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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

**ECONOMICS
MEMORANDUM
NOVEMBER 2013**

MARKS: 300

This memorandum consists of 33 pages.

SECTION A (COMPULSORY)**QUESTION 1: (LO1–LO4)****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 A ✓✓ (extrapolation)
- 1.1.2 B ✓✓ (demerit)
- 1.1.3 B ✓✓ (4)
- 1.1.4 C ✓✓ (lower than)
- 1.1.5 A ✓✓ (average revenue)
- 1.1.6 B ✓✓ (allocative)
- 1.1.7 C ✓✓ (Department of Trade and Industry/ DTI)
- 1.1.8 B ✓✓ (the prevention of dumping)
- 1.1.9 C ✓✓ (monitor and liberalise international trade)
- 1.1.10 B ✓✓ (high unemployment and high prices)
- 1.1.11 A ✓✓ (is one of the largest generators of jobs worldwide)
- 1.1.12 C ✓✓ (non-renewable) (12 x 2) (24)

1.2 ONE-WORD ITEMS

- 1.2.1 Free floating / floating ✓✓
- 1.2.2 Market / market structure / market mechanism / supply and demand / price mechanism / trade ✓✓
- 1.2.3 Employment Equity Act / EEA / Labour Relations Act / LRA ✓✓
- 1.2.4 Global warming / greenhouse effect ✓✓
- 1.2.5 Ecotourism ✓✓ (5 x 2) (10)

1.3 MATCHING ITEMS

- 1.3.1 D ✓✓ (inputs into the production of goods and services)
- 1.3.2 H ✓✓ (trade and financial penalties applied by one or more countries to another country)
- 1.3.3 B ✓✓ (a market structure with many buyers and sellers)
- 1.3.4 G ✓✓ (a worldwide interaction of economies with trade as a key element)
- 1.3.5 I ✓✓ (the production of economic goods from waste material)
- 1.3.6 A ✓✓ (believes that markets are inherently stable)
- 1.3.7 E ✓✓ (the exclusive right to manufacture a product)
- 1.3.8 F ✓✓ (river bed damage from improper commercial forest-harvesting practices) (8 x 2) (16)

[50]

SECTION B

Answer any THREE of the five questions from this section in the ANSWER BOOK.

QUESTION 2: (LO1AS1–4) MACROECONOMICS**2.1 Choose the correct word from those given in brackets.**

2.1.1 financial ✓✓

2.1.2 terms of trade ✓✓

2.1.3 devaluation ✓✓

2.1.4 International Monetary Fund (IMF) ✓✓ (4 x 2) (8)

2.2 List any THREE factors that influence the supply of foreign exchange.

- Payment for exports from SA / a foreign country paying for imports from South Africa ✓✓
- Foreigners buying shares in South African firms ✓✓
- Foreigners buying South African assets ✓✓
- Foreign tourists visiting South Africa ✓✓
- Foreigners placing a deposit with a South African bank ✓✓
- South African individuals and firms received interest or dividends ✓✓
- Repaying money borrowed from South Africa ✓✓
- Providing services to foreign countries ✓✓
- Raising loans in foreign countries ✓✓
- Other receipts from time to time ✓✓
- Domestic currency speculation by foreigners ✓✓
Any factor relating to the inflow of foreign currency (Any 3 x 2) (6)

2.3 Study the cartoon and answer the questions that follow:**2.3.1 Who is the Minister of Finance depicted in the cartoon?**

Pravin Gordhan ✓✓ (2)

2.3.2 Explain the message conveyed by the cartoon.

- The Minister is having difficulty in presenting a sound/balanced budget due to all the demands e.g. housing ✓✓
- The growth of the economy is being slowed as a result of massive expenditure ✓✓
- The expenses seem to be more than the income, resulting in a deficit ✓✓
- Money needs to be borrowed from abroad to finance our deficit ✓✓
- Due to corruption/poverty the Minister fails to provide services ✓✓ Any other relevant answer (2 x 2) (4)

- 2.3.3 **The largest portion of government revenue is spent on education. In your opinion, has this benefitted the economy? Give possible reasons.**

Yes ✓✓	No ✓✓
- skills are obtained ✓✓ - increase tax revenue over time ✓✓ - access to information technology ✓✓ - teacher and learner support material provided ✓✓ - provisioning of resources e.g. physical, financial and human resources ✓✓ - funding for subsidies to higher education ✓✓	- Learners drop out of school due to lack of school and other associated fees ✓✓ - Under provisioning of resources ✓✓ - Overcrowded classrooms ✓✓ - No access to information technology ✓✓ - insufficient teacher and learner support material ✓✓ - not enough funding for subsidies to higher education ✓✓

Any other relevant answer

(2 x 2) (4)

- 2.4 **Study the table and answer the questions that follow.**

- 2.4.1 **Define the concept balance of payments**

A statement of a country's trade and financial transactions ✓ with the rest of the world ✓ a systematic record of all transactions ✓ which are entered into over a specific period of time between the inhabitants of a country and the rest of the world ✓

Any other accepted definition.

(2)

- 2.4.2 **Calculate the balance on the current account for the second quarter of 2012.**

– 200 ✓✓

(2)

- 2.4.3 **Give a reason for the change in the trade balance between 2011 and 2012.**

- A drastic increase in imports of goods (as compared to a slight increase in exports) / increased dumping ✓✓
- A relative stronger currency increased imports ✓✓
- An increase in domestic expenditure ✓✓
- An increase in wages and salaries ✓✓

Any other relevant fact.

(1 x 2) (2)

- 2.4.4 **In your opinion, what can be done to ensure a surplus in the current account of the balance of payments?**

Promote exports ✓✓	Restrict imports ✓✓
- Subsidies devaluating the rand ✓✓ - Incentives to promote export driven production ✓✓ - The government can devalue the rand ✓✓ - Overseas marketing campaigns ✓✓	- Tariffs and quotas implemented / policy of protection ✓✓ (allocate marks for examples) - "Proudly South African"-campaigns ✓✓

(2 x 2)

Any other relevant answer

2.5 **Briefly explain how the South African government would apply fiscal and monetary policies (demand and supply side) to smooth business cycles.**

The new economic paradigm focuses on smoothing of business cycles and a stabilisation policy (which includes automatic and discretionary stabilisers)✓✓

Demand-side policies:

- Expansionary monetary and fiscal policy used **at the trough** e.g. decrease interest rates ✓✓ decrease taxes ✓✓ increase government expenditure ✓✓
- Contractionary monetary and fiscal policy used **at the peak** e.g. increase interest rates ✓✓ increase taxes ✓✓ decrease government expenditure ✓✓
- **ONE mark each for mentioning a monetary instrument** e.g. cash reserve requirement ✓, moral suasion ✓, open market transactions ✓, interest rates ✓
- **ONE mark each for mentioning a fiscal instrument** e.g. tax ✓ government expenditure ✓

