KWAZULU-NATAL PROVINCE

EDUCATION

REPUBLIC OF SOUTH AFRICA

GRADE 12

NATIONAL SENIOR CERTIFICATE

ECONOMICS

COMMON TEST

MARCH 2023

Marks: 100

Time: 1½ hours

This question paper consists of 9 pages.

Please turn over

INSTRUCTIONS AND INFORMATION

1. Answer THREE questions as follows:

   - SECTION A: COMPULSORY
   - SECTION B: Answer any ONE question from this section.
   - SECTION C: Answer any ONE of the two questions.

2. Number the answers correctly according to the numbering system used in this question paper.

3. Write the number of each question above each answer.

4. Read the questions carefully and start EACH question on a new page.

5. Leave at least ONE line between subsections of each question.

6. Start each question on a new page.

7. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

8. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.

9. Use ONLY blue or black ink.

10. Non-programmable pocket calculators may be used.

11. Write legibly and present your work neatly.

SECTION A: COMPULSORY

QUESTION 1

20 MARKS – 15 MINUTES

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.8) in the ANSWER BOOK, for example 1.1.9. D.

1.1.1 The market where long-term deposits and borrowing are made is called ...

A money
B goods
C capital
D resources

1.1.2 Public goods on which fees are levied to exclude free riders are called … goods.

A community
B merit
C demerit
D collective

1.1.3 The economic model that shows the relationship between unemployment and inflation is called … curve

A Laffer
B Lorenz
C Phillips
D Kynesian

1.1.4 An increase in the price of a currency in terms of another currency due to market forces is referred to as...

A overvalue
B appreciation
C undervalue
D depreciation

1.1.5 Removal of unnecessary restrictions that may reduce international trade is called …

A sanctions
B deregulation
C disinvestment
D regulation

(5 x 2) (10)

1.2 Choose a description from COLUMN B that matches the 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.

COLUMN A	COLUMN B
1.2.1 Residual items	A The difference between the value of exports and imports
1.2.2 Moving averages	B Benefits provided by the government to improve the quality of life for citizens
1.2.3 Treasury bills	C An international institution established to promote economic recovery and development
1.2.4 Trade balance	D Used for balancing national income figures
1.2.5 Absolute advantage	E Analysing the series of data over a period of time
1.2.6 Social services	F A short-term debt obligation of the central government.
	G A situation where one country can produce goods or services cheaper than another.

(6 x 1) (6)

1.3 Give ONE term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples WILL NOT be accepted.

1.3.1 A small initial increase in spending which produce a proportionately larger increase in aggregate national income.

1.3.2 The highest turning-point of business cycles.

1.3.3 The business that is wholly or partially owned by the state.

1.3.4 The value of a country's currency in exchange for another currency.

(4 x 1) (4)

TOTAL SECTION A: 20

SECTION B

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

QUESTION 2: MACROECONOMICS **40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO examples of direct taxes. (2 x 1) (2)

2.1.2 Why is gold shown as a separate item on the balance of payment? (1 x 2) (2)

2.2 Study the table below and answer questions that follow.

SOUTH AFRICA'S NATIONAL ACCOUNT AGGREGATES	
INCOME ON GROSS DOMESTIC PRODUCT - 2021	
Items	R/ Millions
Gross value at factor cost	**5 453 539**
Other taxes on production	131 563
Other subsidies on production	12 494
Gross value added at basic prices	**(A)**

Adapted from wwwrs.resbank.co.za/ webindicators. September 2022

2.2.1 Identify the method of calculating national accounts shown above. (1)

2.2.2 Give another term used for gross value added. (1)

2.2.3 Briefly describe the term *gross national product*. (2)

2.2.4 Explain the benefit of investing in small business for the economy. (2)

2.2.5 Calculate the value of A. (Show all calculations) (4)

2.3 Study the extract below and answer questions that follow.

SOUTH AFRICA CURRENT ACCOUNT SURPLUS WIDENS IN QUARTER 1

The current account surplus in South Africa rose to ZAR 143 billion in the first quarter of 2022, from an upwardly revised ZAR 132 billion in the fourth quarter of 2021.

