



Western Cape
Government

CURRICULUM FET ECONOMICS

**TUTOR MANUAL
TERM 1 - 2025**



BACK ON TRACK PROGRAMME GRADE 12



Western Cape
Government

QUALITY EDUCATION

for every child | in every classroom | in every school in the province.

Tutoring material

Main topic: Macroeconomics

Introduction

Welcome to our first tutor session for the year.

Today we are going to start with Topic 1 Macroeconomics.
Macroeconomics consists of FOUR subsections namely:

1. Circular flow
2. Business cycles
3. Public sector
4. Foreign Exchange Markets

According to the Annual Teaching Plan, you should now have completed the Circular flow, and this is what we are going to review today.

Now let's look at what the examination guideline says.
This is a very important document because this document tells you what you need to know. Let's take a quick look at the part in the examination guideline that deals with the circular flow.

CIRCULAR FLOW

SUBTOPIC 1: CIRCULAR-FLOW MODEL PAPER 1	
Present the circular-flow model as a macro economic model:	(Focus: Relevant concepts, interaction between participants, markets, flows, injections, leakages and equilibrium in the economy)
1.1 The open-economy circular-flow model	• Briefly describe the concepts related to the circular flow. • Draw and interpret an open four-sector circular-flow diagram. • Discuss the 4 participants and interrelationships between them: - Household, business, state and foreign sector - Real flows and money flows - Show the relationship of the financial sector in the circular flow
- Equations	• Justify the equilibrium: $L = J$ and indicate its component elements: - Injections ($J = I + G + X$) - Leakages ($L = S + T + M$) • Brief explanation of an economy in equilibrium: - $Y = C + I + G + (X - M)$ • Relate aggregate spending (consumption) to income. • Explain concepts autonomous consumption and marginal propensity to consume (mpc)

- Markets	• <u>Discuss in detail</u> the markets within the FOUR-SECTOR model: - Factor markets: (labour, resource, capital) - Product markets: (consumer and capital goods, durable, semi-durable and non-durable) - Financial market (monetary and capital) - Foreign exchange market - Link the operation of financial and foreign exchange markets to the participants of the circular flow
1.2 National Account Aggregates	(Focus: Relevant concepts, deducing, interpretation, analyses of aggregates and conversions) • Briefly describe the concepts GDP and GNP • Briefly discuss the THREE methods to determine GDP using data tables: - Production GDP(P) - Income GDP(I) - Expenditure GDP(E) • Analyse, interpret and derive aggregates from data tables
- National account conversions	• Analyse the National Account conversions: - Factor cost, basic prices, market prices - Taxes and subsidies on production - Taxes and subsidies on products - GDP to GNP • Explain the purpose of the System of National Accounts (SNA) as outlined by the United Nations (UN)
1.3 The multiplier	(Focus: Relevant concepts, calculations, interpretation or graphical explanation) • Briefly describe the concept multiplier • Explanation of the multiplier process. (Relate to circular flow and examples). • Calculate the value of the multiplier using the formulae (2-sector model): - $\frac{1}{1-mpc}$ - $\frac{1}{mps}$ - $\frac{\Delta Y}{\Delta E}$ • Application of basic formula (2-sector model) • Brief reference to the impact of a 3-sector and 4-sector economy on the value of the multiplier • Explain the multiplier with the use of a well-labelled graph.

This is an identified essay. Work out an essay in your workbook. It is easier to study.

1. The 2021 examination guidelines are a **very important document**.
2. The examination guidelines **guide us on what to learn** and **how to prepare ourselves** for tests and examinations.
3. It will be a good practice to **keep the document with you** every day and **when studying**.

NOTE:

All topics where '**discuss in detail/examine in detail/compare and contrast in detail**' appear, should be regarded as essay topics.

Format of the examination question paper (June, September and NSC)

- Each paper carries 150 MARKS.
- The duration of **each paper is 2 HOURS**.
- Each paper comprises **SIX QUESTIONS** divided into three sections.

Of the six questions only FOUR in TOTAL must be answered as follows:

- **SECTION A:** QUESTION 1 is COMPULSORY.
- **SECTION B:** Consists of THREE questions: QUESTIONS 2, 3 and 4 of which the candidate must choose only TWO. **(If you do ALL THREE questions, then ONLY the FIRST TWO questions answered will be marked).**
- **SECTION C:** Consists of TWO questions: QUESTIONS 5 and 6 of which the candidate must choose only ONE. **(If you do BOTH questions, then ONLY the FIRST question answered will be marked).**

INSTRUCTIONS to the question paper.

The following is very Important:

1. **Read the instructions** on/inside the **cover page** thoroughly. – learners lose marks when they do not adhere to the instructions.
2. **Read the instruction for every question** – it tells you what is expected of you.
3. **Number your answer in accordance with the numbering system that is used in the question paper.** – many learners lose marks in tests and examinations because of incorrect numbering. Your answer might be correct but when it is written against the wrong number it is marked incorrect.
4. **Write only with a blue and/or black pen.**
5. **Do not write in pencil.** Any answers in pencil will be **regarded as an** examination's **irregularity.**
6. **Use a pencil only to draw graphs, sketches, illustrations, curves, etc.** (labels must be in pen)

VERY IMPORTANT!!! BEFORE THE START OF THE EXAMINATION

Before the start of the examination, candidates are given **10 minutes to read through the question paper.**

- **Use the 10-minutes to read through section B.**
- Study the questions in section B and decide which questions you will be able to answer best.
- Choose the TWO questions that you will be able to answer best, in other words choose the questions that will give you the most marks.

CLASSIFICATION OF TOPICS FOR THE GRADE 12 ECONOMICS QUESTION PAPERS

The Economics examination question papers are structured in a specific manner.

The topics and content and in which paper it appears.

PAPER 1 150 MARKS – 2 HOURS	
MAIN TOPIC: MACROECONOMICS	MAIN TOPIC: ECONOMIC PURSUITS
SUBTOPICS: • Circular flow • Business cycles • Public sector • Foreign exchange markets	SUBTOPICS • Protectionism and free trade • Growth and development • Industrial development policies • Economic and social performance indicators
How and where the content appears in the question paper	

E.g., Macroeconomics is covered in Sections A, B and C.

Section A = Question 1: Covers content of Macroeconomics and Economic Pursuits.

Section B - Questions 2 and 4 cover Macroeconomics

Section C = Question 5 covers Macroeconomics

E.g., Economic Pursuits is covered in Sections A, B and C.

Section A = Question 1: Covers content of Macroeconomics and Economic Pursuits.

Section B - Questions 3 and 4 cover Economic Pursuits

Section C = Question 6 covers Economic Pursuits

It is important that you know what the question paper looks like.
You now know how the content is covered in the paper.
Now you know how to choose your questions.

SECTION A

(This question is **compulsory** and **must be completed by all candidates**).

- It is important that you know the **economic concepts / terminology** and the definitions and/or descriptions. (Please note that concepts/terminology are also assessed in **Sections B and C**.)
- **Attempt** an answer for all the questions, **even if you do not know the answer**.
- If you are **uncertain about the answer**, continue writing the examination and return to the question at the end of the examination. It may be that you can find clues for the unanswered question as you proceed with the test/examination. (Remember to leave lines open for this – this also makes it easy to see where you need to complete answers if you need to return.
- If you do not know the answer, take **an educated guess**.
- **It is important to note the following:** If you leave questions unanswered, you will get no marks. However, if you write an answer which makes economic sense and answers the question, you could be awarded marks.

QUESTION 1.

1.1 Multiple choice question

Various options are provided as possible answers to the following questions. **Choose the answer** and **write only the letter (A–D)** next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

How do you answer the multiple-choice question?

- Read the question/**statement** thoroughly before attempting to answer.
- FOUR options are provided as possible answers to a question or statement.
- It is expected of learners to choose only **ONE option / possible answer** and write down only the letter next to the question number.
- Only **ONE option / possible answer per question will be accepted**. If more than one option/answer is written, **both will be marked as incorrect**.

Example

1.1.1 National product at constant prices is also referred to as ... figures.

A nominal

B real ✓✓

C market

D national

Writing method

1.2.1 B ✓✓

1.2.2 C/B ✗

1.2 Matching

- **Read the question** carefully.
- The **TERM is provided in COLUMN A** and the **DESCRIPTION is provided in COLUMN B**.
- Learners are expected to provide the description in COLUMN B next to the TERM in COLUMN A.
- **Only ONE choice / option / possible answer** is accepted per term. **E.g. Question 1.2.1 A and not Question 1.2.1 A or G** - Only ONE choice from COLUMN B is accepted for the match against the term in COLUMN A.
- **If two answers are chosen, both will be marked as incorrect.**

Example

1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question numbers (1.2.1 to 1.2.8) in the ANSWER BOOK, e.g. 1.2.9 A.

COLUMN A	COLUMN B
1.2.1 Monetarist approach 1.2.2 Kuznets cycle	A. Caused by changes in the building and construction industry B. Estimate figures or trends in future from facts that are known C. Markets are inherently stable

ANSWERS

COLUMN A	COLUMN B
1.2.1 Monetarist approach 1.2.2 Kuznets cycle	C. Markets are inherently stable A. caused by changes in the building and construction industry

Writing method

1.2.1 C ✓✓

1.2.2 A/B ✗

1.3 Give ONE term for each of the following descriptions.

- A **description is given**, and it is expected of the learners to **give only ONE term for the description**.
- **The learners may not provide answers in the form of abbreviations, acronyms and examples.**
- If learners use abbreviations, acronyms and examples for this question in the test or examination, they will forfeit the marks.

Example

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6), e.g., 1.3.7 Economy. Abbreviations, acronyms and examples will NOT be accepted.

1.3.1 The sector that needs to be included for the economy to be regarded as an open economy.

Foreign sector / International sector ✓

1.3.2 The total value of all final goods and services produced within the borders of a country, usually one year.

GDP X (Answer must be written out to get a mark)

Answer must be written as follows: Gross Domestic Product ✓

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

- Candidates are given **THREE questions** of which they must only answer **TWO**.
- **If learners answer ALL THREE questions in this section, then only the first TWO questions will be marked** even if it appears that the learner did better in the third question.
- When YOU answer more than two questions in this section, a red line is drawn through the excess answer and the words **"TOO MANY QUESTIONS"** will be written at the excess question.

Answering technique

Verbs that can be expected:

- **What?**

- This type must be answered question oriented.
- E.g. What can the government do to...?

- **Why?**

- This type must be answered question oriented.
- E.g. Why does it arise...?

- **How?**

- This question has a form of application that must take place. Need to make sure what is being focused on in the question.
- Many times, this is also a question to see how to solve problems in the economy.
- E.g. How can the consumer increase spending in the economy?

- **Relation to**

- What is the link between the two topics that appear in the question.
- Or how you can put it how are the two topics connected to each other.
- Explain the relationship between micro and macroeconomics.

- **Analyse**

- This type of question focuses on the positives and negatives of the subject being asked.
- Both sides must be explained in the answer.
- This can be seen as the positive influence it has or the benefit that results. Same with the negative/downside side.

- **Evaluate**

- This type of question can be explained in the positive (successes) or the negative (failures).
- Here the focus is on what is the **IMPACT ON THE ECONOMY**.

With all these types of questions answered you should ask yourself the following questions:

- Is my answer relevant to the question? Is the subject of the question mentioned?
- Is my answer relevant to the economy? The economy in broad terms can be looked at the three pillars on which it stands, Human/Social, Environment and Economy/Financial.

QUESTION 2.1, 3.1 and 4.1:

Answer the following questions.

Questions 2.1.1; 3.1.1 and 4.1.1

These are list and name questions.

Here you can write the answer in bullet form.

These types of questions are applicable to **Questions 2.1.1; 3.1.1 and 4.1.1**

EXAMPLE

2.1.1 Name TWO types of business cycles.

(2 × 1) (2)

- Kitchin
- Jugler
- Kuznets
- Kondratieff
- Building cycles

QUESTION 2.1.2, 3.1.2 AND 4.1.2

These are Explain, How, What, Why type of questions.

The answers to these questions must be written in full sentences.

These types of questions are applicable to **Questions 2.1.2; 3.1.2 and 4.1.2**

EXAMPLE

2.1.2 Why does the government provide merit goods?

(1 × 2) (2)

It will be undersupplied if it is left to the private sector.
(Accept any other relevant and correct answer.)