1. Automatic stabilisers ✓✓

- They are characterised by built-in flexibility ✓✓
- An example of an automatic stabiliser is the progressive tax system ✓✓
- (e.g.) when the economy enters a boom, the average tax rate will increase ✓✓

2. Discretionary stabilisers ✓✓

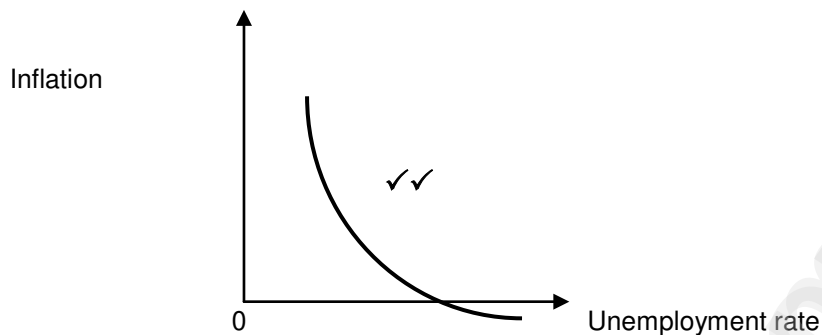
- Sometimes called active stabilisers ✓✓
- Policy makers carefully watch trends, study the stages of business cycles and change policies ✓✓
- Used when the economy needs to be cooled down ✓✓
- These stabilisers include public works and other expenditure programmes ✓✓ changes in tax rates ✓✓ public employment projects ✓✓

3. Inflation ✓✓

- Aggregate demand and supply are in equilibrium ✓✓
- When the demand increases, the supply will react in the same way ✓✓
- If the supply does not react to an increase in demand, prices will increase ✓✓ (a new equilibrium)
- This will lead to inflation ✓✓

4. Unemployment ✓✓

- Demand side policies are effective in stimulating economic growth ✓✓
- Economic growth increases the demand for labour and reduces unemployment ✓✓
- A decrease in unemployment results in an increase in inflation because more people are employed, which causes an increase in demand for labour ✓✓
- The relationship between unemployment and inflation can be illustrated by the Phillips curve ✓✓



(Any 2 x 2)

Supply-side policies:

1. **Reduction of costs** ✓✓
 - Infrastructural services ✓✓
 - Administrative costs ✓✓
 - Cash incentives ✓✓
2. **Improving the efficiency of inputs** ✓✓
 - Tax rates ✓✓
 - Capital consumption ✓✓
 - Human resource development ✓✓
 - Free advisory services ✓✓
3. **Improving the efficiencies of markets** ✓✓
 - Deregulation ✓✓
 - Competition ✓✓
 - Levelling the playing field ✓✓

Accept any other relevant explanation

A maximum of 4 marks may be allocated for examples.

Two marks should be allocated for facts described in full.

(Any 2 x 4)

(8)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

2.6 Explain accountability and privatisation as problems of public sector provisioning.

Accountability:

- Government is required to make and implement policies / economic accountability refers to efficient government policies and resource usage / to give an explanation of one's decisions, actions and expenditures ✓✓
- Accountability is underpinned by ministerial responsibilities: the DG's are the accounting officers ✓✓
- Parliamentary questioning: public debates – issues being questioned in parliament where Ministers have to respond ✓✓
- The National Treasury is responsible for expenditure control ✓✓
- In South Africa the auditor-general reports annually in writing on each government department ✓✓

- Public servants are required to give an explanation of their decisions and actions / regular financial reporting / focus on soliciting feedback ✓✓
- The public holds government accountable for the effective delivery of services and the implementation of policies ✓✓
- Greater emphasis on output and performance / performance based management ✓✓
- Increasing accountability on all levels ✓✓
- The Batho Pele campaign – people-centered ✓✓
- Financial accountability refers to expenditure control ✓✓
- Empowerment of users ✓✓
- Citizens' charters / participation of citizens ✓✓
- Public complaints mechanisms ✓✓
- Service delivery surveys ✓✓
- Transparency – citizens can make informed decisions ✓✓ (2 x 2) (4)

Privatisation:

- Refers to the transfer of functions and ownership from the public to the private sector ✓✓
- The aim of privatisation is to reduce the relative size of the public sector.
- Advantages of privatisation: it provides additional funds to the government / generates an income to be used for redistribution of wealth ✓✓
- It attracts foreign investment / access to investment, innovative and able to adapt ✓✓
- It stimulates growth and improves the overall efficiency and performance of the economy ✓✓
- More people can participate in the economy ✓✓
- Leads to undersupply or no supply ✓✓
- State-owned enterprises are bureaucratic, inefficient and unresponsive to consumer needs / increase efficiency in the economy / optimal functioning of market forces ✓✓
- Public enterprises do not pay tax – privatisation broadens the tax base ✓✓
- Make funds available for housing, education, health care and the poor / lessens the pressure on government's budget / eradicates fiscal problems ✓✓
- Promotes black economic empowerment / opportunity for all to participate in free market – benefits BEE ✓✓
- Restructure ownership of state assets together with Department of Public Enterprises e.g. defence and transport ✓✓
- Optimal functioning of market forces / profit maximisation ✓✓
- Development of SMMEs ✓✓
- If services to rural areas are fully privatised, the services to rural areas may be terminated or become more expensive ✓✓ (2 x 2)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

(4)
[50]

QUESTION 3: (LO2 AS1–3) MICROECONOMICS**3.1 Choose the correct word from those given in brackets:**

3.1.1 cost ✓✓

3.1.2 under ✓✓

3.1.3 private ✓✓

3.1.4 marginal ✓✓

(4 x 2) (8)

3.2 List any THREE characteristics of an oligopoly.

- **Product** may be homogenous or differentiated ✓✓
- **Entry** is free but not easy / varies from free to restricted – barriers to entry ✓✓
- Considerable control over the **price** ✓✓
- Mutual dependence because each business is influenced by others' actions / **number of businesses** few – take action of others into account – interdependence / limited competition ✓✓
- Kinked-demand curve ✓✓
- **Market information** is incomplete ✓✓
- Tend not to **compete** in terms of the price, but use non-price measures e.g. advertising, product branding and marketing ✓✓
- **Interactivity** ✓✓
- **Price changes** occur more frequently ✓✓
- **Cost advantage** over rest of competitors ✓✓
- Abnormal **high profits** a result of joint decisions ✓✓
- **Collusion** is possible ✓✓
- The **demand curve** is downward sloping ✓✓
- The **long run economic profit** is possible/positive ✓✓

