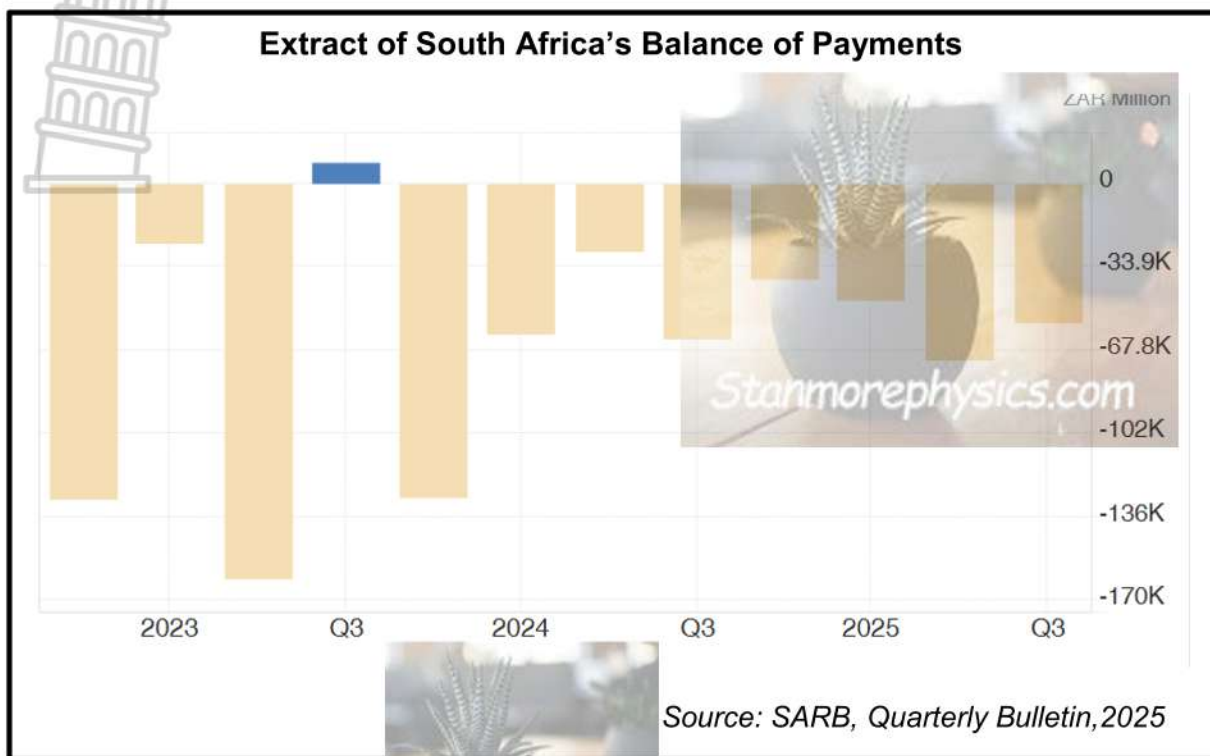
2.2.2 Name any other method that can be used to calculate gross domestic product. (1)

2.2.3 Briefly describe the term *Gross Domestic Product*. (2)

2.2.4 Why are the GNP figures generally lower than the GDP figures in South Africa? (2)

2.2.5 Calculate gross domestic product at market price for 2020 (A). Show ALL calculations. (4)

2.3. Study the graph below and answer the questions that follow.



- 2.3.1 Identify a period in which South Africa experienced a trade surplus in the above graph. (1)
- 2.3.2 Name any one sub-account of the Balance of Payment. (1)
- 2.3.3 Briefly describe the term *residual items*. (2)
- 2.3.4 Explain the effect on local fuel price if the rand depreciates. (2)
- 2.3.5 How can an increase in interest rates improve the balance of payment? (4)
- 2.4 Discuss the interaction between households and firms. (8)
- 2.5 Evaluate the impact of specialisation on the South African economy. (8)

[40]

QUESTION 3:**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO measures to correct the Balance of Payment (2 x 1) (2) disequilibria.