QUESTION (2.2; 2.3); (3.2, 3.3); (4.2, 4.3):
DATA RESPONSE QUESTIONS

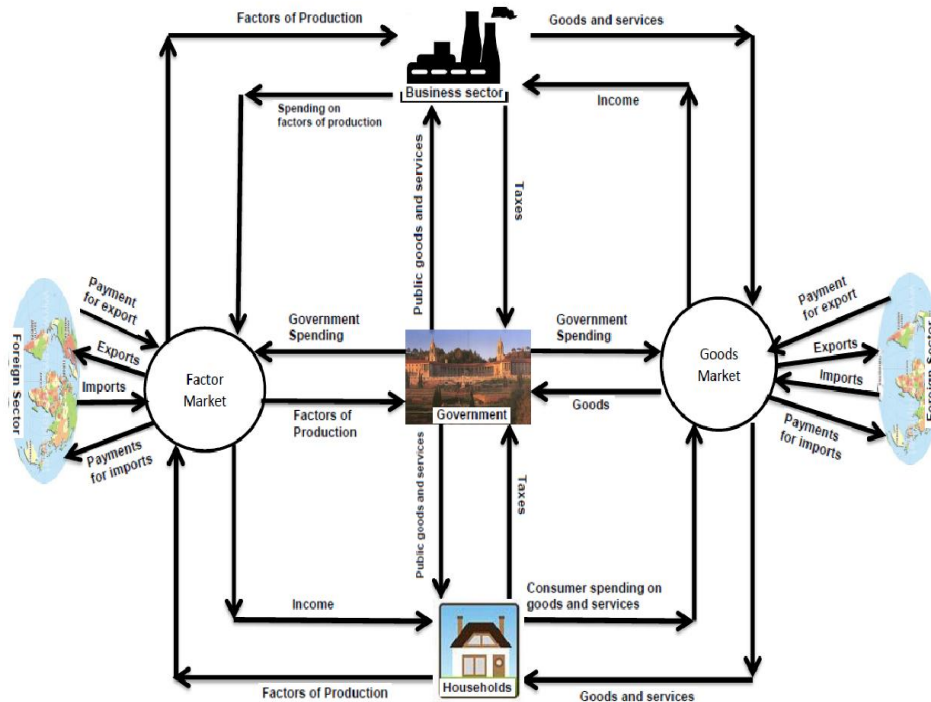
- All THREE Questions in Section B have TWO data-response questions that count 10 marks each.
- It is **important to note** that the questions may sometimes have very little to do with the extract, especially the first question.
- The extract / picture / cartoon / table / diagram, etc. is merely a means to give the context of the content covered to candidates. It merely serves as an introduction to the topic or a stimulus.

2.2.1 / 2.3.1 3.2.1 / 3.3.1 4.2.1 / 4.3.1	• These are lower order questions. • The answers to the questions may or may not come from the extract / graph / cartoon, etc. • Candidates does not have to write their answers in full sentences.	(1)
2.2.2 / 2.3.2 3.2.2 / 3.3.2 4.2.2 / 4.3.2	• These are lower order questions. • The answers to the questions may or may not come from the extract / graph / cartoon, etc. • Candidates does not have to write their answers in full sentences.	(1)
2.2.3 / 2.3.3 3.2.3 / 3.3.3 4.2.3 / 4.3.3	• These questions are normally description-type questions – terminology. • Candidates are normally expected to briefly describe a term / concept. • Candidates must write their answers in full sentences.	(2)
2.2.4 / 2.3.4 3.2.4 / 3.3.4 4.2.4 / 4.3.4	• These are How / Why / What questions. • They are normally middle-order cognitive questions. • These questions can include but are not limited to the drawing of graphs, drawings, fact base, etc. • Candidates must write their answers in full sentences.	(2)
2.2.5 / 2.3.5 / 3.2.5 / 3.3.5 4.2.5 / 4.3.5	• These are How / Why / What questions. • These are higher-order cognitive questions. • These questions require learners to evaluate / analyse / examine, etc. • Candidates must write their answers in full sentences and give their own opinion / understanding of the question. • Many marks are lost because of the misinterpretation of the question or not responding at all. Candidates must avoid the following when answering this question: ○ Candidates must not list their answer – will only be awarded 1 mark ○ Giving examples only – will only be awarded 1 mark ○ If the example is explained in a full sentence = 2 marks will be allocated	(4)

EXAMPLE

CIRCULAR FLOW

2.2 Study the diagram below and answer the questions that follow.



- 1.1 What is depicted in the diagram above? (1)
Circular flow diagram / Two-sector model
- 1.2 Name the type of income household receive from factor market. (1)
Wages
salaries
- 1.3 Briefly describe the term *circular flow*. (2)
Is a simplification showing how the economy works and the relationship between income, production and spending in the economy as a whole.
(Accept any other correct relevant response.)
- 1.4 Discuss the role of the factor market in the circular flow. (2)
 - A factor market is where factors of production are traded e.g. land for interest, labour for wages and salaries, entrepreneur for profit, capital for interest.
 - Households sell their factors of production in the factor market and receive income.
 - Businesses buy the factors of production from the factor market and the factor market receives an income.
(Accept any other correct relevant response.)
- 1.5 Why does lack of education affect the factor market? (2x2) (4)
 - The knowledge and skills of workers available in the labour supply is a key determinant for both business and economic growth.
 - An economy's productivity rises as the number of educated workers increases since skilled workers can perform tasks more efficiently.

- An unsuccessful economy has few workers capable of operating industries at a level where it holds a competitive advantage over the economies of other countries.
(Accept any other correct relevant response.)

QUESTION: 2.4 / 3.4 / 4.4

- **These are How / Why / What questions.**
- They are normally **middle order cognitive** questions.
- These questions can include but are not limited to the drawing of graphs, drawings, fact base, etc.
- Candidates must write their answers in full sentences.

EXAMPLE

- 2.4 Briefly discuss the arguments in favour of privatisation. (4 x 2) (8)
- Privatisation attracts more foreign investors to South Africa. Capital skills, technology and foreign exchange flow into the country.
 - Privatisation relieves pressure of the budget deficits on the budget will decrease.
 - Promote black economic empowerment. Shares in public companies can be made available to black entrepreneurs.
 - Private enterprises are more efficient than public enterprises. The profit motive in the private sector ensures that firms operate efficiently and at the lowest possible price.
 - SOEs are bureaucratic, inefficient, unresponsive to consumer needs, poorly managed.
 - Tax base will be broadened creating more income for government.
 - Privatisation ensures additional funds (income) for government this will help them to maintain and manage SOEs.
- (Accept any other correct relevant response.)
(Allocate a maximum of 4 marks for mere listing of facts and examples.)

QUESTION 2.5 / 3.5 / 4.5

- These are **How / Why / Evaluate / Analyse** questions.
- These are **higher order questions**.
- These questions require learners to **evaluate / analyse / examine**, etc.
- Candidates must write their answers in full sentences and give their own opinion / understanding of the question.
- Many marks are lost because of the misinterpretation of the question or not responding at all.
- Candidates must avoid the following when answering this question:
 - Candidates must not list their answer – will only be awarded 1 mark
 - Giving examples only – will only be awarded 1 mark
 - If the example is explained in a full sentence = 2 marks will be allocated

Example

2.5 How can South Africa benefit from trading in global markets? (4 x 2) (8)

South Africa can benefit from trading in global markets by:

- Partaking more intensively in free trade that will fuel efficiency through elimination of extra costs and wastage.
- Pursuing lower prices which will benefit the local consumer in the satisfaction of a greater variety of wants.
- Accessing more goods and services produced in other countries which will increase the variety to choose from
- Assisting local producers to increase production and employ more domestic factors of production which will limit unemployment and have a positive effect on the standard of living of many South Africans

(Accept any other correct relevant response)

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

SECTION C

TWO questions are given

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

- TWO questions are given to learners, and they must only answer ONE question.
- If you answer both essays, then only the first essay will be marked even if you score more marks in the second essay.
- Learners will score no marks for writing an incorrect essay, even if that essay is substantial.
- When learners answer more than the expected number of questions, a red line is drawn through the answer and the words "TOO MANY QUESTIONS" will be written at the excess question.

Please note the following:

- Learners must answer the question as stated, e.g. with graphs, without graphs, with diagrams, without diagrams.
- Learners who answer essays have a higher probability of passing the paper than those who do not answer an essay.
- Learners who do not attempt the essays tend to perform poorer in the examination.

STRUCTURE OF ESSAY

Introduction

The introduction is a lower-order response.

- A good starting point would be to describe the main concept related to the question topic.
- Do NOT include any part of the question in the introduction.
- Do NOT repeat any part of the introduction in the body.

Avoid mentioning in the introduction what you are going to discuss in the body.

Body**Main part:**

- Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate

A maximum of 8 marks may be allocated for headings/examples.

Learners: Please take note of the following:

- Learners are required to write in full sentences.
- Learners need to use headings and subheadings where necessary / applicable.
- 8 marks are allocated for headings, merely listing of facts and examples in the Main Part of the essay
- Only content relevant to the question will be accepted.

Additional part:

Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce/ Compare/ Distinguish/ Interpret/How?/ Suggest

A maximum of 2 marks may be allocated for mere listing of facts.

ADDITIONAL PART (HIGHER ORDER)

- These questions are evaluate / examine / analyse questions.
- Learners that write something may be credited, however, many learners do not attempt this part of the essay.
- Evaluate – give positive or negative or a combination.
- At this section, the learners may express an opinion, give examples, substantiate their facts with explanations.
- A maximum of 2 marks can be awarded for the mere mention of facts.

Conclusion

- Any higher-order conclusion should include:
- A brief summary of what has been discussed without repeating facts already mentioned.
- 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

TOTAL**Writing an essay****Introduction****(2)**

It can be any description related to international trade.

Learn the subheadings first. Parts in black below.

Demand reasons:

- Size of the population
Sentences that explain it
- Income levels
Sentences that explain it
- Change in the welfare of the population
Sentences that explain it
- Preferences and tastes
Sentences that explain it
- The difference in consumer patterns
Sentences that explain it

First write down the headings

You can already earn 8 marks by just by writing headings.

Then you write two to three sentences under each heading. These sentences are explanatory facts under each heading.

Supply reasons:

- Natural resources
Sentences that explain it
- Climatic conditions
Sentences that explain it
- Human resources
Sentences that explain it
- Technological resources
Sentences that explain it
- Specialization
Sentences that explain it
- Capital
Sentences that explain it
- Absolute and comparative cost advantage
Sentences that explain it

Now you do the same with Supply Reasons

Additional Part (10)

The additional part to the question needs your knowledge, judgment, insight, opinion.
The answer to this question cannot always be found in a textbook.
If you are unsure, do not hesitate to give your opinion / what you think.
Don't leave the question unanswered.

Here you are expected to:

- Give your **own opinion** and then substantiate/demonstrate arguments against or in favour.
- **Evaluate and critique** certain actions/values in the economy.
- **Analyse** certain aspects in the economy by unpacking **and critique**
- **Use economic models**, e.g., graphs and diagrams, to explain certain aspects of economics.

Conclusion

(2)

Give any appropriate higher-order final / concluding remarks on the topic under discussion.