(Any 3 x 2) (6)

3.3 Study the pictures and answer the questions that follow:**3.3.1 Define the concept market failure.**

When free markets fail to produce the quantities of goods and services that people want ✓ at prices that reflect the marginal utility (value to the consumer) of the product ✓ Best available or optimal production outcome has not been achieved / failure of markets to achieve optimum resource allocation

Accept any other relevant definition

(2)

3.3.2 Identify the causes for market failure depicted in picture A and B.

A – Immobility of the factors of production / labour ✓✓

B – Negative externality / externality ✓✓

(2 x 2) (4)

- 3.3.3 **Explain how production levels and the price of goods will be affected if polluters were responsible for Siphos medical costs.**

The price of goods will increase ✓✓ and the production levels will be reduced/decreases ✓✓ (2 x 2)

(4)

- 3.4 **Study the table and answer the questions that follow:**

- 3.4.1 **Which market structure do the above business enterprises represent?**

Monopolistic competition ✓✓

(2)

- 3.4.2 **What is the nature of products offered in this market structure?**

Differentiated products ✓✓

(2)

- 3.4.3 **Identify the kind of profit that these business enterprises will make in the long run.**

Normal profit ✓✓

(2)

- 3.4.4 **Explain how the above business enterprises make use of non-price competition to increase their market share.**

- Further product differentiation ✓✓
- Through advertising campaigns ✓✓
- Branding ✓✓
- Customer services ✓✓
- After sales care ✓✓
- Free deliveries ✓✓
- Extended shopping hours ✓✓
- Door-to-door sales ✓✓
- Packaging ✓✓
- Loyalty rewards for customers ✓✓
- Doing business over internet ✓✓
- Location ✓✓
- Promotion / marketing campaigns ✓✓

(Any 2 x 2)

(4)

3.5 Discuss the role of the key institutions that regulate competition in South Africa.

1. Competition Commission ✓✓

- Investigate, control and evaluate restrictive business practices
- they advise on mergers and takeovers ✓✓
- tries to give all South African equal opportunities to participate fairly in economic activities to achieve efficiency in the economy ✓✓ (2 x 2)

2. Competition Tribunal ✓✓

- Receive recommendations submitted by the Competition Commission which can be accepted or rejected ✓✓
- The main function is to grant an order for costs, grant exemptions and adjudicate on mergers ✓✓
- Passes judgement, similar to the Court of Law ✓✓ (2 X 2)

3. Competition Appeal Court ✓✓

- It may review a decision by the Competition Tribunal and grant judgment. ✓✓
- It can confirm or amend an order that is up for appeal ✓✓ (2 x 2) (8)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

3.6 Explain how natural and artificial monopolies act as barriers to the producers wanting to enter the market.

Natural monopolies:

- High development costs prevent entry. Involves billions of rand ✓✓
- Here a single industry can serve the whole market at a lower price than two or more ✓✓
- E.g. Eskom ✓✓
- Frequently owned and regulated by the government ✓✓ (2 X 2)

Artificial monopolies:

- Barriers to entry are not economic in nature ✓✓
 - E.g. a patent registered by Kreepy Krauly ✓✓
 - A producer has exclusive right to manufacture a product ✓✓
 - Licensing is another way an artificial monopoly can result ✓✓
 - E.g. Provide cellphone services ✓✓ SABC – broadcasting rights ✓✓
- Maximum of 4 marks for examples (2 x 2)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

QUESTION 4: (LO3 AS1–AS4) ECONOMIC PURSUITS**4.1 Choose the correct word from those given in brackets:**

4.1.1 human capital ✓✓

4.1.2 exports ✓✓

4.1.3 specific ✓✓

4.1.4 cash payments ✓✓

(4 x 2) (8)

4.2 List any THREE growth sectors in South Africa that have the potential to create employment.

PRIMARY SECTOR ✓✓	SECONDARY SECTOR ✓✓	TERTIARY SECTOR ✓✓
Agriculture ✓✓ Mining ✓✓ Chemicals ✓✓	Agri-processing ✓✓ Clothing and Textiles ✓✓ Motors ✓✓ Construction ✓✓ Manufacturing ✓✓	Exports ✓✓ Tourism ✓✓ ICT ✓✓ Cultural: art works ✓✓ Services' sector ✓✓

(3 x 2)

4.3 Study the graph and answer the questions that follow:**4.3.1 What type of indicator is shown by the above bar graph?**

Social indicator ✓✓

(2)

4.3.2 Explain the term poverty line.

Refers to an income level that is just enough to avoid less than adequate consumption / income is not enough to cover the basic needs / a person living only on \$1, \$1,50 or \$2 per day ✓✓
Accept any other relevant explanation.

(2)

4.3.3 What percentage (%) of the world population lives above the poverty line?

58% / 59% / 60% ✓✓

(2)

4.3.4 Name the economic concept which measures the extent of poverty in various countries.

Gini-coefficient ✓✓

(2)

4.3.5 Why do you think the poor find it difficult to escape poverty?

- The poorest people will also have less access to health, education and other services ✓✓
- Some find it difficult to satisfy their basic needs / many people live beyond their means ✓✓
- Problems of hunger, malnutrition and disease affect the poorest in society ✓✓
- The poorest are also typically marginalised / poverty trap / poverty cycle ✓✓
- No income / high unemployment levels ✓✓
- No skills ✓✓
- Discrimination ✓✓
- Dependence on social grants ✓✓
- Any other relevant fact

(Any 1 x 2) (2)

4.4 Study the extract and answer the questions that follow:**4.4.1 What portfolio is Trevor Manuel currently responsible for?**

Minister in the Presidency: National Planning Commission / Planning Minister / Minister in the Presidency ✓✓

(2)

4.4.2 Which economic indicator from the extract can be used to compare standards of living?

GDP per capita ✓✓ / per capita ✓

(2)

4.4.3 How can the National Development Plan assist the promotion of Small and Medium Enterprises (SMEs)?

- Reducing the cost of doing business for small enterprises ✓✓
- Tax incentives ✓✓
- Open immigration policy to attract skills ✓✓
- Relaxation of labour laws ✓✓
- Improving education ✓✓
- Any other relevant fact

(2)

4.4.4 How can the economy achieve an average growth rate of 5,4% per year?

- Improved productivity ✓✓
- Expanded infrastructure ✓✓
- Reduced cost of living for poor households ✓✓
- Reduced cost of doing business for small enterprises ✓✓
- Skills development ✓✓
- Improved technology ✓✓
- Job creation ✓✓
- Relaxing of labour laws ✓✓
- Improving education ✓✓
- Any other relevant answer