The good surplus widened to ZAR 360 billion from ZAR 336 billion in the previous period, reflecting a larger increase in the value of merchandise and net gold exports than in the value of merchandise imports.

Source: tradingeconomics.com

2.3.1 Identify the sub-account of the balance of payment discussed above. (1)

2.3.2 Give the change in the surplus between quarter 4 of 2021 and quarter 1 of 2022. (1)

2.3.3 Briefly describe the term *portfolio investment*. (2)

2.3.4 What is the importance of foreign direct investment in the economy? (2)

2.3.5 How can the shortage of skilled labour force affect the South Africa's trading position? (2 x 2) (4)

2.4 Distinguish between the *money market* and *capital market* in the circular flow. (2 x 4) (8)

2.5 How can a positive balance of payment benefit the country? (8)

[40]

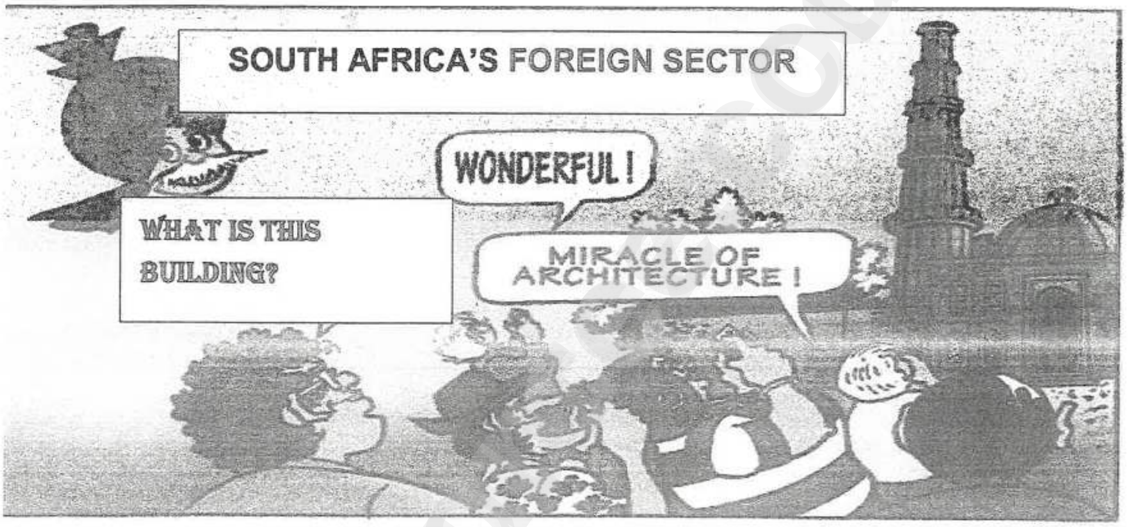
QUESTION 3: MACROECONOMICS **40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO examples of transfer payments. (2 x 1) (2)

3.1.2 What is the relationship between the size of the multiplier and the marginal propensity to consume (mpc)? (1 x 2) (2)