3.1.2 Why are the savings regarded as leakages in the circular flow? (1 x 2) (2)

3.2 Study the table below and answer the questions that follow.

South Africa's Terms of Trade			
	2025		
	Quarter 1	Quarter 2	Quarter 3
Index of export prices	183.8	189.2	190.4
Index of import prices	167.8	172.0	172.1
Terms of Trade	109.5	110.0	A

Source: StatsSA & SARB Quarterly Bulletins

3.2.1 Identify the institution responsible for publishing country's terms of trade from the table above. (1)

3.2.2 Name the exchange rate used in South Africa. (1)

3.2.3 Briefly describe the term *balance of trade* (2)

3.2.4 Explain the negative impact of decrease in terms of trade on the economy. (2)

3.2.5 Calculate the terms of trade for the 2025 quarter 3, show ALL the calculations. (4)

3.3 Study the information below and answer the questions that follow.

MULTIPLIER EFFECT-TWO-SECTOR MODEL

The consumption function consists of autonomous consumption and induced consumption ($C = C_a + C_y$). However, every time there is an injection into the circular flow of income there is likely to be a multiplier effect.

The size of the multiplier depends upon households' marginal propensity to consume (mpc) and marginal propensity to save (mps). For instance, if 70% of all new income in each period is spent on South African products, the marginal propensity to consume would be 0.7.

[Source: www.stats.sa.gov.za]

- 3.3.1 Identify the value of marginal propensity to consume (MPC) from the above information. (1)
- 3.3.2 Name the injection that relates to the foreign sector. (1)
- 3.3.3 Briefly describe the term *induced consumption*. (2)
- 3.3.4 Explain the relationship between the multiplier and Marginal Propensity to Save (MPS). (2)
- 3.3.5 Use the formula $\Delta Y / \Delta J$ to calculate the change in national income if there was an investment of R200m, start by calculating the multiplier. Show all the workings. (4)
- 3.4 Differentiate between Appreciation and Depreciation. (8)
- 3.5 Evaluate the functioning of the markets in the circular flow. (8)

[40]

TOTAL SECTION B: [40]

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK. Ensure that your answer follows the structure indicated below to obtain maximum marks:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order-response - A good starting point would be to define the main concept related to the question topic. - Do not include any part of the question in your introduction. - Do not include any part of the introduction in your body. - Avoid saying in the introduction what you are going to discuss in the body.	Max. 2
Body Main part: Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain. 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/ How/ Suggest.	Max. 26 Max. 10
Conclusion Any high-order conclusion should include: - A brief summary of what has been discussed without repeating facts already mentioned. - Any opinion or value judgment 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 4:**40 MARKS – 40 MINUTES**

- Discuss in detail features underpinning forecasting of business cycles. (26)
- How can the monetary policy contribute to economic growth? (10)

[40]**QUESTION 5:****40 MARKS – 40 MINUTES**

- Discuss in detail the main objectives of the public sector in the economy. (26)
- How will public sector failure negatively influence economic stability in South Africa? (10)

[40]**TOTAL SECTION C: [40]****GRAND TOTAL: [100]**



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MACRO ECONOMICS

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MARKING GUIDELINES

MARKS: 100

This MARKING GUIDELINES consists of 20 pages

SECTION A: COMPULSARY

QUESTION 1

20 MARKS – 20 MINUTES

1.1 MULTIPLE CHOICE

- 1.1.1 A✓✓ (Capital).
- 1.1.2 B✓✓ (Recession)
- 1.1.3 D✓✓ (Laffer)
- 1.1.4 C✓✓ (Absolute advantage)
- 1.1.5 D✓✓ (Three)

(5 x 2) (10)

1.2 MATCHING

- 1.2.1 D✓ (Buying and selling of equities and shares).
- 1.2.2 F✓ (Gives member countries the opportunity to obtain financial support from International Monetary Fund (IMF).
- 1.2.3 A✓ (When a state-owned enterprise is sold to private sector enterprise).
- 1.2.4 E✓ (Compulsory payment to the government by households and firms operating within the country).
- 1.2.5 B✓ (The upper turning point of the business cycles).
- 1.2.6 G✓ (Removal of unnecessary laws, by-laws and power imbalances that inhibits free operations).