(Any 2 x 2) (4)

4.5 **Explain Black Economic Empowerment (BEE) as a development initiative.**

- It provides for the transformation of the South African economy. ✓✓
- It ensures that black people can own, manage and control the country's economy so that inequalities can be reduced. ✓✓
- The policy provides for:
 - ✚ Equity ownership: ownership of businesses ✓✓
 - ✚ Management and control: proportion of black people as directors or board members. ✓✓
 - ✚ Employment equity: gender and demographic representation ✓✓
 - ✚ Preferential procurement: tendering ✓✓
 - ✚ Development of enterprises: development for black-owned companies. ✓✓
 - ✚ Social responsibility ✓✓
 - ✚ Money spent to empower disadvantaged groups / skills development ✓✓

(4 x 2)

(8)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

4.6 **Discuss the North-South Divide**

NORTH-SIDE Developed countries	SOUTH-SIDE Developing countries
Per capita income high – 87% produced by 15% of world's population / higher employment / more jobs ✓✓	Per capita income is low -85% of world's population living on $\frac{1}{5}$ of world's income / higher unemployment / less jobs ✓✓
The North-South Divide refers to the <u>developed countries</u> in the North ✓✓	The North-South Divide refers also to the developing countries in the South ✓✓
Life expectancy is high = 75 years ✓✓	Life expectancy is low due to malnutrition, disease and ill health = 48 years ✓✓
Better <u>infrastructure / technology</u> ✓✓	Lack of infrastructure / technology ✓✓
Level of <u>education</u> : high – everyone literate ✓✓	Level of education low – only 46% adult literacy. ✓✓
<u>Trade</u> : rich countries subsidize production – developing countries cannot compete ✓✓	Trade: developing countries are marginalised by subsidies. ✓✓
<u>Mass consumption</u> of oil and coal – damage to ozone layer – air, water, noise pollution and toxic waste ✓✓ (2 x 2)	Focus on agriculture – soil conditions, adequate rainfall and health of crops ✓✓ degradation and depletion of land, water and vegetation – do not produce sufficient food – hunger and malnutrition ✓✓ (2 x 2)

Accept if not in tabular format. Accept relevant statistical data.

(8)

[50]

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

QUESTION 5: (LO4 AS1–AS3) CONTEMPORARY ECONOMIC ISSUES**5.1 Choose the correct word from those given in brackets:**

5.1.1 3–6% ✓✓

5.1.2 Producer ✓✓

5.1.3 Suffer ✓✓

5.1.4 Green ✓✓

(4 x 2) (8)

5.2 List any THREE benefits of tourism to households.

- Income/salaries and wages ✓✓
 - Infrastructure e.g. roads, resorts, hotels ✓✓
 - Skills e.g. learnerships / training ✓✓
 - Job creation ✓✓
 - Empowerment of women (own entrepreneurs) ✓✓
- Accept any other relevant benefit

(Any 3 x 2) (6)

5.3 Study the extract and answer the questions that follow.**5.3.1 Define the concept pollution.**

Pollution occurs when people introduce waste matter into the environment ✓✓

Accept any other relevant definition

(2)

5.3.2 In your opinion, why is Gold Reef City such a popular tourist destination?

- It hosts a variety of recreational activities (accept if specified e.g. museum) ✓✓
 - The location is easy to reach for tourists ✓✓
 - Once the world's biggest and deepest gold mine ✓✓
- Any other relevant opinion.

(Any 2 x 2) (4)

5.3.3 How can the threat of rising acid water be solved?

- Technology is needed to handle the quality/quantity of water ✓✓
 - E.g. pumps, purifiers / increased pumping / switch on the pumps ✓✓
 - The attitude of people is very important in determining the environmental consequences of their actions ✓✓
 - Education plays a major role in improving people's capacity to manage the environment ✓✓
 - Throughout the developing world, a wide range of innovative approaches are being used to educate people in managing their environments to improve their livelihoods ✓✓
 - Rules and regulations to be applied ✓✓
- Any other relevant fact.

(Any 2 x 2) (4)

5.4 Study the cartoon and answer the questions that follow.**5.4.1 What do you understand under the concept environmental sustainability?**

The ability of the environment to survive its use for economic activity / refers to meeting the needs of the present generation without compromising the needs of future generations / the maintenance of the natural environment in order to ensure that resources of a good quality are available to support life and continued economic activity ✓✓

Any other relevant explanation.

(2)

5.4.2 Describe the messages conveyed by the cartoon.

- Rich, developed countries (big role players/with SA and the UN acting as cops) collude to benefit themselves at the cost of poor, developing countries ✓✓
 - Picketing by marginalized countries for climate justice ✓✓
 - People make wrong choices to maintain their high standard of living ✓✓
- Accept any other relevant answer. (2 x 2)

(4)

5.4.3 In your opinion what impact will climate change have on the environment?

- Temperatures will change / fires ✓✓
 - Rainfall patterns will change / floods ✓✓
 - A change in agricultural production enterprises ✓✓
 - A change in vegetation ✓✓
 - Increased natural disasters e.g. droughts ✓✓
 - Soil erosion ✓✓
 - Extinction of fauna and flora ✓✓
- Any other relevant answer (2 x 2)

(4)

5.5 Explain the effects of tourism on employment and poverty.**Employment:**

- Tourism employs 7% of South Africa's workforce (approx. 1,12 m. people)
- *Tourism is the largest provider of jobs ✓✓ because it:*
- *Is labour intensive ✓✓*
- Employs many different kinds of skills, e.g. tourist guides, hotel staff ✓✓
- Provides immediate employment ✓✓
- Provides entrepreneurial opportunities / informal sector activities ✓✓
- *Tourism is the largest earner of foreign exchange because:*
- Foreign tourists pay for services in foreign exchange ✓✓
- Foreign tourists usually spend more than local tourists ✓✓ (2 x 2)

Poverty:

- Poverty is most evident in rural areas due to a lack of job opportunities ✓✓

- Tourism can alleviate poverty in the following ways:
- Tourism is a fast and effective mechanism for distributing resources to rural areas to develop them as tourist sites ✓✓
- Many prime tourist attractions are located in rural areas ✓✓
- Tourist developments in rural areas increase the number of available jobs in areas where there aren't many jobs ✓✓
- Tourism promotes a balanced and sustainable form of development. People are able to earn a living in their home areas, resulting in a reduction in urbanisation and a more balanced population distribution ✓✓
- Offers opportunities to poor people ✓✓
 - ❖ Allowing them a stake ✓✓
 - ❖ Empowering them ✓✓
 - ❖ Creating partnerships ✓✓