TOPIC 1: CIRCULAR FLOW

1 - Description (Interaction between participants)

2 - Flows (Money flow & Real flow)

3 - Markets (Factor-, Product-, Financial, Foreign exchange market)

4 - Participants (Households, Businesses, Government, Foreign sector)

DIAGRAM

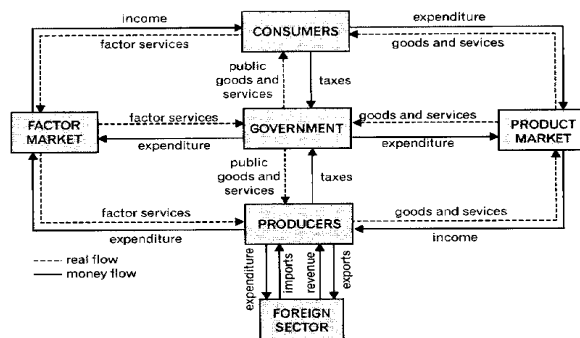


Figure 1.1: The circular flow model

EQUATIONS

INJECTIONS:

Inflow of money into the economy

$$J = I + G + X$$

LEAKAGES:

Outflow of money out of the economy

$$L = S + T + M$$

EQUATION:

$$Y = C + I + G + (X - M)$$

CALCULATIONS - GDP

PRODUCTION	INCOME	EXPENDITURE
Basic Price - GDP(P)	Factor cost - GDP(I)	Market price - GDP (E)
Primary Sector + Secondary Sector + Tertiary Sector	Remuneration (salaries, interest, rent) + Net operating surplus (profit) + fixed capital consumption (depreciation)	C (Consumer spending) + I (Capital formation) + G (Government spending) + Residual items
= GDP @ Basic price	= GDP @ Factor cost	= GDE
+ taxes - subsidy	+ other taxes (on production) - other subsidy (on production)	+ X (exports) - M (imports)
	= GDP @ Basic prices	
	+ taxes - subsidy	
= GDP @ Market price	= GDP @ Market price	= GDP @ Market price

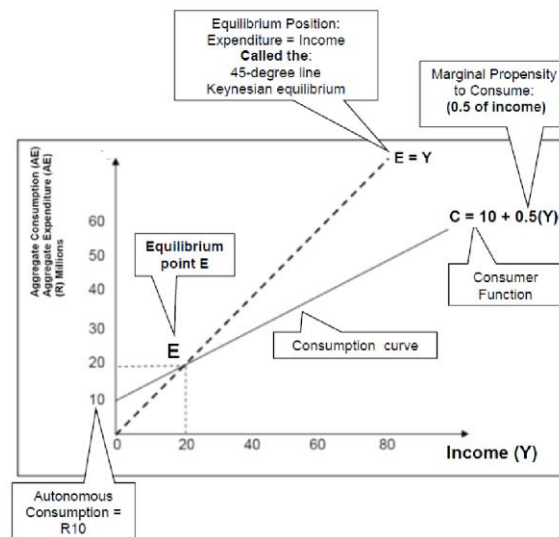
MULTIPLIER

1 - Description (increase in spending cause proportionate greater increase in income)

2 - Formula ($M = 1/1 - mpc$; $M = 1/mps$;
 $M = \Delta Y/\Delta E$)

3 - Use the answer ($M \times$ amount invested/spent)

4 - Graph



CALCULATIONS

Description: ↑ Income > ↑ Expenditure

- $Y = mpc + mps$

- $k = 1/1 - mpc$
- $k = 1/mps$
- $k = \Delta Y/\Delta I$

EXAMPLES OF QUESTIONS

SECTION A QUESTION 1

- 1.1 Several options are given as possible answers to the following questions. Select the answer and write down only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. The Answer Number. 1.1.9 D.
- 1.1.1 In the simple economic cycle of economic activity, goods and services flow via ...
- A. factor markets from households to businesses.
 - B. goods markets from households to enterprises.
 - C. factor markets from businesses to households.
 - D. goods markets from enterprises to households. ✓✓
- 1.1.2 The three ways to calculate GDP are ...
- A. income, spending and production methods. ✓✓
 - B. income, product and service methods.
 - C. expenses, spending and production methods.
 - D. production, prices and income method.
- 1.1.3 The method used to obtain total compensation on production factors becomes the ... method called.
- A. production.
 - B. income. ✓✓
 - C. cycle.
 - D. expenditure.
- 1.1.4 Earnings received from the export of goods and services become ... called.
- A. leakages
 - B. tax
 - C. injections ✓✓
 - D. savings
- 1.1.5 The market for short-term savings and loans stands known as ... market.
- A. capital
 - B. money ✓✓
 - C. foreign exchange
 - D. resource
- 1.1.6 The continuous flow of production, income and spending between participants in the economy.
- A. Business cycle
 - B. Economic equilibrium

- C. Money market
- D. Circular flow ✓✓

1.1.7 The consumption function is based on the premise that, as income increases, consumption spending is...

- A. increasing by a larger amount.
- B. increasing by the same amount.
- C. remaining constant unless savings also change. ✓✓
- D. increasing with a smaller amount.

1.1.8 The equation $c = 70 + 0.65Y$, where C has been consumed and Y is disposable Income, tells us that ...

- A. households will save R70 if their disposable income is zero and consume 0.65 from any increase in disposable income they receive. ✓✓
- B. households will consume R70 if their disposable income is zero and will consume 0.65 of any increase in disposable income they receive.
- C. households earn R70 and spend three-quarters of their income.
- D. Households will consume 0.35 of whatever level of disposable income they receive.

(8 x 2) (16)

1.2. Select a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A-I) next to the question number (1.2.1 - 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Injection	A. Forms part of a closed economic cycle
1.2.2 Marginal propensity to consume	B. Flow to and from the foreign sector
1.2.3 Model	C. Forms part of an open economic cycle
1.2.4 Double counting	D. An economy that allows foreign trade
1.2.5 GDP	E. The value of goods and services produced in a given year within the borders of a country.
1.2.6 Open economy	F. Pensions added to national income figures.
1.2.7 Foreign sector	G. A simplified version of reality
1.2.8 Import and export	H. The portion of an increase in consumption
	I. Government expenditure

(8 x 1) (8)

- 1.2.1 (I) Government expenditure ✓
 1.2.2 (H) The portion of an increase in consumption ✓
 1.2.3 (G) A simplified version of reality ✓
 1.2.4 (F) Pensions added to national income figures ✓
 1.2.5 (E) The value of goods and services produced in a given year within the borders of a country ✓
 1.2.6 (D) An economy that allows foreign trade ✓
 1.2.7 (C) Forms part of an open economic cycle ✓
 1.2.8 (B) Flow to and from the foreign sector ✓

1.3. Provide the economic term/concept for each of the following descriptions. Just write down the term/concept next to the question number. **ACRONYMS, ABBREVIATIONS AND EXAMPLES WILL NOT BE ACCEPTED.**

1.	Used when GDP by the production method. be calculated. Represents the cost of production of enterprises	Basic prices
2.	A year with very small price changes or price fluctuations. The current _____ as used by the Reserve Bank is 2015 .	Base year
3.	Mandatory payments made by private individuals or businesses to the government sector without any direct benefit	Tax
4.	Refers to taxes without any connection to a particular good or service (e.g. taxes on land and buildings)	Tax on production
5.	Tax payable per unit of a certain good or service (e.g. VAT, import duties)	Taxes on products
6.	Spending by businesses on capital goods	Investments
7.	Income that is not consumed	Savings
8.	Method used to add the total spending of the four main sectors of the economy: $C + G + I + (X - M)$	Expenditure method
9.	Value of all final goods and services produced within the country's borders for a specific period	Gross domestic product
10.	Value of all final goods and services produced by the permanent residents of the country for a specific period	Gross national product
11.	The market where one currency is traded for another, e. Rand for the dollar	Foreign exchange market
12.	Non-tangible goods and includes wholesale and clay trade, transport and financial markets	Services
13.	The situation in the economy when: • leakages equal injections: • $L = J$ • $S + T + M = I + G + X$	Economic equilibrium

14.	Uninterrupted flow of spending, production and income between different sectors	Economic Cycle Model
15.	The cost of or the price paid for the factors of production (land, labour, capital and entrepreneurship) used by businesses.	Factor Cost/Factor Price/ Factor Revenue
16.	The market where factors of production are traded, e. the labour market	Factor Market/Input Market
17.	The market where both short- and long-term financial assets are traded	Financial market
18.	Those financial institutions that are not directly involved in the production of goods and services, e. banks, insurance companies, pension funds and the JSE	Financial sector
19.	The short-term and very short-term market for savings and loans	Money Market
20.	The flow of income and spending between the participants in the economic cycle	Money flow
21.	An economy without a foreign sector as a participant	Closed economy
22.	A market where goods and services are traded, e.g. cars, milk	Goods Market/ Product Market
23.	The method where all income earned by the owners of the factors of production are added together	Income method
24.	The inflow of additional money into the economy through investment (I), government expenditure (G) and payments for exports (X)	Injections
25.	Goods and services produced in other countries and purchased by local businesses or households	Imports
26.	Markets where consumers and producers make long-term deposits and borrow money. Market for long term financial instruments e.g. mortgages, stocks	Capital Market
27.	Money withdrawn from the economic cycle, e.g. through savings (S), taxes (T) and import spending (M)	Leakages
28.	Indicates an increase in consumable income that increases personal consumption spending.	Marginal propensity to consume
29.	Prices actually paid by consumers for goods and services plus taxes minus subsidies	Market price
30.	Indicates a certain amount removed, e.g. net exports reflect value of exports minus imports	Net figures
31.	An economy that trades with the foreign sector	Open economy
32.	The spending consumers have to make even if they have no disposable income/ The consumption expenditure that occurs when income levels are zero	Autonomous consumption
33.	The addition of final values of all goods and services calculated at gross value added	Production method
34.	The flow of goods and services between the participants in the economic cycle	Real flow
35.	The expenditure of the public sector	Government spending

36.	Refers to subsidies that are not connected to specific goods or services, e.g. subsidies on employment	Subsidies on production
37.	Financial incentives that assist struggling industries in production with the aim of encouraging exports	Subsidies on products
38.	Goods and services locally produced and then sold for consumption beyond the borders of the country	Exports
39.	Spending by the population	Consumption expenditure
40.	A small initial increase in spending yields a proportionally larger increase in total national income	Multiplier

SECTION B

QUESTION 2

2.1 Answer the following questions:

2.1.1 Name any TWO injections in the economy.

(2 × 1) (2)

- Export income / Export earnings
- Investment spending
- Government spending (Any 2 x 1)

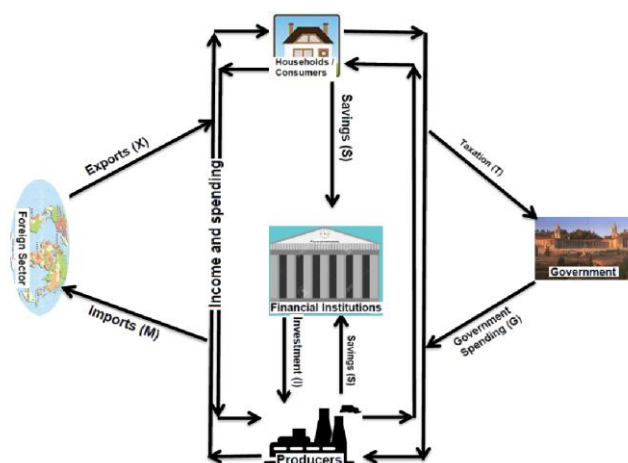
2.1.2 Why is the exchange market important to tourists?

(1 × 2) (2)

Tourists need to exchange their own currency in order to buy goods and services in other countries.

(Accept any relevant response.)

2.2. Study the diagram below and answer the questions that follow.



2.2.1 Name any injections which can be found in an economy.

(1)

- Investment / I
- Export income / X
- Government spending / G

2.2.2 Identify a leakage from the above diagram.

(1)

- Savings / S
- Taxes / T
- Import expenditure / M

2.2.3 Briefly describe the term *injections*. (2)

- The introduction of additional money into the economy.
(Accept any other relevant and correct response)

2.2.4 Explain the difference between production and income (2)

- Production is when business combines factors of production in planned activity to bring about goods and services that will satisfy the needs and wants of society.
- Income is the reward that the factors of production receive for being part of the production process.
- Tax is the form of income of government received from businesses and households.
- Investments, pensions and social security is the primary income source for retirees.
(Accept any other correct relevant answer.)

2.2.5 How are leakages affecting the circular flow? (2 x 2) (4)

- In economics, leakages refers to capital or income that diverges from some kind of iterative system.
- Leakage is usually used in relation to a particular depiction of the flow of income within a system, referred to as the circular flow of income and expenditure, in the Keynesian model of economics.
- Imported goods are sometimes referred to as a source of "leakage" because they can have the effect of transferring income that was earned in one country to another country.
- Cash leakages occur when amounts of money are borrowed from banks but not deposited again.
- Leakages also occur in the form of funds that are deposited in banks but are not lent. In this system, cash leakage reduces the ability to create further rounds of income.

(Accept any other correct relevant answer.)