(6 x 1) (6)

1.3 ONE CONCEPT

- 1.3.1 Real flows✓
- 1.3.2 Exogenous factors✓
- 1.3.3 Demerit goods✓
- 1.3.4 Exchange rate✓

(4 x 1) (4)

TOTAL SECTION A: [20]

SECTION B

Answer any **ONE** of the two questions in this section in the ANSWER BOOK.

QUESTION 2:

40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Name any TWO examples of non-durable goods.

- Food✓
- Beverages✓
- Cleaning supplies✓
- Toiletries✓
- Paper products✓
- airtime✓
- Gasoline✓

(Accept any other correct relevant response)

(2 x 1) (2)

2.1.2 What is the effect on the South African rand when demand for US dollars decreases?

- When there is a decrease in the demand for US dollars (USD) in the foreign exchange market, it generally leads to an appreciation (strengthening) of the South African rand (ZAR). ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

2.2 Data Response.

2.2.1 Identify the method used to calculate gross domestic product in the table above.

- Expenditure methods✓

(1)

2.2.2 Name any other method that can be used to calculate gross domestic product.

- Production method.✓
- Income method.✓

(1)

2.2.3 Briefly describe the term **Gross Domestic Product**.

- Gross Domestic Product refers to the total value of all final goods and services produced within the borders of the country.✓✓

(Accept any other correct relevant response)

(2)

2.2.4 Why are the GNP figures generally lower than the GDP figures in South Africa?

- GNP excludes the production by the foreigners while GDP includes production by foreigners.✓✓

(2)

(Accept any other correct relevant response)

2.2.5 Calculate gross domestic product at market price for 2020 (A). Show ALL calculations.

- $7\,210\,029 + 2\,337\,484 - 2\,195\,064 = 7\,352\,449$ ✓

(4)

2.3. DATA RESPONSE

2.3.1 Identify a period in which South Africa experienced a trade surplus in the above graph.

- 2023 Quarter 3/ 2023 ✓

(1)

2.3.2 Name any one sub-account of the Balance of Payment.

- Capital transfers✓
- Financial Account✓

(1)

2.3.3 Briefly describe the term *residual items*.

- Residual items are entries in the Balance of Payments (BOP) used to correct differences that arise from recording errors, missing data, or timing differences in international transactions.✓✓

(2)

(Accept any other correct relevant response)

2.3.4 Explain the effect on local fuel price if the rand depreciates.

- When the rand depreciates, the cost of imported fuel increases, causing local fuel prices to rise.✓✓

(2)

(Accept any other correct relevant response)

2.3.5 How can an increase in interest rates improve the balance of payment?

- Borrowing may be expensive for households which will discourage expenditure on imports, reducing deficit on the current account ✓✓



- Higher returns on financial investments to foreign investors may create net capital inflow, increasing the balance on financial account ✓✓
- Higher interest rates encourage local households to save and discourage expenditure on imports, increasing the trade balance. ✓✓

(Accept any other correct relevant response)

(4)

2.4 Discuss the interaction between households and firms.

- Households provide factors of production such as labour, land, capital, and entrepreneurship to firms. ✓✓
- Firms pay households wages, rent, interest, and profit in return for these resources. ✓✓
- Firms produce goods and services and sell them to the households through product market. ✓✓
- Households buy these goods and services using the income they receive from firms. ✓✓

(8)

(Accept any other correct relevant response)