(2 x 2)

(8)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

5.6 Explain how the granting of property rights by the public sector can achieve environmental sustainability.

- The conservationist effect: people care for things that belong to them ✓✓
- To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna ✓✓
- Property rights can be expanded to common goods, e.g. clean air, those suffering from pollution can charge the polluters for their right to pollute ✓✓
- The Kyoto Protocol is an international agreement whereby developed countries provide financial assistance to developing countries because they cause less pollution ✓✓

(4 x 2)

(8)

[50]

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

QUESTION 6: (LO1 & LO2, AS1–AS4)**6.1 Choose the correct word from those given in brackets:**

6.1.1 leading ✓✓

6.1.2 nationalisation ✓✓

6.1.3 explicit ✓✓

6.1.4 social ✓✓

(4 x 2) (8)

6.2 List the THREE methods that are used to calculate the Gross Domestic Product.

- Income method / GDP (I) ✓✓
- Expenditure method / GDP (E) ✓✓
- Production method/Value Added / GDP (P) ✓✓

(3 x 2) (6)

6.3 Study the diagram and answer the questions that follow.**6.3.1 Which type of economy is represented by the above diagram?**

Closed economy ✓✓

(2)

6.3.2 Supply labels for the letters A and B in the diagram.**A** – households / consumers ✓**B** – factor market / input market / factors of production ✓ (2 x 1)

(2)

6.3.3 Give ONE example of an injection in the diagram.

Government spending (G) ✓✓

Investment (I) ✓✓

(Any 1 x 2)

(2)

6.3.4 Explain the interaction between the business sector and state.

- There is a flow of money (money flow) and goods and services (real flow) between the **business sector and State**. ✓✓
- The business sector provides the state with goods and services for which the state pays. ✓✓
- The state provides the business sector with public goods and services for which they pay taxes. ✓✓

(Any 2 x 2)

(4)

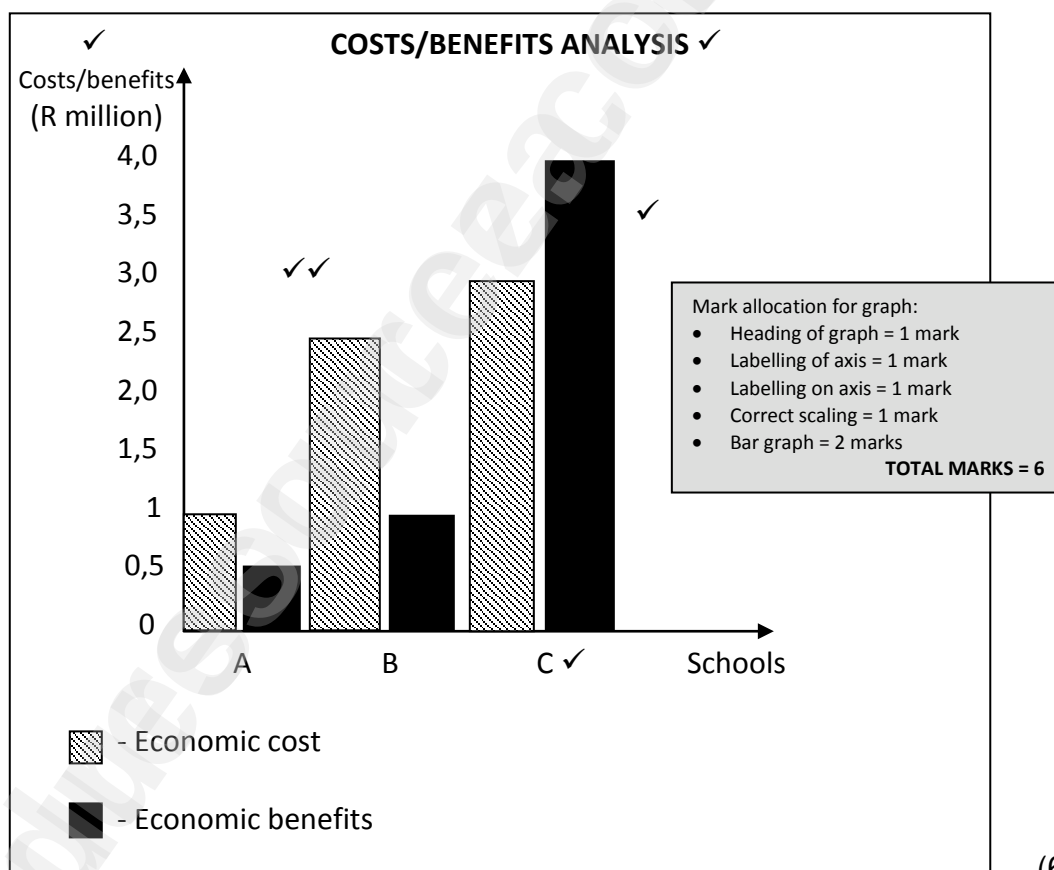
6.4 Study the table and answer the questions that follow.

6.4.1 What is the rationale behind cost-benefit analysis?

To determine whether a project is economically viable / brings objectivity to the decision making process ✓✓

(2)

6.4.2 Use the information in the table, and draw a well-labelled bar graph, indicating cost and benefits for each alternative:
Vertical axis: Costs R million. Scale 1 cm = 0,5 R million.
Horizontal axis: Schools.



(6)

6.4.3 Which school should receive the electricity?

C ✓✓

(2)

6.5 **Discuss labour resources and technology as reasons for international trade.**

Labour resources are not the same everywhere ✓✓

Some individuals have greater ability and aptitude for certain tasks ✓✓

Some countries have developed and perfected a particular skill and aptitude for the production of a certain commodity, therefore their skills will be imported ✓✓ (2 x 2)

Technology/Capital is not always easily obtained in every country ✓✓

Developed countries usually enjoy an advantage over underdeveloped countries ✓✓

Due to lack of capital, countries cannot produce all products they wish to produce/developing countries import capital from developed countries ✓✓ (2 x 2)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

(8)

6.6 **Distinguish between price leadership and cartels as forms of collusion.**

- **Price leadership** is a common form of tacit collusion ✓✓
 - It is an arrangement whereby one business in the industry is assigned the task of making price decisions for the entire group ✓✓
 - The price leader is usually the largest or dominant business in the industry ✓✓
 - Sometimes it is the business with the lowest production costs ✓✓
 - Price signals are frequently a key element of tacit collusion ✓✓
 - It is fairly rare and occurs when businesses meet to decide on prices and output ✓✓
- Accept any example explained (2 x 2)

- **Cartel** is a form of overt collusion ✓✓
 - It is an open and formal agreement on prices, market share and advertising expenditure ✓✓
 - Can be defined as an organisation of oligopolistic businesses that come into existence in an industry with the specific aim of forming a collective monopoly ✓✓
 - Cartels experience problems because it is always tempting for an individual member to cheat by cutting prices illegally or selling more than its quota ✓✓
 - Fairly common among oligopolies and occurs when businesses without meeting treat competitors as they hope competitors will treat them ✓✓
- Accept any example explained (2 x 2)

Responses will earn full marks if the argument/fact is fully explained and within the context of the question.