2.3 Study the information below and answer the questions that follow

NATIONAL BUDGET REVENUE 2020/ 2021	
R billion	
TAX REVENUE	(A)
Of which:	
Personal income tax	546.8
Corporate tax	230.2
Value-added tax	360.6

[Adapted from The National Budget 2020/ 2021]

2.3.1 Identify the fiscal instrument shown on the above table. (1)

Taxation

2.3.2 Which policy is used by the government to influence economic activities? (1)

Fiscal policy

2.3.3 Briefly describe the term *national budget*. (2)

The national budget is the statement of governments' planned expenditure and anticipated income for the fiscal year.

(Accept any other correct relevant answer.)

2.3.4 Calculate the value of A from the above table (2)

$546.8 + 230.2 + 360.6 = 1\,137.60$

2.3.5 How does public sector failure affect the tax system of the country? (2 x 2) (4)

- Leading to an increase in the tax rate paid by the state-owned enterprises.
- Discouraging most taxpayers from contributing their taxes due to misappropriation of funds by government officials.
- Shrinking tax revenue collected by the government as it results in tax evasion.

(Accept any other correct relevant answer.)

2.4 Discuss the role of the financial sector in the circular flow. (4 x 2) (8)

- The financial sector consists of banks, insurance companies and pension funds.
- The financial sector acts as a link between households and businesses that have surplus money and then provides money to those experiencing a shortage of funds.
- The money that households and businesses provide to the financial sector is known as savings.
- Businesses can borrow money from the financial institutions and spend it to purchase capital equipment.
- The spending by businesses is seen as investment.

(Accept any other correct relevant answer.)

(Allocate a maximum of 4 marks for mere listing of facts/examples.)

2.5 What will be the consequences on the economic cycle if private energy supply becomes a reality? (4 x 2) (8)

- More businesses will be established in the country which will increase the demand for various production factors.
- The households will be compensated for owning the production factors, directly or indirectly, for this provision.
- This means that consumers will have more income in their pockets and therefore the demand for goods and services on the goods and services market will increase.
- Businesses will do their best to meet this demand, if they get it right the income earned by the businesses will also increase.
- With the additional supply of energy, businesses will have the ability to produce without any interruptions in power, this will increase the supply of goods and services.
- Businesses also do not have to incur additional costs, damage from power outages and generators, this can make their production costs lower costs which lowers the selling price.
- This is to the benefit of the consumer, they will then request more for the products and thus also be able to purchase more goods and services, their standard of living also increases in the process.

- Businesses can again hire more workers who can help with production, because they have more funds available for this, this increases the hiring from the factor market.
- More money flows to the households, unemployment has fallen, and we can ask them more for goods and services on the output market.

(Accept any other correct relevant answer.)

(Allocate a maximum of 2 marks for mere listing of facts/examples.)

SECTION C

QUESTION 5

Discuss in detail the markets in the four-sector economic cycle model. (26 points)

INTRODUCTION

The economic cycle model is a simplified presentation of the interaction between the participants in economics. ✓✓ **(Max 2)**

MAIN PART

Goods/Services/Output Markets ✓

- These are markets for the consumer goods and services ✓✓
- **Goods** are consumable items such as food, clothing, and cars that satisfy some human needs ✓✓
- **Services** are non-tangible goods and include wholesale and clay trade, transport and financial markets ✓✓

Factor/Resource/Input Services ✓

- Households sell factors of production on the markets: rent for natural resources, wages for labour, interest for capital, and profit for entrepreneurship ✓✓
- The factor market includes the labour, property, and financial markets ✓✓

Financial markets: ✓

- They are not directly involved in the production of goods and services, but serve as a connection between households, business and other participants with surplus funds ✓✓
- E.g. banks, insurance companies and pension funds✓

Money Markets ✓

- In the money market, **short-term loans** and many short-term funds are saved and borrowed by consumers and businesses ✓✓
- Products are sold on this market e.g., bank bonds, Treasury bills and government bonds✓✓
- SARB is the key institution in the money market ✓✓

Capital Markets ✓

- In the capital market, **long-term funds** are borrowed and saved by consumers and businesses ✓✓
- The Johannesburg Stock Exchange is a key institution in the capital market ✓✓
- Products sold in these markets are mortgages and shares ✓✓

Foreign exchange markets ✓

- On the foreign exchange market, businesses buy/sell foreign exchange to pay for imported goods and services ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
(Max 26)

CONCLUSION

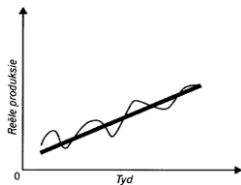
Markets are critically important institutions in our economic system because they regulate supply and demand and ensure price stability as well as general business confidence ✓✓
(Max 2)

TOPIC 2: BUSINESS CYCLE

1. **Diagram** (with labels) & **Description**
2. **Approaches** (Monetarist & Keynesian) (Exogenous & Endogenous)
3. **Government policies** (5 Monetary instruments)
4. **New economic paradigm** (Demand- and Supply-side policies)
5. **Features** (4 indicators and other features)

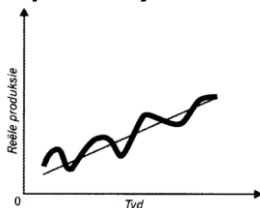
APPROACHES

Exogenous (Monetarist)



- Sunspot theory (Friedman)
- Market are **inherently stable**
- Things from **OUTSIDE** influence the market
- Things like weather conditions and market shocks
- **Government** should **not intervene** in the market

Endogenous (Keynesian)



- Keynes
- Market are **inherently unstable**
- Price mechanism fails to co-ordinate demand & supply
- **Government** should intervene and **help** to straighten the curve

TYPES

- **Kitchin cycles:** 3 – 5 years (adapting inventory levels in businesses)
- **Juglar cycles:** 7 – 11 years (changes in net investments by government and businesses)
- **Kuznets cycles:** 15 – 20 years (changes in activity in the building and construction industry)
- **Kondratieff cycles:** longer than 50 years (technological innovations, wars and

discoveries of new deposits of resources e.g. gold)

GOVERNMENT POLICY (1 OR 2 OR COMBINATION)

1. MONETARY POLICY

1. Interest rates
2. Cash reserve requirements
3. Open market transactions
4. Moral persuasion
5. Exchange rate policy

2. FISCAL POLICY

1. **Demand is too low** and **unemployment too high.**
 - $\uparrow G$ (government spending)
 - $\downarrow T$ (taxes)
 - Both ($\uparrow G + \downarrow T$)
2. **Demand is too high** and leads to demand pull- inflation
 - $\downarrow G$ (government spending)
 - $\uparrow T$ (taxes)
 - Both ($\downarrow G + \uparrow T$)

NEW ECONOMIC PARADIGM

DEMAND-SIDE POLICIES

Inflation

- Demand $\uparrow$ then supply $\uparrow$
- If not, price will $\uparrow$
- This will lead to inflation

Unemployment

- This stimulate growth
- Phillips curve (relationship)

SUPPLY-SIDE POLICIES

- 1 – Reduction of costs
 - Cash incentives
- 2 - Improving efficiency of inputs
 - Develop human resources
- 3 - Improving efficiency of markets
 - Competition

INDICATORS

1. **Leading indicators** (before)
2. **Lagging indicators** (after)
3. **Co-incident indicators** (together moving)
4. **Composite indicators** (various)
5. **Trend** (show the way)
6. **Length** (left to right)
7. **Amplitude** (top to bottom)
8. **Extrapolation** (use known facts to predicts)
9. **Moving averages** (changes in data over time)

EXAMPLE OF QUESTIONS

SECTION A

QUESTION 1

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write down only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.
- 1.1.1 Negative economic growth for at least two consecutive quarters of the year is called a ...
- A. “boom”
 - B. depression
 - C. recession ✓✓
 - D. herstel
- 1.1.2 A form of monetary policy trying to curtail economic activity stands known as... policy.
- A. lagging
 - B. fiskale
 - C. expansionary
 - D. restrictive ✓✓
- 1.1.3 Fluctuating factors arising outside the economic system are called ... factors.
- A. indigenous
 - B. exogenous ✓✓
 - C. endogenous
 - D. international
- 1.1.4 A fiscal policy that seeks to stimulate economic activity.
- A. Expansionary ✓✓
 - B. Contractionary
 - C. Money supply
 - D. Interest rates
- 1.1.5 Employment rates in the business cycle will increase during a ...
- A. recession. ✓✓
 - B. restore.
 - C. depression.
 - D. trough.

1.1.6 The difference in the value of the production at the peak and the value of the production at the trough of a business cycle stands known as the ...

- A. length
- B. trend line
- C. amplitude ✓✓
- D. real production

1.1.7 An indication of long-term growth in the economy is called the....

- A. Trend line
- B. amplitude
- C. Length ✓✓
- D. Trough

1.1.8 A focus on improving input efficiency is a feature of the ... policy.

- A. demand-side
- B. monetary
- C. supply-side and demand-side
- D. supply-side ✓✓

(8 x 2) (16)

1.2 Choose a description from COLUMN B corresponding to the item in COLUMN A. Write only the letter (A-I) next to the question number (1.2.1 - 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Economic Extension	A The highest point between the beginning and the end of an economic expansion
1.2.2 Peak	B Changes in business conditions
1.2.3 Economic fluctuations	C Originates in the market system
1.2.4 Endogenous factors	D A phase of full employment
1.2.5 Jugler cycles	E The inflation rate decreases
1.2.6 Economic prosperity	F Changes in net investments by business and governments
1.2.7 Monetary policy	G General period of rising economic activity, leading to an increase in real GDP
1.2.8 Philips curve	H Measures taken by SARB to influence the supply of money and interest rates
	I Inflation and unemployment have a stable and inverse relationship

(8 x 1) (8)

- 1.2.1. D A phase of full employment✓
- 1.2.2. A The highest point between the beginning and the end of an economic expansion✓
- 1.2.3. B Changes in business conditions ✓
- 1.2.4. C Originates in the market system ✓
- 1.2.5. F Changes in net investments by business and authorities✓
- 1.2.6. G General period of rising economic activity, resulting in a increase in real GDP ✓
- 1.2.7. H Measures taken by SARB to influence the supply of money and interest rates ✓
- 1.2.8. I Inflation and unemployment have a stable and inverse relationship ✓

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number. **ACRONYMS, ABBREVIATIONS AND EXAMPLES WILL NOT BE ACCEPTED.**

1.	A period of general decline in economic activity	Downturn
2.	Measures the distance of oscillation of a variable from the trend line.	Amplitude
3.	Used to analyse the changes in a data range over a period of time.	Moving averages
4.	Economic activity is at its lowest; recession worsens	Depression
5.	Used to measure the trends in the economy, e.g. GDP	Economic indicator
6.	This means that the unknown is estimated from known facts. For example, known facts are used to predict future stock prices.	Extrapolation
7.	Maintain the view that markets are inherently unstable; Therefore, government intervention is required.	Endogenous explanation/ Keynesian approach
8.	Believe markets are inherently stable and disequilibrium is caused by incorrect policy application, e.g. monetary policy.	Exogenous explanation/ Monetarist approach
9.	A policy using taxes and government spending implemented by the National Treasury. The aim is to increase or decrease aggregate demand to achieve the macroeconomic goals of full employment and price stability.	Fiscal policy
10.	Lasts from 7 to 11 years and is caused by changes in net investments by the state and businesses	Jugler cycles
11.	Duration from 3 to 5 years and is caused by adjustment of inventory levels in businesses	Kitchin cycles

12.	Lasts more than 50 years and is caused by technological innovations, wars and new resource discoveries, e.g. gold.	Kondratieff cycles
13.	Lasts from 15 to 20 years and is caused by activity changes in the building and construction industries.	Kuznets cycles
14.	Give consumers, businesses and the state a glance at the direction in which the economy may be moving. Examples are advertising space for jobs; stockkeeping; and sales	Leading indicators
15.	Is measured from peak to peak or from trough to trough.	Length
16.	Policies enforced by the monetary authority to influence the money supply in circulation as well as the interest rates. The aim is to stabilise prices, achieve total employment and greater economic growth.	Monetary policy
17.	The period immediately before and during the upper turning point of the cycle	Boom
18.	A period where there is a general increase in economic activity	Upswing
19.	Illustrates the relationship between unemployment and inflation	Phillips curve
20.	The point where economic expansion is at its highest	Peak
21.	Negative economic growth for at least two consecutive quarters.	Recession
22.	This is a grouping of several indicators of the same type to a single value. The single digits represent the norm of a country's economic performance.	Composite indicators
23.	Successive periods of growth and decline in economic activity.	Business cycle
24.	Move along with the economy in time. They indicate the real state of the economy.	Coinciding indicators
25.	Will not change direction until after the business cycle changes direction. Examples are hours worked in construction and total number of commercial vehicles sold.	Lagging indicators
26.	It indicates the general direction in which the economy is moving.	Trend line
27.	The period immediately before and during the lower turning point.	Retraction
28.	Point where economic contraction is at its lowest.	Trough

SECTION B

QUESTION 2

2.1 Answer the following questions.

2.1.1 Name TWO exogenous factors that give rise to business cycles. (2 x 1) (2)

- Inappropriate government policies / interventions
 - Change in money supply
 - Climatic conditions (sunspot theory)
 - Shocks (e.g. war, major increase in fuel price)
 - Structural change to the economy
 - Technology
- (Accept any other relevant factor from an approved resource)

2.1.2 How is a recession countered with the help of cash reserves? (1 x 2) (2)

- The SARB will lower the cash reserves that must be held by commercial banks, so that the banks have more funds available to lend to individuals/businesses, so the people in the economy have more money at their disposal that they can use, and demand increases thus increases the economic activities in the economy.
- (Accept any other relevant answer)

2.2 Study the extract below and answer the questions that follow.

“SA not out of the woods yet” as economy grows by 4.9% in 2021

Published Mar 9, 2022

The economy could remain in a protracted recession despite data from Statistics South Africa (StatsSA) yesterday that showed that the economy expanded by 4.9 percent in 2021, recovering from a pandemic-induced 6.4 percent decline in 2020.