2.5 Evaluate the impact of specialisation on the South African economy.

Specialisation will impact positively on the South African economy in the following ways:

- It allows South African businesses to focus on specific areas, leading to increased efficiency and productivity. ✓✓
- By concentrating on specific industries, South Africa develop a competitive advantage in the global market, attracting foreign investment and boosting exports. ✓✓
- It can lead to increased economic growth, as industries become more efficient and productive, contribution to the country's GDP. ✓✓
- It can lead to the creation of new job opportunities in specific industries, reducing unemployment and poverty. ✓✓

Specialisation will impact negatively on the South African economy in the following ways:

- Overspecialisation can make the economy vulnerable to fluctuations in a few industries, leading to economic instability due to the dependence on a few industries.✓✓ (8)
- It can limit the country's ability to diversify its economy, making it less resilient to external shocks.✓✓
- Inequality and unemployment can occur as specialisation can exacerbate income inequality and unemployment, as some industries may not provide enough job opportunities or fair wages.✓✓
- Specialisation in industries such as mining or agriculture can lead to environmental degradation and resources depletion.✓✓

(Accept any other correct relevant response).



[40]

QUESTION 3:

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO measures to correct the Balance of Payment disequilibria.

- Change in interest rates✓
- 'Change in exchange rate✓
- Borrowing and lending✓
- Import control✓
- Export promotion✓
- Import substitution✓
- Change in demand✓

(Accept any other correct relevant response)

(2 x 1) (2)

3.1.2 Why are the savings regarded as leakages in the circular flow?

- Savings are regarded as leakages in the circular flow of income because they represent money that is withdrawn from the flow of spending between households and firms. ✓✓

(1 x 2) (2)

(Accept any other correct relevant response)

3.2 DATA RESPONSE

3.2.1 Identify the institution responsible for publishing country's terms of trade from the table above.

- South African Reserve Bank ✓
- StatsSA ✓

(1)

3.2.2 Name the exchange rate used in South Africa.

- Free- floating exchange rate ✓

(1)

3.2.3 Briefly describe the term *balance of trade*

- The balance of trade refers to the difference between a country's total value of exports and total value of imports of goods over a specific period. ✓✓
- (Accept any other correct relevant response)

(2)

3.2.4 Explain the negative impact of decrease in terms of trade on the economy.

- A decrease in the terms of trade harms the economy because the country earns less from exports while paying more for imports, reducing income and slowing economic growth. ✓✓

(Accept any other correct relevant response)

(2)

3.2.5 Calculate the terms of trade for the 2025 quarter 3, show ALL the calculations. (4)

Terms of trade = $\text{Index of export prices} \div \text{Index of import price} \times 100$ ✓
 $= 190.4 \div 172.1 \times 100$ ✓
 $A = 110.6\%$ ✓

3.3 DATA RESPONSE

3.3.1 Identify the value of marginal propensity to consume (MPC) from the above information. (1)

- 0.7 ✓

3.3.2 Name the injection that relates to the foreign sector. (1)

- Export earnings ✓

3.3.3 Briefly describe the term *induced consumption*. (2)

- Induced consumption refers to the spending that depends on the level of income. ✓✓

(Accept any other correct relevant response)

3.3.4 Explain the relationship between the multiplier and Marginal Propensity to Save (MPS). (2)

- The higher the MPS the lower the value of the multiplier, vice-versa. ✓✓

3.3.5 Use the formula $\Delta Y / \Delta J$ to calculate the change in national income if there was an investment of R200m, start by calculating the multiplier. Show all the workings. (4)