(8)
[50]

TOTAL SECTION B: 150

SECTION C**QUESTION 7: (LO1 AS3) MACROECONOMICS**

Fiscal policy is an instrument used by Government to influence the economy.

- **Discuss in detail the effects of fiscal policy including a Laffer curve.** (30 marks)
- **To what extent was the South African Government successful in the implementation of its fiscal policy?** (10 marks)

INTRODUCTION

Fiscal policy is the government's policy in respect of the nature, level and composition of government spending, taxation and borrowing. Through fiscal policy government aims to achieve particular economic goals ✓✓✓ (Max 3)
Any other relevant answer

BODY: MAIN PART**EFFECTS (INCLUDING LAFFER CURVE)**

Fiscal policy effects depend on period of business cycle – during upswing policy contracts – during downswing policy expands ✓✓

Key issues that markers should consider when marking this question:

Fiscal policy can affect -

- Macro and micro economic variables such as:
 - aggregate production,
 - employment,
 - the distribution of income,
 - the balance of payments
 - efficiency of the economy.
- Stimulate the development of a particular region.
- Achieve outcomes in particular markets by taxing or subsidising
- Regulates the demand for goods and services/ spending in the economy
- Expansionary and contractionary fiscal policy influences consumption, spending and production in the economy.

1. Income distribution ✓✓

- Progressive taxes make income more evenly distributed ✓✓
- Regressive taxes make income less evenly distributed ✓✓
- Proportional taxes leave distribution unchanged ✓✓
- Spending on social goods, security and welfare payments supplement income of poor more than the rich ✓✓
- E.g. 20 % of SA population enjoyed cash income from welfare and social security in 2005 ✓✓

2. Consumption ✓✓

- Direct and indirect taxes will affect total and pattern of consumer spending ✓✓
- Direct taxes reduce disposable income ✓✓
- The effect on consumption depend on propensity to consume and the level of savings ✓✓
- Direct taxes will reduce consumption with little savings ✓✓
- Income multiplier kicks in when government spending increases ✓✓

3. Price level ✓✓

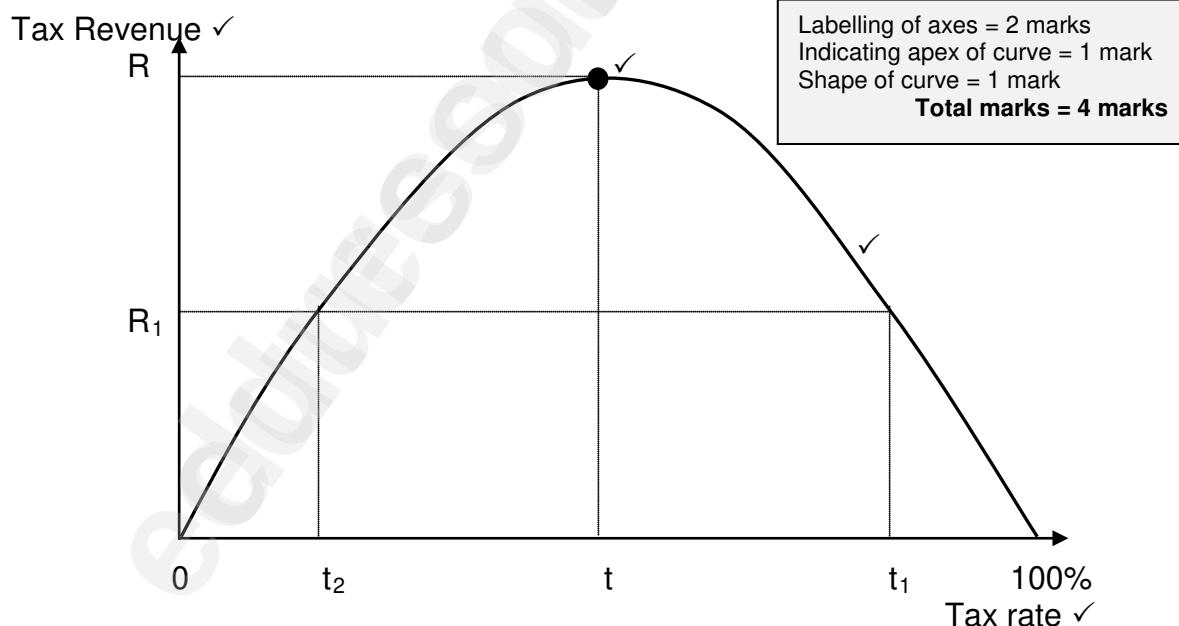
- Direct taxes reduce inflationary pressure leading to a lower aggregate demand ✓✓
- Result in cost-push inflation which stimulate workers to claim higher wages ✓✓
- A rise in indirect taxes will increase the general price level ✓✓
- Changes in spending patterns depend on availability of factors of production ✓✓

4. Discretion ✓✓

- Minister of Finance uses discretion e.g. how much to reduce income tax or spend on new infrastructure ✓✓
- Discretion rule: deficit rule (3 % of GDP) ✓✓
- Borrowing rule (only for capital expenditure) ✓✓
- Debt rule (not exceed 60 % of nominal GDP) ✓✓

LAFFER CURVE

With the aid of a Laffer curve, explain the relationship between tax and revenue.