In spite of economic growth mounting a significant comeback last year and from a historic contraction experienced at the height of the Covid-19 pandemic in 2020, economists now fear that the next few months will likely be more volatile as the ongoing Russian invasion of Ukraine has led to a spike in oil prices, South Africa's largest import item.

(Source: <https://www.iol.co.za>)

2.2.1 Identify the term in the extract that refers to a negative growth rate for two consecutive quarters. (1)

Recession

2.2.2 Which school of thought is also known as the exogenous explanation for business cycles? (1)

Monetarist / sunspot theory / Classical approach

2.2.3 Briefly describe the term *amplitude*. (2)

It refers to the vertical distance between a peak and the trendline and the trough and the trendline.

(Accept any other correct relevant answer.)

2.2.4 Explain why a spike in oil prices will impact food prices in South Africa. (2)

Food prices will increase due to an increase in transport costs.

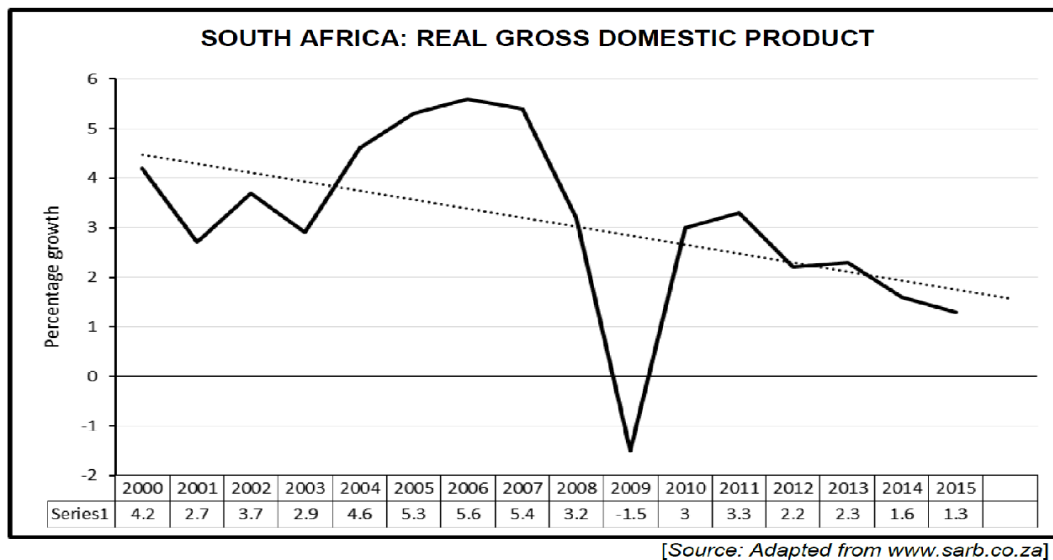
(Accept any other correct relevant answer.)

2.2.5 How can interest rates be used to stimulate the economy? (2 × 2) (4)

- Interest rates should be decreased, to make credit cheaper.
- More money will be available to stimulate demand which will lead to an increase in the production of goods and services.

(Accept any other correct relevant answer.)

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



2.3.1 What was the real GDP growth in 2009? (1)

-1.5%

2.3.2 Identify the period (years) when the longest business cycle can be observed in the above graph. (1)

2003 – 2009

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

The total value of all final goods and services produced within the boundaries of a country, within a specific time period, normally one year.

(Accept any other correct relevant response.)

2.3.4 Explain the underlying forces of the amplitude in 2009. (2)

- A large amplitude during the downswing demonstrates weak underlying forces.
- There were extreme changes that occurred in a short period of time.
- The economy has slumped very sharply indicating weak economic forces.
- Weak economic growth has taken place during the cycle.

(Accept any other correct relevant response.)

2.3.5 How can taxation be used to reverse the downward trend in the economy? (2 x 2) (4)

- Taxes should be decreased.
- Decreased taxation will increase the disposable income of consumers.
- This will lead to an increase in the demand of goods and services, which in turn will lead to an increase in the supply of goods and services.
- Economic activities will increase, and the economy will grow.
(Accept any other correct relevant response.)

2.4 Explain, with the aid of a well-labelled graph, how demand-side and supply-side policies are used to stimulate economic growth. (8)

Mark allocation for graph:

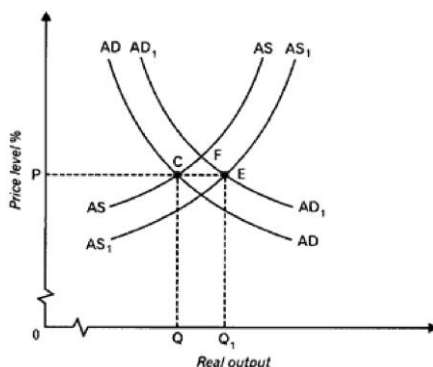
Naming of axis = 1 mark

Shifting of AD = 1 mark

Shifting of AS = 1 mark

Equilibrium point, F = 1 mark

Total = 4 marks



Explanation

- When only demand-side policies are applied, aggregate demand in the economy will increase and the aggregate demand curve will shift to the right (AD1).
- Output will increase, but will lead to higher prices, resulting in inflation.
- In the long run, aggregate supply will adjust to the aggregate demand after implementation of supply-side policies. The aggregate supply curve (AS) will shift to AS1.
- The new equilibrium will be where AD1 and AS1 are in equilibrium at point F. Output is still higher, without an increase in prices.

(Accept any other correct relevant answer.)

(Allocate a maximum of 4 marks for mere listing of facts/examples.)

2.5 How can the recovery phase in the economy be encouraged by the respective participants? (4 x 2) (8)

- Households can use funds they have saved to open businesses and thus employ people and increase production.
- The businesses can take out loans from banks and expand their businesses in order to increase production.
- The government can invest in infrastructure so that businesses can be more effective when starting/expanding their businesses.
- The government can make funds available (subsidies) to keep the costs of goods down and thus increase demand in the market.
- Foreign countries can invest more in businesses, buy their shares or set up businesses themselves in the country which will create jobs and a greater increase in production.

(Accept any relevant answer.)

(Allocate a maximum of 2 marks for mere listing of facts/examples.)

SECTION C

QUESTION 5

Discuss in detail the new economic paradigm in the smoothing of business cycles.
(26 marks)

INTRODUCTION

Business cycles are successive periods of growth and decline in economic activity. ✓✓
(Max 2)

CONTENTS: MAIN PART

The new economic paradigm is enshrined in both demand- and supply-side policies. ✓✓

Demand-side policies

- It focuses on aggregate demand in the economy. ✓✓
- When households, firms and the state spend more, demand in the economy will increase. ✓✓
- This causes the economy to grow but can lead to inflation. ✓✓

Inflation✓

- Total demand is increasing faster than total supply, this is causing an increase in the general price level. ✓✓
- If supply is not going to rise to the same extent as demand, prices will rise. ✓✓
- This causes inflation, which is a sustained and substantial increase in the general price level✓✓✓

Unemployment: ✓

- Demand-side policies are effective in stimulating economic growth. ✓✓
- Economic growth can lead to a rise in demand for labour. ✓✓
- The result: more people are employed and employment increases ✓✓
- As unemployment declines, inflation tends to increase. ✓✓
- The relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓

Supply-side policies

Reduction in cost ✓

- Infrastructural services ✓- Fair tariffs and effective services such as transport, communications and water as well as energy supply. ✓✓
- Administrative costs ✓- These costs include inspection, reports on the application of a variety of laws regulations and policies, tax refunds, payments in respect of statistical information. ✓✓All this contributes to higher costs in businesses. ✓✓In SA, businesses bear a heavy burden of administrative costs. ✓✓
- Cash incentives ✓- Includes subsidies for businesses to establish themselves in remote areas where unemployment is high. ✓✓

Improvement in the effectiveness of inputs ✓

- Tax rates ✓- Low tax rates can incentivize workers and improve productivity. ✓✓
- Capital consumption ✓- Regular replacement of capital goods (equipment and machinery) offer businesses the opportunity to stay in tune with the latest technological developments, improving output. ✓✓
- Human resource development ✓- To improve manpower quality through health care, education and training improvement. ✓✓
- Free advisory services ✓- Promote export opportunities. ✓ ✓

Improvement in the effectiveness of markets ✓

- Deregulation ✓- Removing laws, regulations, ordinances and other forms of state control, ensures a freer market environment. ✓✓
- Competition ✓- Encourage the establishment of new businesses. ✓✓
- Level playing field ✓- Private businesses cannot compete with public companies. ✓✓

(Max 26)

CONCLUSION

The "new economic paradigm" thus encourages economic stability through thoughtful, long-term policy decisions related to supply and demand ✓✓

(Max 2)

Discuss in detail the features underlying business cycle forecasting.

(26 marks)

INTRODUCTION

A business cycle can be defined as successive periods of contraction and expansion of economic activities ✓✓

(Max 2)

MAIN PART

Indicators

Leading indicators ✓

- Leading indicators give consumers, businesses, and the state a cursory glance of the direction in which the economy may be moving. ✓✓
- When these indicators improve, the level of economic activity a few months later will also improve. ✓✓
- Examples of leading indicators are advertising space for jobs; inventory holding; and sales. ✓✓

Coincident indicators ✓

- Coincident indicators move along with the economy in time. ✓✓
- They indicate the real state of the economy. ✓✓
- Examples of these indicators are the value of retail sales and the real GDP ✓

Lagging indicators

- Lagging indicators will not change direction until after the business cycle changes direction. ✓✓
- Examples include hours worked in construction and total number of commercial vehicles sold. ✓✓

Composite indicators ✓

- It is a grouping of several indicators of the same type to a single value✓✓
- The single digits represent the norm of a country's economic performance. ✓✓

Extrapolation ✓

- Extrapolation means to estimate something unknown from facts and information known ✓✓
- Extrapolation techniques are sometimes used to predict stock prices in the future ✓✓

Amplitude ✓

- It's the difference between the value of total output between the peak and trough measured from the trend line to the peak and trough ✓✓
- Amplitude shows intensity of upswing and downturn in economic activity ✓✓

Trend line ✓

- The trend line shows the general direction in which the indices move used in business cycles ✓✓
- If the economy grows, there is an upward trend, but when the economy shrinks, there is a declining trend ✓✓

Length ✓

- Length is measured from peak to peak or from trough to trough ✓✓
- Longer cycles show stronger and shorter cycles that show weaknesses in relation to economic activity✓✓

Moving averages ✓

- This method repeatedly computes a series of different mean values along with a time series to produce a smooth curve ✓✓
- It is used to analyse the changes in a time series over a certain time period ✓✓

(Max 26)

CONCLUSION

Policymakers should watch all these indicators carefully because external factors are very important for South African business cycles. ✓✓