3.2 Study the picture below and answer questions that follow.



Source: Adapted from google images

3.2.1 Identify the economic participant discussed above. (1)

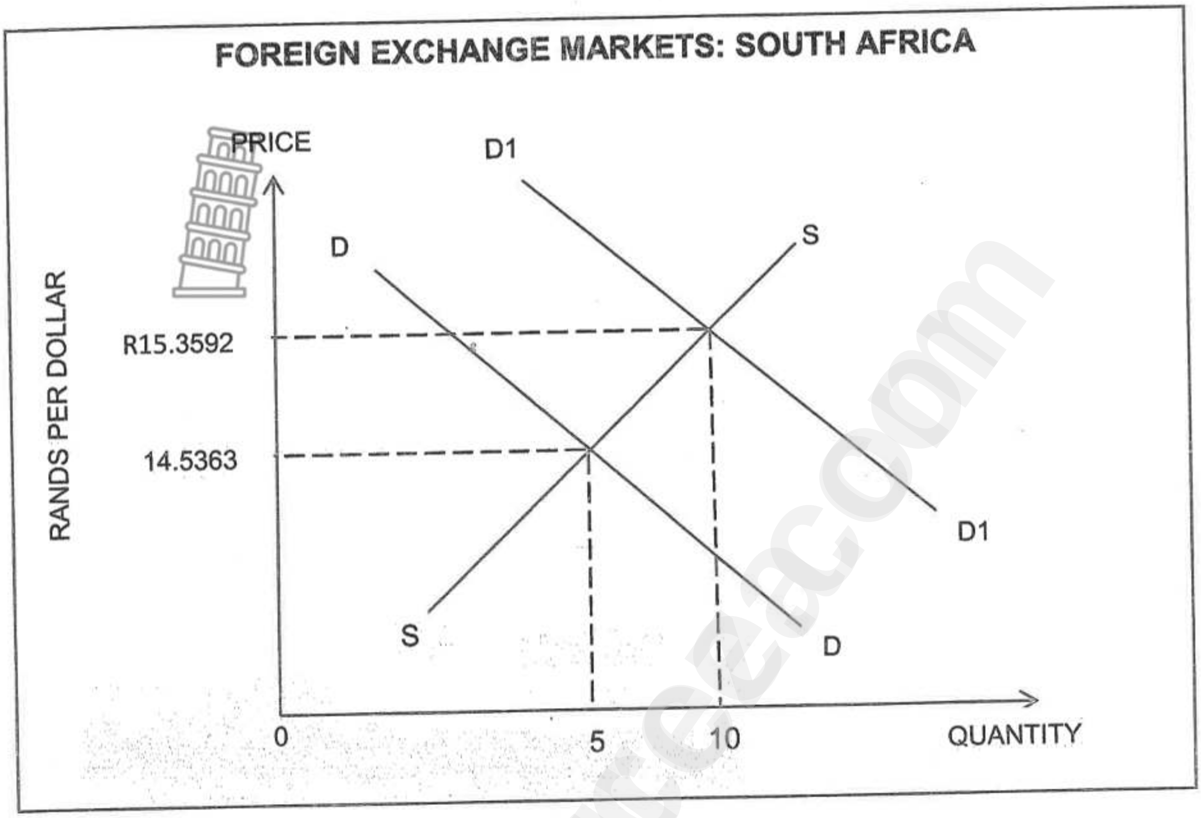
3.2.2 Give ONE example of a product that is sold in the factor market. (1)

3.2.3 Briefly describe the term *circular flow*. (2)

3.2.4 What is the negative effect of an increase in tax rate on the business sector? (2)

3.2.5 How can households benefit from an increase in government spending? (2 x 2) (4)

3.3 Study the graph below and answer questions that follow.



3.3.1 Identify the exchange rate system that is represented by the graph (1)

3.3.2 Give the original exchange rate. (1)

3.3.3 Briefly describe the term *revaluation*. (2)

3.3.4 What could be the cause for an upward shift from D-D to D1-D1? (2)

3.3.5 How can the central bank stabilize the value of currency? (2 x 2) (4)

3.4 Briefly discuss *the size of population* and *income level* as demand reasons for international trade. (2 x 4) (8)

3.5 How can South Africa benefit from an increase in injections? (8)
[40]

TOTAL SECTION B: 40 MARKS

SECTION C

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

STRUCTUTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order-response • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not include any part of the introduction in your body. • Avoid saying in the introduction what you are going to discuss in the body.	Max. 2
Body **Main part:** Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain.	Max. 26
Additional part: Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest	Max. 10
Conclusion Any high-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned. • Any opinion or value judgment on the facts discussed. • Additional support information to strengthen the discussion/ analysis. • A contradictory viewpoint with motivation, if required. • Recommendations.	Max. 2
TOTAL	**40**

QUESTION 4: MACRO-ECONOMICS **MARKS 40 - 40 MINUTES**

- Discuss in detail the new economic paradigm in the smoothing of cycles. (26)
- How can exogenous (external) factors influence the economy? (10)

[40]

QUESTION 5: MACRO-ECONOMICS MARKS – 40 MINUTES

- Discuss in detail the macro-economic objectives of the state. (26)

- How can public sector failure negatively affect the economy of South Africa? (10)

[40]

TOTAL SECTION C: 40 MARKS

GRAND TOTAL: 100 MARKS

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MARKING GUIDELINES

MARKS: 100

This marking guidelines consists of 12 pages.