- The Laffer curve shows the relationship between tax rates and tax revenue collected by the government ✓✓
- The curve shows that as tax increase government revenue increases up to a certain point (e.g. t_2) ✓✓
- If the tax rate rises beyond 't', (e.g. at t_1) there will be a decline in government revenue ✓✓
- When the tax rate is high, people are less likely to work hard ✓✓
- If the tax is 100% then nobody will work because all income would go to the government ✓✓

- Too high tax rates may lead to tax evasion and avoidance ✓✓
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest ✓✓
- If tax rate is zero, no government revenue will be raised ✓✓
- Economists use this to justify a reduction in the level of income tax ✓✓
- The apex of the curve shows the tax rate where government revenue can be maximised ✓✓
- This point can vary from country to country ✓✓
- The Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate ✓✓
- Evidence suggests that tax rates in most countries are below t. ✓✓ (Max 30)
Discussion without the Laffer curve (max 26)

BODY: ADDITIONAL PART

1. Redistribution of income: YES: the government supplies free water and electricity, RDP houses, free schooling, free hospitalisation ✓✓
2. Job creation: although employment opportunities have been created, the unemployment figure is still rising ✓✓
3. Subsidies/Social grants: many South Africans are benefitted by social grants and subsidies ✓✓
4. Taxation: the progressive tax system makes provision for a fair redistribution of income / SARS has been successful in generating more income through efficient tax collection ✓✓
5. Infrastructure: maintenance of roads is not satisfactory, a lack of constant supply of clean, drinking water in households ✓✓
6. Housing: 2.2 million RDP houses have been built ✓✓
7. Economic growth: growth rate of 5.5% is needed – currently 1.8% ✓✓
8. Standard of living: social grants led to an increase of the standard of living, but a large portion of the population is still living in poverty ✓✓
9. Government failure: safety and security not in place ✓✓
10. Corruption: many cases of nepotism, corruption under investigation ✓✓
Accept any other relevant arguments. Listing of facts will carry a maximum of 1 mark each (Maximum of 5 facts). (5 x 2) (10)

CONCLUSION

In South Africa individual and company income tax rates were reduced over the last decade ✓✓ (Max 2)
Any other relevant conclusion.

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1–15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16–30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31–45)

(Max 5 marks)

QUESTION 8: (LO2 AS1) MICROECONOMICS

Markets are at the centre of economic activities.

- With the aid of graphs analyse the different equilibrium positions (normal profit, economic profit and loss) of the individual firm under perfect competition. (30 marks)
- Examine the conditions under which perfect competition successfully operates? (10 marks)

INTRODUCTION

A perfect market is a market structure which has a large number of buyers and sellers.

The market price is determined by the industry (demand and supply curves). ✓✓✓

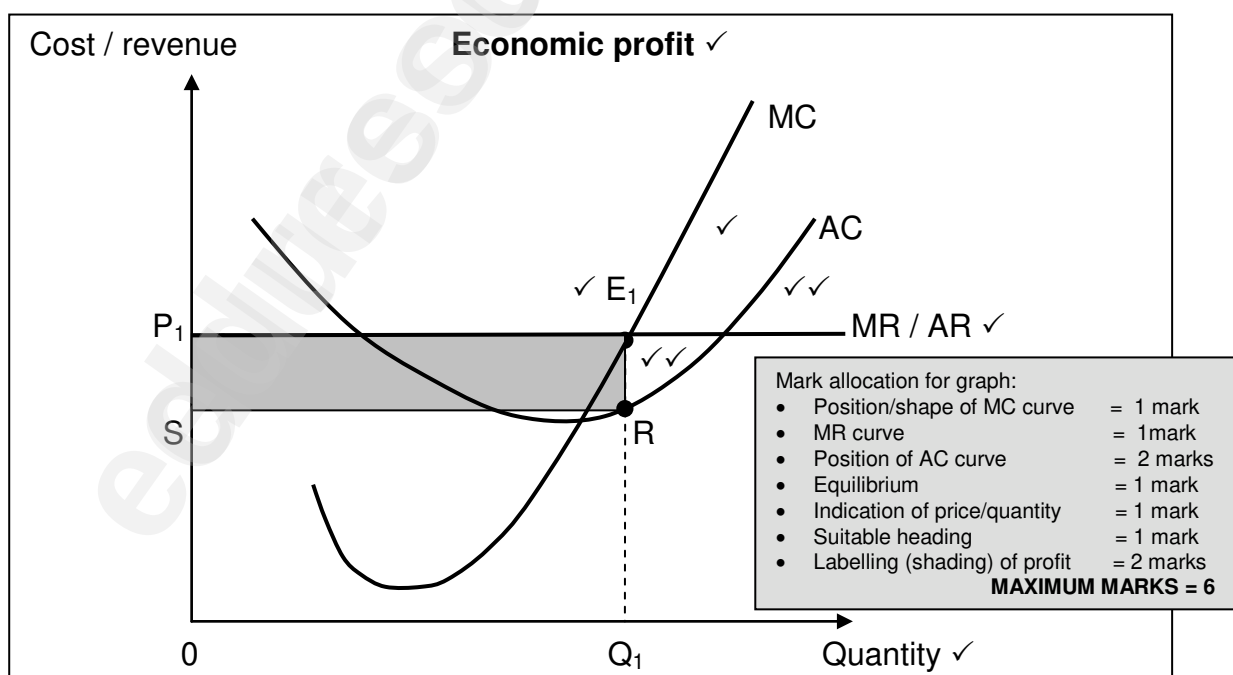
This means that individual businesses are price takers, i.e. they are not able to influence prices. ✓✓✓

Accept any relevant definition of perfect markets.

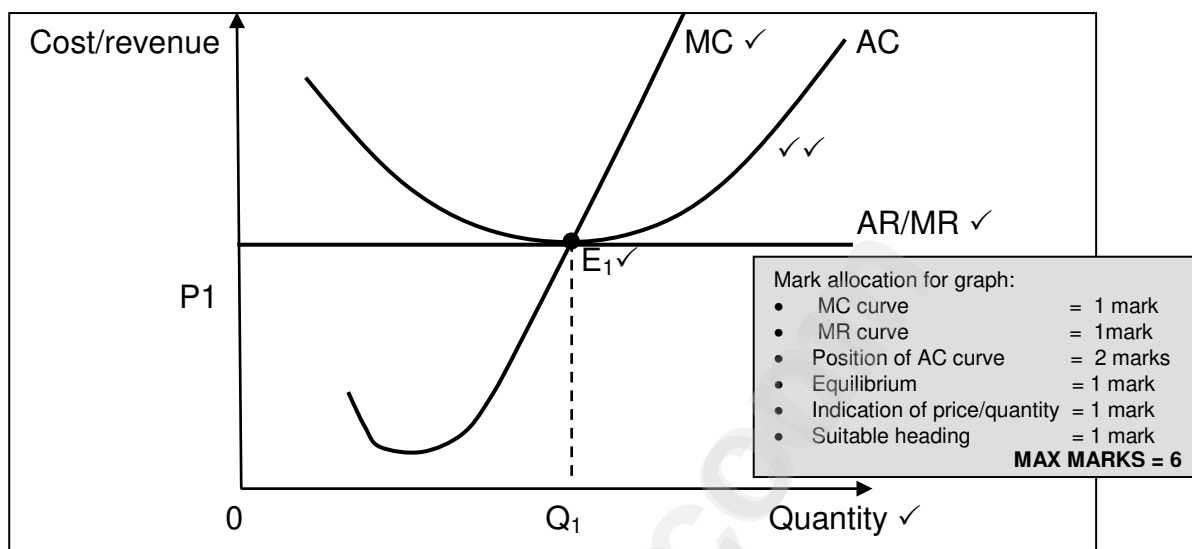
(Max 3 marks)