(Max 2)

SESSION 2

TOPIC 3: PUBLIC SECTOR

- Problems – provisioning
- Reasons for public sector failure
- Effects of public sector failure
- 5 Macro Economic Goals

PROBLEMS - PROVISIONING

1. Accountability
2. Efficiency
3. Assessing of needs
4. Pricing policy
5. Parastatals
6. Privatisation

REASONS - FAILURE

1. Management failure
2. Apathy
3. Lack of motivation
4. Bureaucracy
5. Structural weaknesses
6. Special interest groups

FEATURES: Ineffectiveness
Inefficiencies

EFFECTS OF PUBLIC SECTOR FAILURE

- **Allocation of resources** – should counteract market-provision incompatibility, if not – waste resources
- **Economic stability** – Through fiscal and monetary policy
- **Distribution of income** – Progressive income tax system should redistribute income and wealth.
- **Social stability** – Free services and cash grants to poor

5 MACROECONOMIC OBJECTIVES

1. Price stability
2. Exchange rate stability
3. Economic growth
4. Full employment
5. Economic equality / Economic justice

BUDGET

Description: The government's expected income and projected expenditure for one year

Period: 1 April – 31 March

Two categories:

* **Main (national) Budget** – end of February

* **MTBPS Medium term budget policy statement** – 3-year budget – October

Other sources of income: Loans, Donations, Administrative income

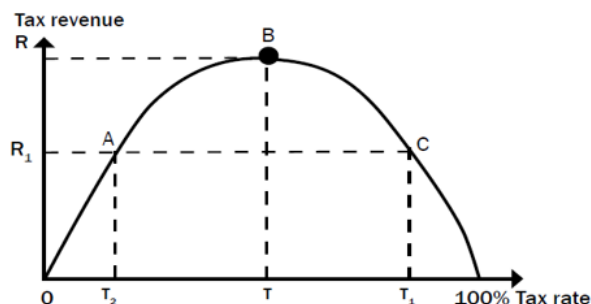
FISCAL POLICY

Features: Goal-bound
Demand-biased
Cyclical

Composition: Expenditure
Taxation
Borrowing (State debt)

Effects: Income distribution
Consumption
Price level
Disincentives/Incentives
* **Laffer Curve**
Discretion

* **Laffer Curve**



EXAMPLES OF QUESTIONS

SECTION A

QUESTION 1

1.1 Various options are given as possible answers to the following questions. Choose the answer and write down only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 Which ONE of the following will be offered in October to inform Parliament of the changes in the budget since February?

- A. Main budget
- B. Medium-term budget policy statement ✓✓
- C. Medium-term expenditure framework
- D. National budget

1.1.2 The... government includes metropolitans, districts, and municipalities.

- A. local
- B. provincial ✓✓
- C. national
- D. central

1.1.3 The lifting of unnecessary restrictions by law is known as ...

- A. deregulation. ✓✓
- B. government withdrawal.
- C. regulation.
- D. market economy.

1.1.4 The ...-curve illustrates the relationship between taxes and government revenues.

- A. Philips
- B. Lorenz
- C. Laffer ✓✓
- D. Demand

1.1.5 It refers to the transfer of functions, activities and ownership from the private sector to the public sector.

- A. Regulation
- B. Privatisation
- C. Nationalisation ✓✓
- D. Deregulation

1.1.6 A tax system is progressive if ...

- A. an increase in taxes causes prices to rise, but wages fall.
- B. the average tax rate rises as taxable income has decreased.
- C. an increase in taxable income causes an increase in paid taxes.
- D. the marginal tax rises while the average tax rate falls. ✓✓

1.1.7 When the government pays old-age pensions, it intervenes in the economy by...

- A. goods and services for sale.
- B. employ labour.
- C. transfer payments. ✓✓
- D. increasing taxes.

1.1.8 Price stability implies that ...

- A. inflation should be low. ✓✓
- B. prices may not change at all.
- C. wages should be the same.
- D. prices in all countries should be the same.

(8 x 2) (16)

1.2 Select a description from COLUMN B corresponding to the item in COLUMN A. Write only the letter (A-I) next to the question number (1.2.1 - 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Semi-state institutions	A Person is required to give an explanation of their decisions and spending
1.2.2 Accountability	B Taxes imposed on consumers when they buy goods and services
1.2.3 Value Added Tax	C It is not possible to exclude people from the use of goods once provided
1.2.4 Laffer curve	D Shows the relationship between tax rates and tax revenues
1.2.5 National budget	E SOEs that supply public goods
1.2.6 Excise duties	F The statements of governments planned expenses and expected revenue
1.2.7 Medium-term expenditure framework	G A system of budgeting that requires the state to prepare a running budget for three years
1.2.8 Collective goods	H Taxes imposed on certain luxury items

(8 x 1) (8)

- 1.2.1. E SOEs that supply public goods✓
- 1.2.2. A Person is required to give an explanation of their decisions and spending✓
- 1.2.3. B Taxes imposed on consumers when they buy goods and services✓
- 1.2.4. D Shows the relationship between tax rates and tax revenues✓
- 1.2.5. H Taxes imposed on certain luxury items ✓
- 1.2.6. F The statements of governments planned expenses and expected revenue✓
- 1.2.7. G A system of budgeting requiring the state to provide a current budget for three years✓
- 1.2.8. C It is not possible to exclude people from the use of goods once provided ✓

1.3 Give the term for each of the following descriptions. Write down only the term next to the question number. **ACRONYMS, ABBREVIATIONS AND EXAMPLES WILL NOT BE ACCEPTED.**

1.	Civil servants must be able to account for their decisions and actions; responsibility in terms of the effective delivery of services and the implementation of policies.	Accountability
2.	A document outlining expected revenue and estimated spending	Budget
3.	Indirect taxes on goods and services consumed in the economy	Value Added Tax
4.	An official employed in a government department	Bureaucrat
5.	Lifting unnecessary legal restrictions	Deregulation
6.	Taxes that are not relegated to the end user, e.g. PAYE	Direct tax
7.	Civil servants provide goods and services to the public promptly and in the right quantity and quality.	Efficient provision
8.	E.g. police stations. Everyone can use it, whether they are willing to pay for it or not	Community goods
9.	Taxes levied on sale of goods and services	Indirect taxation
10.	Goods supplied to the whole community, e.g. parks and public amenities. People who do not want to pay can be excluded by charging fees.	Collective goods
11.	Shows the relationship between (income) tax rates and tax revenue.	Laffer curve
12.	Government policy statement prepared for a three-year budget	Medium-term budget policy statement
13.	Estimated income and spending for a three-year period	Medium-term expenditure framework

14.	Goods and services that have more social benefit than private benefit, e. Health Services	Merit goods
15.	Deciding on the country's monetary policy	Monetary Policy Committee
16.	Involved in national affairs, e. health, defence	National/Central Authority
17.	Transfer of functions and ownership from the private sector to the public sector	Nationalization
18.	It is harmful to the community, e.g. cigarettes	Non-merit goods / Demerit goods
19.	Civil servants fail in providing services to the public, due to bureaucracy, incompetence, and corruption.	Inefficient supply
20.	Provided by the state for use by all the citizens, e.g. public libraries	Public goods and services
21.	Involved in local matters of a town or municipal area, e.g., electricity supply, libraries, traffic control and waste disposal.	Local government
22.	Refers to the transfer of functions and ownership from the public to the private sector	Privatisation
23.	Ensure a more equal distribution of income. Higher-income groups pay more tax than lower-income groups.	Progressive tax system
24.	Involved in the administration of the nine provinces and the economic issues peculiar to each province.	Provincial/Regional Authority
25.	Cause an unequal division of income. Lower-income groups pay more tax than higher-income groups	Regressive tax system
26.	Put laws in place to organise activities	Regulation
27.	Businesses that are wholly or partially owned by the state, and that are managed by a public authority, e.g. Eskom and SAA	State-owned enterprises/ Parastatals
28.	Deal with economic and other issues involving specifics in a region/province	Regional government

SECTION B

QUESTION 4

4.1 Answer the following questions.

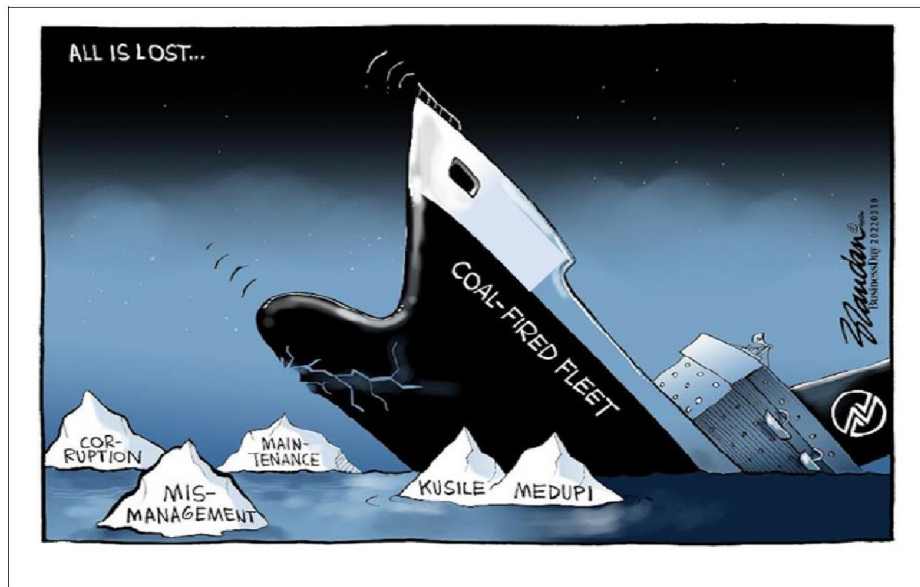
4.1.1 Name TWO considerations that must be taken into account when drawing up the budget. (2x1) (2)

Financial
Economic
Political

4.1.2 Explain the relationship between investment confidence and economic growth. (1x2) (2)

If investment confidence improves in the economy, citizens of the country or internationally, it will mean that these investors have more confidence to invest their money in the country and so businesses can grow and produce more. This contributes to an increase in GDP which leads to economic growth.
(Accept and other correct relevant answer)

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



4.2.1 Identify the parastatal that is sinking in the above cartoon. (1)
Eskom

4.2.2 Name any other parastatal in South Africa. (1)
SAA / SABC / TRANSNET / DENEL
(Accept any other correct relevant answer.)

4.2.3 Briefly describe the term *state-owned enterprise*. (2)
A business owned wholly or partly by the state and run by public authority.
(Accept any other correct relevant answer.)

4.2.4 Explain why mismanagement leads to inefficiency. (2)

- Politicians tend to promote policies and continue to spend money on products if they can get votes in return.
- These resources might involve inefficient allocation of resources.
- Lack of skills, experience and qualifications leads to poor management which impacts poorly on service delivery.

(Accept any other correct relevant answer.)

4.2.5 How does public sector failure impact economic stability? (2 × 2)(4)

- It will lead to an overall decline in economic welfare.
- The government is unable to use fiscal policy effectively.
- Government expenditure and taxation cannot be used to stimulate our economy when we are in a recession.

- Neither can it be used to contract our economy when we are experiencing high levels of inflation.

(Accept any other correct relevant answer.)

4.3 Study the information and answer the questions that follow

A SEA OF SUPPORT FOR DURBAN BEACH CLEANUP



More than 100 people flocked to Durban's beaches on Saturday - not for fun in the sun, but for a major clean-up after the devastating floods that hit KwaZulu-Natal a week ago.

The biggest problem is not the plastic and litter on the beaches, it is what builds up in river systems as a result of consumer behavior and service delivery inland, along with poorly designed packaging.

Source: <https://www.news24.com/news24/southafrica/news/a-sea-of-support-for-Durban-beach-clean-up-20190427>

- 4.3.1 Name the example of collective goods above. (1)
Beaches
- 4.3.2 Name any ONE negative externality from the extract? (1)
Plastic
Waste
- 4.3.3 Briefly describe the term *free rider*. (2)
A person who does not pay for the goods and services he or she consumes / a person who benefits from something without making an effort or paying for it. In other words, free riders are those who use goods without paying for them
(Accept any other correct relevant answer.)
- 4.3.4 Why do externalities cause inefficiency? (2)
Externalities pose fundamental economic policy problems if individuals, households, and firms do not internalize the indirect costs of or the benefits of their economic transactions.
(Accept any other correct relevant answer.)