$$K = 1 / \text{MPS} \quad \text{OR} \quad 1 / 1 - \text{MPC}$$

$$K = 1 / 0.3 \quad 1 / 0.3$$

$$K = 3.33 \quad 3.33$$

$$K = \Delta Y / \Delta J$$

$$3.33 = \Delta Y / 200\text{m}$$

$$\Delta Y = 200 \times 3.33 \quad \Delta Y = 666\text{m}$$

$\Delta Y = R666M$ ✓

3.4 Differentiate between Appreciation and Depreciation.

- Appreciation is an increase in the value of the domestic currency compared to other currencies due to the market forces of supply and demand while Depreciation is a decrease in the value of the domestic currency compared to other currencies due to supply and demand. ✓✓
- Appreciation makes exports more expensive while depreciation makes exports cheaper ✓✓
- Appreciation makes imports cheaper while depreciation makes imports more expensive. ✓✓
- Appreciation causes higher demand for the currency while depreciation cause lower demand for the currency. ✓✓

(8)

(Accept any other correct relevant response)

3.5 Evaluate the functioning of the markets in the circular flow.

Positive impact:

- Availing the factors of production for economic activities, ✓✓ e.g. capital for investments through the factor market ✓
- Allowing consumers to earn an income from the sale of the factors of production which will enable them to purchase goods and services in the product market. ✓✓
- Enabling households, the business sector and other participants to access funds for trading and production ✓✓ through financial markets e.g. banks. ✓
- Enabling industries to obtain capital goods from other countries, that are not domestically available, through foreign exchange markets ✓✓ e.g. machinery ✓

- Earning valuable income through exports through the foreign exchange markets.✓✓

Negative impact:

- Failing to provide enough training, employment possibilities will be limited, if the factor market is ineffective✓✓ SMMEs struggling to produce quality goods for the product market due to lack of capital or accessibility to funds through financial markets.✓✓
- Inefficiently satisfying the needs and wants of consumers✓✓
- Providing inadequate transport, technology and communication to reach existing markets✓✓

(8)

[40]

TOTAL SECTION B: [40]

SECTION C
Answer any C

Answer any ONE of the two questions in this section in the ANSWER BOOK. Ensure that your answer follows the structure indicated below to obtain maximum marks:



In depth discussion
Evaluate/ Distinguish

Stannmorephysics.com

QUESTION 4:

40 MARKS – 40 MINUTES

- **Discuss in detail features underpinning forecasting of business cycles.** (26)
- **How can the monetary policy contribute to economic growth?** (10)

INTRODUCTION

- Business cycles can be described as successive periods of contraction and expansion of economic activities ✓✓

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

BODY: MAIN PART

LEADING INDICATORS ✓

Leading indicators are indicators that change before the economy changes ✓✓

- Leading indicators give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading. ✓✓
- These indicators peak before a business cycle has reached a peak. ✓✓
- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time. ✓✓
- When they decline it also means the level of economic activity will decline in the near future ✓✓
- Examples: include the number of residential plans passed, number of job advertisements, number of new companies ✓

COINCIDENT INDICATORS ✓

- Coincident indicators are indicators that change at the same time as the economy changes ✓✓
- Coincident indicators show the actual state of the economy. ✓✓

- A downturn is shown by a decrease in these indicators while an upswing is shown as an increase in these indicators ✓✓
- Coincident indicators confirm the changes predicted by the leading indicators. ✓✓
- The value of retail sales will reach a peak and then begin to decline at the same time as the business cycle. ✓✓
- Examples: are usage of capacity in manufacturing, registered unemployment, real GDP. ✓

LAGGING INDICATORS ✓

- Lagging indicators change after the economy has already changed ✓✓
- Lagging indicators reach the turning point after the business cycle has already turned ✓✓
- Lagging indicators serve to confirm the behaviour of co-incident indicators ✓✓
- Examples: number of commercial vehicles sold, real investment in machinery, unit labour cost in manufacturing. ✓



COMPOSITE INDICATORS ✓

- Composite indicators summarise a group of indicators of the same type into a single value ✓✓
- The single figure forms a norm for a country's economic performance ✓✓
- Composite indicators can be consolidated into single values of a composite leading, coincident and lagging indicator. ✓✓