SECTION A: COMPULSORY

QUESTION 1 **20 MARKS – 15 MINUTES**

1.1 MULTIPLE CHOICE

1.1.1 C. capital ✓✓
1.1.2 D. collective ✓✓
1.1.3 C. Phillips ✓✓
1.1.4 B. Appreciation ✓
1.1.5 B. deregulation ✓✓

(5 x 2) (10)

1.1 MATCHING ITEMS

1.2.1 D - Used for balancing national income figures. ✓
1.2.2 E - Analysing the series of data over a period of time. ✓
1.2.3 F - A short-term debt obligation of the central government. ✓
1.2.4 A - The difference between the value of exports and imports. ✓
1.2.5 G - A situation where one country can produce goods or services cheaper than another. ✓
1.2.6 B - Benefits provided by the government to improve the quality of life for citizens. ✓

(6 x 1) (6)

CONCEPTS

1.3.1 Multiplier effect ✓
1.3.2 Peak ✓
1.3.3 Parastatals ✓ / State owned enterprise ✓
1.3.4 Exchange rate ✓

(4 x 1) (4)

TOTAL FOR SECTION A: 20 MARKS

SECTION B

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

QUESTION 2: MACROECONOMICS **40 MARKS – 30 MINUTES**

2.1. Answer the following questions.

2.1.1 Name any TWO examples of direct taxes.

- Income tax ✓
- Property tax ✓
- Transfer tax ✓
- Capital gains tax ✓
- Corporate tax ✓

(Accept any other relevant and correct response) (2 X 1) (2)

2.1.2 Why is gold recorded as a separate item on the balance of payment for South Africa?

Gold is a major contributor to the country's GDP hence is recorded separately to monitor the trend.✓✓ (1 X 2) (2)
(Accept any other relevant and correct response)

2.2 **DATA-RESPONSE**

2.2.1 Identify the method of calculating national accounts shown above. (1)

Income method✓

2.2.2 Give another term used for gross value added. (1)

Gross domestic product / GDP ✓

2.2.3 Briefly describe the term *gross national product*. (2)

Gross national product is the market value of all final goods and services that are produced by permanent residents of a country in a year. ✓✓
(Accept any other relevant and correct response)

2.2.4 Explain the benefit of investing in small business for the economy. (2)

- Small business investment can create employment thus improving the standard of living. ✓✓
- The emergence of small businesses can improve economic growth in the country. ✓✓

(Accept any other relevant and correct response)

2.2.5 Calculate the value of A. Show all calculations. (4)

R 5 453 539 ✓ + R 131 563 ✓– R 12 494✓ = R 5 572 608 ✓

2.3 DATA-RESPONSE

2.3.1 **Identify the sub-account of the balance of payment discussed above.** **(1)**

Current account ✓

2.3.2 **Give the change in the surplus between quarter 4 of 2021 and quarter 1 of 2022.** **(1)**

R11 Billion ✓

2.3.3 **Briefly describe the term *portfolio investment.*** **(2)**

Portfolio investments refer to the buying of assets such as shares in companies on the stock exchange of another country. ✓✓

(Accept any other relevant and correct response)

2.3.4 **What is the importance of foreign direct investment in the economy?** **(2)**

- FDI is an inflow of capital to the country which increases the GDP. ✓✓
- Having FDI creates job opportunities hence improving the standard of living. ✓✓

(Accept any other relevant and correct response)

2.3.5 **How can the shortage of skilled labour force affect the South Africa's trading position?** **(4)**

- Lack of skilled labour force will reduce the quality of goods produced by the country. ✓✓
- When there is a shortage of skilled labour-force resources cannot be put to optimum use. ✓✓
- A lack of skills will make the country to be dependent on imports thus causing balance of payment problems. ✓✓