4.3.5 Distinguish between merit - and non-merit goods?

(2 x 2) (4)

Merit goods

- Is services of which the provision has more public benefit than private benefit.
- These goods or services are under-provided by the government.

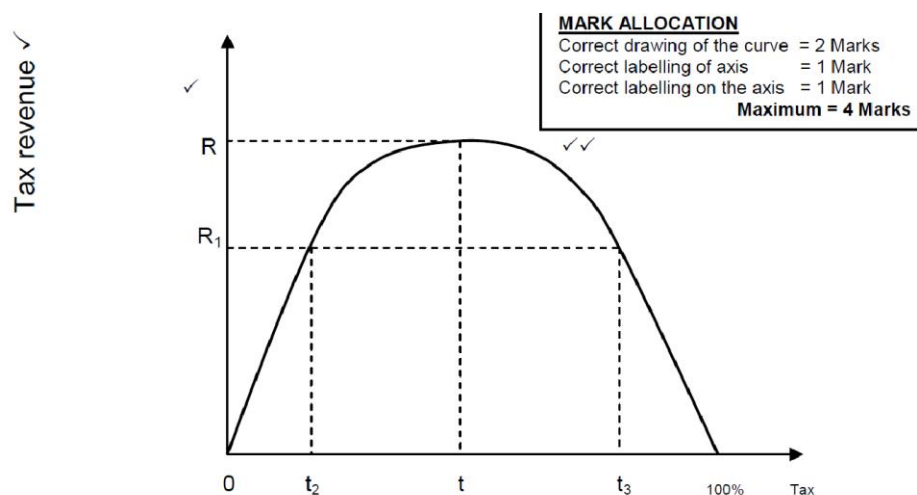
Non-merit goods

- or services that are socially undesirable due to the negative effects they experience on the consumers themselves.
- It can be over-consumed if left to market forces.

(Accept any other correct relevant answer.)

4.4. With the aid of a well-labelled Laffer curve, explain the impact of a tax rate increase on state revenue

(8)



Effects of a tax increase on state revenue

- As the tax rate increases, tax revenue increases.
- Where the curve peaks (at tax rate t) the tax to government maximises
- At tax rates higher than t , state revenue will decline because workers will refuse to work or disclose their income (evasion/avoidance) (Max 4)

(Accept any other correct relevant answer.)

4.5 Evaluate price stability as a main objective of our government. (4 × 2)(8)

- Price stability means that prices of goods and services will remain relatively constant over time.
- The SARB strives toward keeping the inflation rate between the 3% to 6% target range.
- SA has been reasonably successful in keeping the inflation rate within the inflation targets of 3% to 6%.
- However, it has become a real struggle for South-Africa because of the increased fuel price, load shedding and the Ukraine-Russia war.
- Food inflation has increased above the 6% target.
- The SARB uses interest rates as a monetary policy instrument to maintain price stability.
- The Monetary Policy Committee meets on a regular basis to apply measures to maintain price stability.

(Accept any relevant and correct answer.)

(Allocate a maximum of 2 marks for mere listing of facts/examples.)

SECTION C

QUESTION 5

Discuss in detail the main macro-economic objectives of the public sector. (26 marks)

INTRODUCTION

The authority plays a role in regulating economic activities and directing and shaping the economy. ✓✓ (Max 2)

CONTENTS: MAIN PART

1. **Economic growth** ✓
 - Refers to an increase in production of goods and services in the economy ✓✓
 - It is measured in terms of Real Gross Domestic Product ✓✓
 - The state seeks to ensure continuous improvement in the productive capacity of the country ✓✓
 - To ensure that economic development (improved standard of living) occurs, the economic growth rate must be higher than the population growth rate ✓✓
 - In Quarter 4 of 2021, real GDP grew by 1,2% in South Africa ✓✓
2. **Full employment** ✓
 - The state seeks to reduce unemployment, take action and ensure that all those who want to work and who are looking for work find work or provide employment for themselves ✓✓
 - Disabled people's status in SA harms them ✓✓
 - Currently, unemployment rate is 36,4% (2023:Q2) in South Africa ✓✓
3. **Exchange rate stability / balance of payments equilibrium** ✓
 - The state seeks to maintain balance of payments equilibria to protect the country's currency ✓✓
 - Depreciation and appreciation of a country's currency creates great uncertainty among producers and traders and should be kept to a minimum ✓✓
 - Government manages economics by establishing monetary and fiscal policies aimed at long-term stability of the exchange rate ✓✓
 - This is achieved by ensuring that the flow of money out of the country does not exceed the inflow of money into the country (exports must exceed imports) ✓✓
4. **Price stability** ✓
 - In a mixed economy, prices such as supply and demand change ✓✓
 - Frequent and substantial changes in prices affect economic growth and employment ✓✓
 - Market economics perform better in conditions where prices are stable ✓✓
 - in South Africa, relative price stability is an inflation rate of between 3% and 6%. ✓✓
5. **Economic equality** ✓
 - In a free market economy, there is always the fear that rich capitalists (who are busy with all factors of production) are only getting richer, while the poor are getting poorer ✓✓
 - The state, through its economic policies, seeks to create a more equal distribution of income and wealth ✓✓

- Progressive income taxes and taxes on profit, wealth and spending are used to pay for social services, basic education, primary health care, basic economic services and grants to the poor and other vulnerable people. ✓✓

(Max 26)

CONCLUSION

Even though the state has achieved some successes, the goals of the state are hampered by a roar of accountability, corruption, nepotism, incompetence, etc. ✓✓

(Max 2)

Discuss in detail the reasons for public sector failure.

(26 marks)

INTRODUCTION

Public sector failure occurs when authorities fail to optimally manage the economy and the resources under their control ✓✓

(Max 2)

CONTENTS: MAIN PART

Management failure ✓

- Ignorance leads to the implementation of conflicting or incorrect policies ✓✓
- Corruption exists when government officials exploit their positions for personal gain. ✓✓
- Taking bribes, committing fraud, nepotism, acting dishonestly and discriminating. ✓✓

Apathy/Indifference ✓

- Government officials show little or no interest in providing an efficient service to the public ✓✓
- It is not always easy to hold public sector officials to account because of the large workforce in the various departments ✓✓
- Corruption and poor service delivery are some of the symptoms of apathy ✓✓

Lack of motivation ✓

- First-level workers rarely receive incentives for successful service delivery but are only monitored on input/delivery and subsequent procedures and processes. ✓✓
- Lack of motivation leads to limited services, high costs and poor service delivery ✓✓
- There is no measure of efficiency or productivity and little reward for excellent performance and penalization for poor performance. ✓✓

Bureaucracy ✓

- Government officials tend to be more interested in obeying rules than efficiently delivering the goods and services to the people ✓✓
- Bureaucrats can manipulate policies to benefit themselves at the expense of the people ✓✓

Politicians ✓

- Politicians tend to promote policies and spend money on projects as long as they get votes in return. ✓✓
- These policies may involve an inefficient allocation of resources. ✓✓

- Politicians can advance their own interests through corruption, personal and hidden agendas and suspicious motives. ✓✓

Structural weaknesses ✓

- Goals are not achieved; work and homes for all are not realistic and achievable goals. ✓✓
- Too aggressive redistribution of income and wealth could cause the government to fail to achieve their macroeconomic goals. ✓✓

Special interest groups ✓

- Trade unions can influence the authorities to approve certain laws to benefit their members. ✓✓
- Business groups can influence the authority to give them profitable contracts and favourable regulations. ✓✓

(Max 26)

CONCLUSION

South Africa needs a creative and competitive private sector with new technologies that can help entrepreneurs move into government-dominated industries. ✓✓

(Max 2)

TOPIC 4: INTERNATIONAL TRADE

FOREIGN EXCHANGE MARKET

- Reasons for International Trade
- Effects
- Description of Balance of Payments
- Components of Balance of Payments
- Corrections of BOP disequilibria
- Exchange rate systems

REASONS FOR INTERNATIONAL TRADE

Demand reasons

- Size of the population
- Population's income
- Increase in the wealth
- Preferences and tastes
- Difference in consumption patterns

Supply reasons

- Natural resources
- Climatic conditions
- Labour resources
- Technological resources
- Specialisation
- Capital

ABSOLUTE AND COMPARATIVE ADVANTAGE

EFFECTS OF INTERNATIONAL TRADE

1. Specialisation
2. Mass production
3. Efficiency
4. Globalisation

BALANCE OF PAYMENTS

Description: Record of import and export transactions

Components:

1. Current Account (imports and exports)
2. Capital Transfer account (relating to the ownership of fixed assets)
3. Financial account (Direct-; Portfolio-; other investments)

CURRENT ACCOUNT

(Money into country)

- *Merchandise Exports*
- *Net gold Exports*
- Services Receipts
- Income Receipts
- Current transfers (if +)

Difference between two – Balance of Current Account

(Money out of country)

- *Merchandise Imports*
- Payments for services
- Income Payments
- Current transfers (if -)

Difference between *Exports* and *Imports* – Trade Balance

EXCHANGE RATE SYSTEMS

1. **Free floating exchange rates** – Demand and supply determine exchange rates.
2. **Controlled exchange rates** – Allowed to respond to market forces within certain limits.
3. **Fixed exchange rates** – Currencies are devaluated and revaluated – by government
(**Appreciation** – Up; **Depreciation** – Down)

CORRECTIONS OF THE BOP

Disequilibria – exist when the outflow exceeds or is less than the inflow of foreign currency.

Methods to correct:

- Lending and Borrowing from IMF
- Change in demand (Long-term policies; Interest rates; Import control)
- Change in exchange rate

EXAMPLES OF QUESTIONS

SECTION A

QUESTION 1

- 1.1 Various options are given as possible answers to the following questions. Choose the answer and write down only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.
- 1.1.1 If country A is capable of producing maize and tea at cheaper cost than countries B and C, it is said that country A has a ... advantage.
- A. absolute
 - B. best
 - C. restricted
 - D. comparative ✓✓
- 1.1.2 The account that shows records of investments by South Africans in other countries and foreigners to South Africa is known as the... account.
- A. current ✓✓
 - B. capital transfer
 - C. reserve
 - D. financial
- 1.1.3 An international organisation that lends money to countries with continuous balance of payments problems.
- A. World Bank
 - B. United Nations
 - C. International Monetary Fund ✓✓
 - D. Foreign exchange market
- 1.1.4 An increase in the supply of dollars in the South African foreign exchange market could be caused by ...
- A. more South African companies purchasing capital goods from the United States.
 - B. an increase in the price of gold. ✓✓
 - C. a decline in economic activity in the United States.
 - D. more South African tourists visiting the United States.
- 1.1.5 The financial account keeps a record of the country's ...
- A. sales and purchases of goods and services to the rest of the world.
 - B. in and outflow of funds from sales and purchases of assets. ✓✓
 - C. income earned by households and businesses in the rest of the world.
 - D. gold- and foreign exchange reserves.

1.1.6 Under the system of free-floating exchange rates.

- A. The currencies of countries with a relatively high inflation rate tend to appreciate.
- B. The currencies of countries with a relatively high inflation rate tend to weaken.
- C. The currencies of countries with a relatively low inflation rate tend to weaken. ✓✓
- D. Exchange rates are insensitive to the difference in the inflation rate between countries.

1.1.7 An increase in the rand price of a foreign currency will usually ...

- A. advantage South African importers
- B. advantage South Africa exporters
- C. advantage both importers and exporter in South Africa
- D. damaging to both importers and exporters in South Africa ✓✓

1.1.8 The foreign exchange is the rate at which ...

- A. trading a country's goods for those of another country
- B. the currency of one country is traded for the goods of another country
- C. the services of one country is traded for the currency of another country
- D. currencies from different countries is exchanged ✓✓

1.2 Choose a description from COLUMN B corresponding to the item in COLUMN A. Write only the letter (A-I) next to the question number (1.2.1 - 1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Foreign reserves	A	Price of currency of one country in terms of currency of another country
1.2.2	Terms of trade	B	The exchange of goods or services across international borders
1.2.3	World Bank	C	When consumers and producers are free to buy goods and services anywhere in the world without any restrictions
1.2.4	Exchange rate	D	All currencies of other countries owned by the South African Reserve Bank
1.2.5	Portfolio investment	E	A statement of a country's dealings with the rest of the world
1.2.6	Balance of Payments	F	Buying and selling of shares
1.2.7	International trade	G	The international institution promoting economic recovery and development.
1.2.8	Free trade	H	The relationship between export prices and import prices

- 1.2.1 D✓ All currencies of other countries owned by the South African Reserve Bank
 1.2.2 H✓ The relationship between export prices and import prices
 1.2.3 G✓ The international institution promoting economic recovery and development.
 1.2.4 A✓ Price of one country's currency in terms of another country's currency
 1.2.5 F✓ Buying and selling of shares
 1.2.6 E✓ A statement of a country's transactions with the rest of the world
 1.2.7 B✓ The exchange of goods or services across international borders
 1.2.8 C✓ When consumers and producers are free to buy goods and services anywhere in the world without any restrictions.