AMPLITUDE ✓

- It is the difference between the value of total output between peak and trough measured from the trend line to the peak and trough ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity ✓✓

- The amplitude shows two things:

-**The power of the underlying forces** such as interest rates, exports or consumer spending. ✓✓

A large amplitude during the upswing signifies strong underlying forces. ✓✓

The duration of a cycle with larger amplitude is usually longer than one with a small amplitude ✓✓

- **The extent of change** such a decrease in unemployment of 50% or increase in inflation of 100% during the upswing ✓✓

The larger the amplitude, the more extreme the changes that may occur. ✓✓

TREND LINE ✓

- The trend line indicates the general direction in which the economy is moving ✓✓
- When the economy is growing, there is an upward trend, but when the economy is contracting there is a downward trend ✓✓
- The trend will change when the time series data change their behavioural patterns of the past ✓✓
- The trend line normally has a positive slope because the production capacity of the economy increases over time ✓✓

LENGTH/DURATION OF A CYCLE ✓

- Length is measured from peak to peak or from trough to trough ✓✓
- Longer cycles show strength and shorter cycles show weakness with regard to economic activities ✓✓
- Cycles may overshoot which means that whenever activity in terms of some composite indicators increase to beyond its normal level ✓✓
- The contraction in the growth of output may overshoot the level where it should naturally stop. ✓✓

EXTRAPOLATION ✓

- Extrapolation refers to the estimation of something unknown from the facts that are known ✓✓
- Past data is used when predictions are made about the future based on assumptions related to trends ✓✓
- Extending a trend into the future may provide information on what is likely to happen ✓✓
- Economists may predict that the economy will grow in few months to come if a business cycle has passed through a trough and entered into an upswing ✓✓
- Extrapolation techniques are sometimes used to predict future share prices ✓✓

MOVING AVERAGES ✓

- They are calculated along the time series so that a smoother business cycle can be established. ✓✓
- Moving averages are used to analyse the changes in a series of data over a certain period of time. ✓✓
- Economists use moving averages to eliminate the effect of sharp fluctuation in the business cycle ✓✓

(Max: 26)

(Accept any other correct relevant response)

maximum of 8 marks may be allocated for mere listing of headings/examples)

ADDITIONAL PART

- Increasing the money supply to advance credit to households and companies, affecting consumption and production positively ✓✓
- Adjusting interest rates downwards to allow consumers to borrow more money, which will stimulate demand for goods and services and influence production positively ✓✓
- Implementation of open-market transactions by buying back ✓✓

- Managing exchange controls by liaising with SARB to manage the inflation rate not to harm the economy✓✓
- Decreasing the cash reserve requirements that will allow banks to loan out more money that will stimulate production✓✓
- Persuading commercial banks (moral suasion) to lend more money in a recession to ensure that the production of goods do not decrease✓✓ (10)

(Accept any other correct relevant response)

Conclusion

- The country can be enabled to prepare suitable policies to deal with different changes in the economy reflected by the indicators and features. ✓✓ (2)

(Accept any other correct relevant response)



[40]

QUESTION 5:

40 MARKS – 40 MINUTES

- **Discuss in detail the main objectives of the public sector in the economy.** (26)
- **How will public sector failure negatively influence economic stability?** (10)

INTRODUCTION

- The government provides goods and services that are under-supplied by the market and therefore plays a major role in regulating economic activity and guiding and shaping the economy. ✓✓ (Max: 2)
- (Accept any other relevant introduction)

BODY: MAIN PART

Economic growth ✓✓

- Economic growth refers to an increase in the production of goods and services in the economy/ This refers to an increase in the productive capacity of the economy of the country for a specific period of time e.g. a year ✓✓
- It is usually measured in terms of growth in the national output valued at market prices referred to as the real gross domestic product (GDP)/ this is measured in terms of real GDP. ✓✓
- For economic growth to occur, the economic growth rate must be higher than population growth. ✓✓
- Growth and development in a country benefit its citizens because it often leads to a higher standard of living and reduce poverty ✓✓
- South Africa is a developing country and in terms of the World Bank's classification it is an upper-middle ✓✓
- There has been a sharp decrease in economic growth in 2020 since Covid-19 outbreak ✓✓