(Accept any other relevant and correct response)

2.4 **Distinguish between the money market and capital market in the circular flow.** **(8)**

Money market

- The money market consists of short-term loans and investments which are made by consumers and business enterprises. ✓✓
- Bank debentures, treasury bills and government bonds are traded in the money market. ✓✓
- The South African Reserve Bank is the main institution for this market. ✓✓
- Banks, insurance companies are typical examples of money markets. ✓

(Accept any other relevant and correct response)

Capital market

- The capital market consists of long-term loans and investments which are made by consumers and business enterprises. ✓✓
- Shares and mortgage bonds are traded in the capital market. ✓✓
- The Johannesburg Stock Exchange is a key institution in the capital market. ✓✓

(Accept any other relevant and correct response)

(4 x 2) (8)

2.5 How can a positive balance of payment (BOP) benefit the country?

- A positive BOP can allow the government to provide for the citizens thus improving livelihood. ✓✓
- With a positive balance, the country is able to earn foreign income thereby accelerating economic growth. ✓✓
- Countries with a positive BOP can attract investors therefore increasing the real GDP. ✓✓
- When exports increases, the per capita income also increase therefore improving the standard of living. ✓✓
- A positive BOP promotes globalisation and trade, which introduce new goods in the market. ✓✓

(Accept any other relevant and correct response)

(8)

[40]

QUESTION 3: MACROECONOMICS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any Two examples of transfer payments. **(2)**

- Social grants ✓
- Old age pension ✓

(Accept any other relevant and correct response)

3.1.2 What is the relationship between the size of the multiplier and the marginal propensity to consume (mpc)? **(2)**

A positive correlation exists as the bigger mpc will results to a bigger size of the multiplier and vica versa. ✓✓
(Accept any other relevant and correct response)

3.2 DATA-RESPONSE

3.2.1 Identify the economic participant discussed above. **(1)**

Foreign sector ✓

3.2.2 Give ONE example of a product that is sold in the factor market. **(1)**

- Labour ✓
- Capital ✓
- natural resources /land ✓

3.2.3 Briefly describe the term *circular flow*. **(2)**

Circular flow refers to the continuous flow of spending, production and income between different sectors of the economy. ✓✓
(Accept any other relevant and correct response)

3.2.4 What is the negative effect of an increase in tax rate on the business sector? **(2)**

- An increase in tax rate is associated with a subsequent decrease in profits caused by a decrease in aggregate demand. ✓✓
- Tax increases can slow down business development as the large portion of business turn-over is used for paying taxes. ✓✓
- When taxes rate increases, businesses may be tempted to avoid paying taxes which may have legal implications. ✓✓

(Accept any other relevant and correct response)

3.2.5 How can households benefit from an increase in government spending?

- Households enjoy better infrastructure and improved standard of living. ✓✓
- The citizens are able to enjoy better living conditions and personal growth. ✓✓
- The availability of public goods attracts investors thereby creating employment opportunities for households. ✓✓

(Accept any other relevant and correct response)

DATA-RESPONSE

3.3

3.3.1 **Identify the exchange rate system that is represented by the Graph.** **(1)**

Free-floating exchange rate system ✓

3.3.2 **Give the original exchange rate.** **(1)**

R14.5363 ✓

3.3.3 **Briefly describe the term *revaluation*.** **(2)**

Revaluation refers to the action by the central bank to deliberately increase the value of currency. ✓✓
(Accept any other relevant and correct response)

3.3.4 **What could be the cause for an upward shift from D-D to D1-D1?** **(2)**

- Increase in importation of goods and services by South Africans. ✓✓
- An increase in the demand for US dollars. ✓✓
- Payment of interest and dividends on loans and foreign investment. ✓✓
- Outflow of capital to foreign countries. ✓✓

(Accept any other relevant and correct response)