1.3 Give the term for each of the following descriptions. Write down the term next to the question number. **ACRONYMS, ABBREVIATIONS AND EXAMPLES WILL NOT BE ACCEPTED.**

1.	Where one country can produce goods or services cheaper than another	Absolute advantage
2.	The increase the price of the currency in terms of the other currency as determined by market forces supply and demand.	Appreciation
3.	These are exchange rates that are allowed to respond to market forces within certain limits	Managed floating exchange rates
4.	A systematic record of all transactions between one country and other countries, e. between South Africa and all other countries of the world	Balance of Payments
5.	Determine the relative values of different currencies and enable the conversion of currencies to facilitate international trade.	Foreign exchange market
6.	The fall in the price of the currency in terms of the other country's currency unit is determined by market forces supply and demand.	Depreciation
7.	The deliberate reduction in the value of a currency in terms of another currency	Devaluation
8.	This includes transactions related to investments, e.g. investments in enterprises	Direct investments
9.	An investment made in a specific asset with a fixed future payout value for a specific date.	Financial derivatives
10.	International investment transactions by South Africans in other countries and by foreigners in South Africa.	Financial account
11.	The value of tangible exports minus tangible imports	Trade balance
12.	An international organisation that lends money to countries with ongoing balance of payments problems	International Monetary Fund
13.	The exchange of goods or services across international borders	International trade
14.	International transactions related to the ownership of fixed assets; Transfers of funds	Capital Transfer Account

15.	A situation where one country has a relative advantage in the production of goods and services	Comparative advantage
16.	Record international transactions relating to production, income and expenditure.	Current account
17.	Money entering the country weighed against money leaving the country	Net balance
18.	Provides for omissions, time differences and mistakes in the BOP.	Unrecorded transactions
19.	Money received without any productive services being provided, e.g. gifts	Transfer payments
20.	Buy and sell equity and debt securities, e.g. stocks and mortgages	Portfolio investment
21.	Financial capital held by monetary authorities such as a central bank or IMF to finance trade balance disequilibrium.	Reserve assets
22.	The deliberate increase in the value of a currency in terms of another currency	Revaluation
23.	Compare a country's export prices with its import prices through indices.	Terms of trade
24.	A financing instrument divided between member states of the IMF	Special drawing rights
25.	Currency is revalued or devalued	Fixed exchange rates
26.	If consumers and producers are free to buy goods and services anywhere in the world without any restrictions	Free trade
27.	The value of the currency is determined purely by the market forces, that is, the demand for and the supply of rands.	Free-floating exchange rates
28.	The rate at which one currency is exchanged for another; It is also considered to be the value of one country's currency in terms of another country's currency	Exchange rate

SECTION B

QUESTION 2

2.1 Answer the following questions.

2.1.1 Name any TWO effects of international trade.

(2 x 1) (2)

- specialisation
- mass production /large scale production/economic growth
- efficiency/competition
- globalisation

(Accept any other correct relevant response)

2.1.2 What effect will a decrease in income levels have on international trade?

(1 x 2) (2)

- A decrease in income levels implies less money to spend on goods and services internationally.
 - A decrease in demand domestically and internationally which will reduce international trade.
- (Accept any other correct relevant response)

2.2 Study the table below and answer the question that follows.

BALANCE OF PAYMENT		
Current account	2017	2018
Merchandise exports	1 102 098	1 175 547
Net gold exports	66 411	71 678
Service receipts	210 238	210 415
Income receipts	81 637	96 507
Merchandise imports	1 103 570	1 222 944
Payments for services	215 544	217 939
Less: Income payments	221 201	250 552
Current transfers	-38 303	-35 674
Balance on current account	-118 234	-172 962

[Source: SARB Quarterly Bulletin, June 2019]

2.2.1 How many accounts are there in the balance of payments?

(1)

Three / 3

2.2.2 Which account in the balance of payments shows the figures of the trade balance?

(1)

Current account

2.2.3 Briefly describe the term *trade balance*.

(2)

It is the tangible exports minus the tangible imports.

2.2.4 What can South Africa do to positively influence the export of goods?

(2)

South Africa can affect exports:

- By improving the performance of the manufacturing and service industries.
- With reference to technology and productivity.
- By maximising the use of production factors such as natural resources.
- Provide businesses with subsidies and incentives.

(Accept any other correct and appropriate answer)

2.2.5 How is the economy affected positively by international trade?

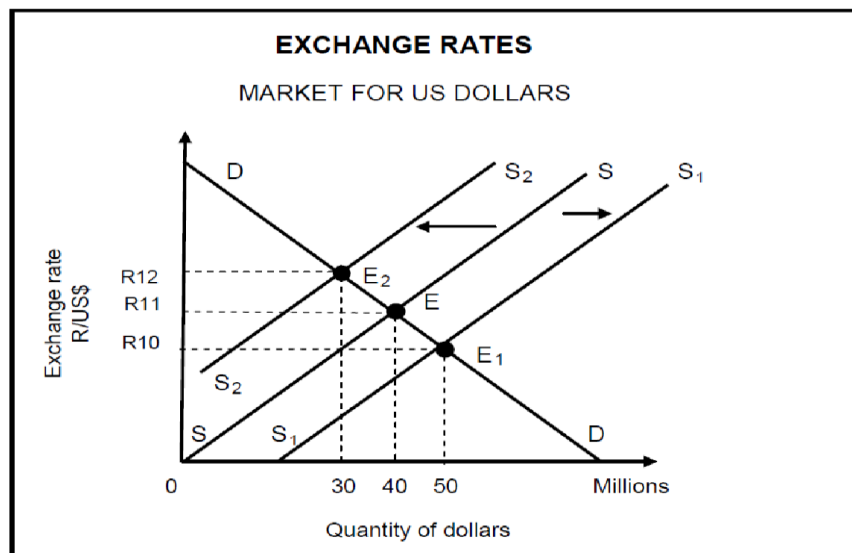
(2 x 2) (4)

It affects industries and countries by:

- Stimulate growth that can raise people's living standards.
- Local industries with comparative advantage will be successful in global markets and those that compare inefficiently with the same industries in other countries will tend to go under.
- This will lead to countries specialising in what they are good at.
- It leads large markets to mass production and increasing efficiency.
- It leads to globalisation which improves international cooperation and communication.
- Creates interdependence between countries, making them vulnerable to economic shocks that occur outside their borders.

(Accept any other correct and appropriate answer)

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



2.3.1 Which supply curve indicates a decrease in the supply of dollars?

(1)

S2S2

2.3.2 What type of exchange rate system is currently used in South Africa?

(1)

Free-floating exchange rate system

2.3.3 Briefly describe the term *exchange rate*.

(2)

It is the price of one currency in terms of another currency.

2.3.4 State ONE factor that could have led to an increase in the supply of dollars.

(2)

- Increase in the number of US tourists visiting South Africa
- Increase in imports from SA to the US

(Accept any other relevant answer)

- 2.3.5 Use the above graph to explain the effect of the increase in the supply of US dollars on the R/US\$ exchange rate. (2 x 2) (4)

US\$ - Depreciates.

Reason: The supply of dollars increases SS to S1S1 and the equilibrium point move from E to E1

The price for dollars will be fixed at P1 which is lower.

R - Appreciates

Reason: The demand for rand increases from DD to D1D1 and the equilibrium point from E to E1

The price of rands will be fixed at P1 which is higher.

- 2.4 Differentiate between the devaluation and appreciation of a currency. (2 x 4) (8)

Devaluation:

- A decrease in the value of a currency by authorities (government)
- Used in a fixed exchange rate system.
- The government might devalue a currency to improve exports.
- The government can change the rate from \$1 = R10 to \$1 = 12

(Max 4)

Appreciation:

- An increase in the value of a currency due to market forces
- Typical of a floating exchange rate system
- \$1 = R10 changes to \$1 = 8
- Improves buying power

(Max 4)

- 2.5 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy. (2 x 4) (8)
- An change in the terms of trade can have the following effects:

An increase in export prices will result in:

- The numerical value of the terms of trade improves.
- Increased economic welfare because more revenue is earned with the same expenditure.
- However, over the long term the higher export prices may result in a decrease in sales volumes, depending on the price elasticity of demand.
- A welfare loss may result.

(2 x 2)

An increase in import prices will result in:

- The terms of trade worsening / numerical value of terms of trade index worsen
 - Welfare lost because more resources were used to produce more units of exports to finance the higher cost of imports.
- (Any other relevant fact.)

(2 x 2)

SECTION C

QUESTION 5

Discuss in detail the reasons for international trade

(26 marks)

INTRODUCTION

International trade is the exchange of goods and services between countries. ✓✓ (Max.2)

CONTENTS: MAIN PART

DEMAND REASONS

The size of the population✓

- If population growth increases, it causes an increase in demand and there are more needs that need to be met. ✓✓
- If the country does not have sufficient goods and services, it must be imported from other countries. ✓✓

Income levels✓

- Changes in revenue cause a change in demand for goods and services. ✓✓
- An increase in per capita income of people causes greater demand for goods and services ✓✓
- Surplus demand causes goods and services to have to be imported from other countries. ✓✓

Change in the wealth of the population✓

- An increase in wealth leads to increased demand for goods. ✓✓
- People have more access to loans - they can buy larger and more luxurious goods. ✓✓
- If the country itself cannot provide these luxury and highly technological products, such goods must be imported✓✓

Preferences and tastes✓

- Can play a role in determining prices, ✓✓
- e.g. customers in Australia prefer a specific product that they do not manufacture and that they have to import, and it will have a higher value than in other countries. ✓✓

The difference in consumption patterns✓

- Determined by the level of economic development in the country, ✓✓
- A poorly developed country has a high demand for basic goods and services, but a lower demand for luxury goods. ✓✓

SUPPLY REASONS

Natural Resources✓

- They are not evenly distributed across all countries of the world. ✓✓
- They vary from country to country and can only be used in places where there are such resources. ✓✓
- For example, South Africa's gold and diamond resources have given us an advantage in the production of gold and diamonds. ✓✓

Climatic conditions✓

- Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
- Many crops can be grown only in certain climatic conditions and areas and in certain types of soil. ✓✓
- Topography E.g. Brazil is the largest producer of coffee in the world. ✓

Labour Resources✓

- Some countries have highly skilled labour with high productivity rates. ✓✓
- They are able to produce goods and services at a lower price than they are produced in other countries. ✓✓
- It is also a worldwide phenomenon that some countries have developed a skill and aptitude for the production of a certain commodity. ✓✓
- E.g. The Swiss (watch making). ✓

Technological resources✓

- Some countries have access to technological resources that allow them to produce certain goods and services at a low unit cost. ✓✓
- Improved production processes, the availability of equipment and machinery, and other technological factors affect the supply of goods and services; ✓✓

Specialisation ✓

- Some countries specialize in the production of certain goods and services. ✓✓
- By specializing in the production of certain goods and services, a country can benefit from economies of scale and thus produce the goods at a relatively cheaper unit cost. ✓✓
- This often leads to mass production due to division of labour and mechanization. ✓✓

Capital ✓

- Can't be as easily sourced in some countries as in other countries. ✓✓
- Due to lack of capital, some countries may not be able to produce all the goods that they themselves need, or they may not have the favourable conditions of other countries. ✓✓
- In many countries, there is a lack of physical infrastructure, and this hinders local production of goods and services. ✓✓

(Max 26)

CONCLUSION

The need for integration will never be absolute because nations of the world need each other to survive and for development purposes. ✓✓

(Max 2)