Full employment ✓✓

- This occurs when all the people who want to work, who are looking for a job must be able to get a job/ Means that all persons who would like to work and who are looking for work should be able to find work, or

create work for themselves where all resources are utilised efficiently✓✓

- High levels of employment is the most important economic objective of the government.✓✓
- Low rates of unemployment also correlates with other socio-indicators, such as a lower crime rate and higher standard of health✓✓
- The government supports education, labour-intensive businesses and the informal sector, hence informal sector activities must be promoted because it is an area where employment can be increased.✓✓
- The unemployment rate in South Africa has been increasing steadily over the past few years, and even with a sharp increase as a result of the Covid-19 pandemic.✓✓

Price stability✓

- Implies that prices in the economy do not change much over time✓✓
- Price stability is the opposite of inflation✓✓
- Stable prices lead to better results in terms of job creation and economic growth.✓✓
- When prices are relatively stable and inflation is low, markets can function optimally and the government can promote economic growth and development more effectively✓✓
- The SARB inflation target is 3% – 6% and it strives to keep it within the range.✓✓
- It has managed to maintain inflation within this target for most of the time.✓✓
- Interest rates, based on the repo rate are the main instruments used in the stabilisation policy.✓✓
- A stable budget deficit also has a stabilizing effect on the inflation rate.✓✓

Exchange rate stability✓

- The economy must be managed effectively using fiscal and monetary policies to keep the exchange rate relatively stable.✓✓
- South Africa uses a floating exchange rate system, which allows its exchange rate to determine its own value, based on demand and supply✓✓
- However, the international benchmark is, whether market forces determine exchange rates✓✓
- Fluctuations, such as depreciation and appreciation of the currency create uncertainties for producers and traders and should be limited.✓✓
- If more money flows into the country than going out, we could have a surplus on the BOP✓✓
- The state promotes domestic production of surpluses to increase exports and by monitoring changes in exchange rates✓✓

Economic equity✓

- Redistribution of income and wealth is essential and achieves the reasonable division of income among the population.✓✓
- South Africa uses a progressive income tax system whereby higher income earners fall into higher tax brackets as a way to redistribute income and wealth✓✓
- Taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free social services.✓✓ e.g. education✓
- These free social services and basic economic services are provided to society✓✓ e.g. primary health care, cash grants to the poor, child grants and cash grants to vulnerable people✓
- Economic equity has been partially achieved due to BBBEE, affirmative action, gender equity policies and led to an improvement in economic equality✓✓

(Max: 26)

ADDITIONAL PART

The public sector failure impacts negatively on economic stability by:

- causing price instability which depress consumer spending ✓✓
- causing policy uncertainty which may reduce investors' confidence ✓✓
- increasing unemployment as the economy fails to create new job opportunities ✓✓
- discouraging exporters due to exchange rate instability ✓✓
- reducing the volume of exports which may increase the balance of payments (BOP) deficit ✓✓
- exposing the economy to a recession due to lack of real GDP growth ✓✓
- increasing the fiscal burden due to wastage of resources especially by parastatals ✓✓
- decreasing production of goods and services as parastatals/state-owned enterprises fail to supply key input services. ✓✓ e.g. energy and transport ✓
- increasing the cost of doing business in the economy as a result of inefficiencies ✓✓

(Accept any other correct relevant higher order response)

(Max 10)

CONCLUSION

- The government should eradicate corruption, state capture, nepotism, etc. to reach economic social and political stability, accountability and reach their goals ✓✓

(Max: 2)

Accept any relevant correct conclusion

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [100]