3.3.5 **How can the central bank stabilize the value of the currency?** **(4)**

- The Central bank may buy and sell foreign exchange when the currency is undervalued or overvalued. ✓✓
- When the currency is undervalued interest rates can be increased to cause an inflow of foreign currency and vice versa. ✓✓
- The central bank can set inflation targeting to release inflation pressure. ✓✓
- The surplus on the current account will then decrease. ✓✓
- The central bank may apply both expansionary and contractionary monetary policies to stabilise the value of the currency. ✓✓

(Accept any other relevant and correct response)

3.4 Briefly discuss the size of the population and income level as demand reasons for international trade. **(8)**

The size of the population

- An increase in population growth may result to an increase in demand. ✓✓
- Local producers may not be able to satisfy this demand. ✓✓
- This therefore means that goods and services must be imported from other countries. ✓✓ (max 4)

(Accept any other relevant and correct response)

Income level

- Changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓

(max 4)

(Accept any other relevant and correct response)

3.5 How can South Africa benefit from an increase in injections? **(8)**

- An increase in exports results to a consequent increase on the country's real GDP. ✓✓
- When capital investment increase, the quality of goods produced by the country can improve thereby accelerating economic growth. ✓✓
- An increase in government spending can accelerate economic development hence improving the standard of living. ✓✓
- Government spending on infrastructural development can stimulate industrial development and lead to job creation. ✓✓
- A country with more injections than leakages can easily resolve its balance of payment problems. ✓✓
- An increase in injections can lead to the attainment of a better international position for the country. ✓✓

(Accept any other relevant and correct response)

[40]

TOTAL SECTION B: 40 MARKS

SECTION C

QUESTION 4: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

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

INTRODUCTION

The new economic paradigm discourages policy makers in using monetary and fiscal policies to fine-tune the economy; however, they are encouraged to resort to policies related to demand and supply. ✓✓

(Accept any other correct relevant introduction) (2)

BODY: MAIN PART

The demand-side policies

- Demand side policies refer to decisions taken by the government to influence the aggregate demand for goods and services in the country. ✓✓
- The government may try to increase consumer spending by stimulating aggregate demand. ✓✓
- This can grow the economy but can lead to bottlenecks such as inflation, unemployment and balance of payments deficit. ✓✓

(a) **Inflation** ✓

- When aggregate demand increase faster that aggregate supply, general price levels will also increase. ✓✓
- If supply does not react to the changes in demand, prices will increase and will lead to inflation. ✓✓
- Supply-side measures can be used to create a situation where supply is more flexible. ✓✓

(b) **Unemployment** ✓

- Demand-side policies can stimulate economic growth. ✓✓
- Economic growth increases the demand for labour and this reduces unemployment. As a result people will be employed and unemployment will decrease. ✓✓
- When unemployment falls, inflation starts to rise. And the r relationship is shown using the Phillips curve. ✓✓

Supply-side policies

These are measures undertaken by authorities to influence the level of aggregate supply of goods and services in the country to meet changes in demand. ✓✓

(a) Reduction of costs ✓

- The reduction of costs of production means that a great output can be supplied at any given price level. ✓✓
- The government can use measures that can reduce costs of production for businesses directly or indirectly. ✓✓
- **Infrastructure services** ✓: The government can target transport, communication, water and energy as areas of focus. ✓✓
- **Administration costs** ✓: This includes removing the burden placed by inspections, reports on the application of various laws, regulations and by-laws, tax returns providing statistical information. ✓✓
  Cash incentives ✓: These include subsidies and compensation of exporters who operate in neglected sectors. ✓✓

(a) Improving the efficiency of inputs ✓

- **Tax rates**✓: High rates of personal income tax and corporate income tax are disincentives as they reduce increase costs and reduce profits. ✓✓
- **Capital consumption**✓: Replacing capital goods regularly creates Opportunities for businesses to keep up with technological development. ✓✓
- **Human resources development**✓: Improving working conditions can
- improve the quality of human resources and enhance the efficiency of businesses. ✓✓
- **Free advisory services**✓: The government involvement in promoting opportunities to export and establishing new business ventures in other countries. ✓✓

(b) Improving the efficiency of markets✓

- **Deregulation**✓: This includes the removal of laws, regulations and by-laws, and other form of government controls that interfere in markets and make the markets free. ✓✓
- **Competition**✓: This entails arranging the markets in such a way that allows for new businesses, increase competition and invites Foreign Direct Investment. ✓✓
- **Levelling the playing fields**✓: Government policy should protect the private sector as well. Public enterprises are protected by legislation and they survive on government resources thus disadvantages the private sector. ✓ ✓

(Accept any other relevant correct answer) (26)

(NB: Graph illustration may be awarded a maximum of 4 marks)

(NOTE: A maximum of 8 marks is awarded for headings and examples)

ADDITIONAL PART:

How can exogenous (external) factors influence the economy? **(10)**

- Inclement weather, damages the much-needed infrastructure thereby lowering the standard of living and slowing down trade and investments. ✓✓
- Drought, floods, etc. results to shortages of raw materials hence negatively affecting the real GDP of the country. ✓✓
- Competition coming from countries selling similar products may create balance of payment problems for the country. ✓✓
- Political influence can result to unnecessary changes in policy which may lower business confidence and elicit pessimism from investors. ✓✓
- Changes in technology can result to structural unemployment and shortage of priority skills. ✓✓

(Accept any other relevant and correct response)

CONCLUSION

Under the real-world circumstances, governments will avoid the use of monetary and fiscal policies as they trigger inflationary effects and cause unemployment. ✓✓

[40]

QUESTION 5: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

Discuss in detail the macro-economic objectives of the state. **(26)**

Introduction

The main objectives of the state are to serve the people and help in bringing about a systematic development for all citizens. ✓✓
(Accept any other relevant correct introduction)

Body main part:

1. Economic growth ✓
   - Economic growth refers to an increase in the production of goods and services in the economy. ✓✓
   - For economic development to take place, the economic growth rate must be higher than the population rate. ✓✓
   - The state must ensure sustainable growth as it leads to an improvement in the standard of living. ✓✓

2. Full employment ✓
   - Full employment means that all persons who would like to work and who are looking for work should be able to find work or create work for themselves. ✓✓
   - Attaining high levels of employment is one of the most important economic objectives for all governments. ✓✓

3. Exchange rate stability ✓
   - The state tries to protect the country's currency from excess depreciation and appreciation. ✓✓
   - Depreciation and appreciation creates uncertainty for producers and investors and should therefore be limited. ✓✓
   - Monetary and fiscal policies are used to ensure that exchange rates remain relatively stable for as long as possible. ✓✓

4. Price stability ✓
   - A market economy performs much better when prices are relatively stable. ✓✓
   - In South Africa the relative price stability means maintaining an inflation rate of between 3% and 6%. ✓✓

5. Economic equity ✓
   - A redistribution of income and wealth is essential in market economies. ✓✓
   - In South Africa the state uses a progressive tax system to provide free services to the poor. ✓✓
   - Free social services such as basic education, primary healthcare, basic economic services and to pay cash grants to poor and other vulnerable people. ✓✓

   (Accept any other relevant correct answer)
   (Sub-headings and examples should be marked to a maximum of 8 marks)

Additional part:

How can public sector failure negatively affect the economy of South Africa? **(10)**

- When the state fails, the citizens embark on service delivery protests thereby damaging the much-needed infrastructure. ✓✓
- Failure by government to provide services slows down economic growth therefore decelerating economic development. ✓✓
- Poor service delivery negatively impacts the production sector which relies on state for services such as electricity, water, etc. ✓✓
  Failure by the state to provide services discourages investors and results to pessimism in business people. ✓✓
- When the government fails to provide services, businesses lose profit thereby retrench workers. ✓✓
- Public sector failure is associated with a low standard of living and poverty. ✓✓

(Accept any other relevant and correct response)

Conclusion

The state is a very important participant on the country's economy as it gets to make critical decisions on governing the country. ✓✓
(Accept any other relevant and correct response)

[40]

TOTAL SECTION C: 40 MARKS

GRAND TOTAL: 100 MARKS