BODY: MAIN PART**ECONOMIC PROFIT**

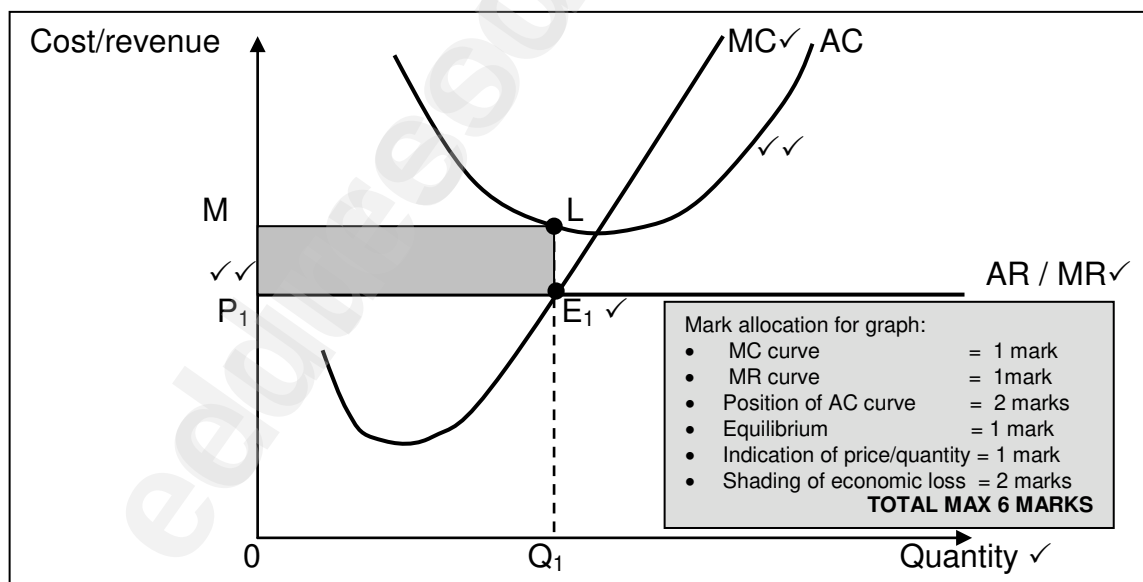
NOTE: The above response should be marked in relation to the explanation to graphs. Do not credit twice if it is repeated in the explanation for each equilibrium position.



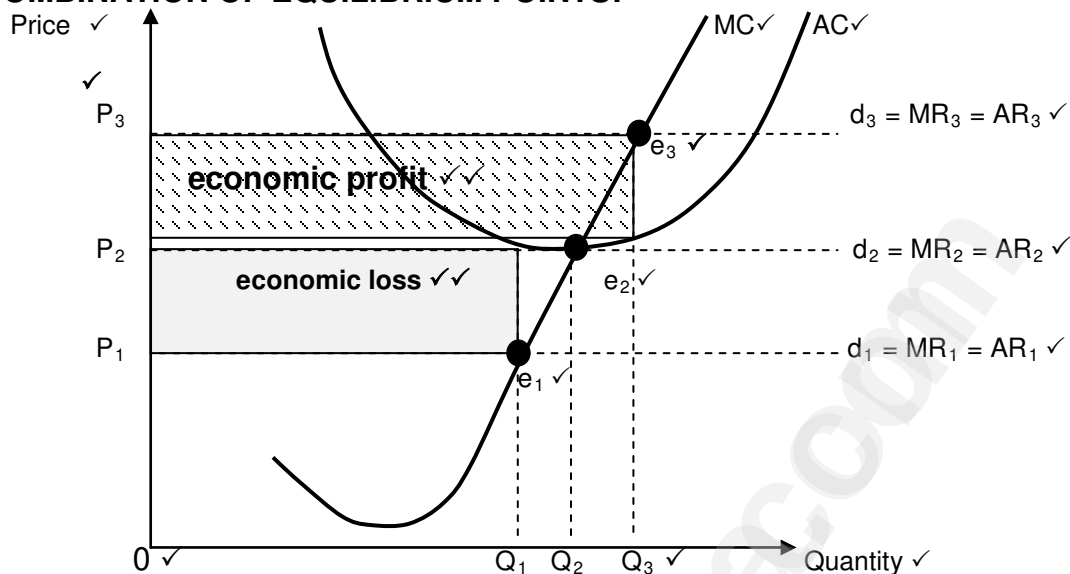
- Equilibrium is at E_1 i.e. where $MC = MR$ ✓✓
- At this point Q_1 goods are produced at a price of P_1 ✓✓
- The averages cost for Q_1 units is point R on the AC curve ✓✓
- Price /AR is greater than AC ✓✓ ($TR > TC$)
- Therefore economic profit is represented by the area P_1SRE_1 ✓✓

NORMAL PROFIT ✓

- Equilibrium is at E_1 i.e. where $MC = MR$ ✓✓
- At this point Q_1 goods are produced at a price of P_1 ✓✓
- At equilibrium (point E_1) average cost is equal to price ✓✓/ the AC curve is tangent to the demand curve which means that $P/AR = AC$ ($TR = TC$) ✓✓
- The business makes normal profit which is the minimum earnings required to prevent the entrepreneur from leaving ✓✓

ECONOMIC LOSS ✓

- Equilibrium is at E_1 i.e. where $MC = MR$ ✓✓
 - At this point Q_1 goods are produced at a price of P_1 ✓✓
 - At equilibrium (point E_1) price/AR is less than average cost/the AC curve is lies above the demand curve which means that $P/AR < AC$ ($TR < TC$) ✓✓
 - The business makes an economic loss. ✓✓
- A maximum of 18 marks will be allocated for graphs / analysis.

A COMBINATION OF EQUILIBRIUM POINTS: ✓

Heading = 1 mark
 Labeling of axes = 2 marks
 Labeling on axes = 2 marks
 Origin = 1 mark
 Equilibrium points = 3 x 1 = 3 marks
 Labeling and draw of curves = 5 x 1 = 5 marks
 Shading and labelling of
 Economic loss/profit/normal = 3 x 2 = 6 marks
Max = 18 marks

BODY: ADDITIONAL PART**CONDITIONS:**

- For a market to successfully operate under perfect competition, the following conditions should prevail at the same time ✓✓
- No firm can influence the market price (price takers) due to a large number of buyers and sellers ✓✓
- Products are identical (homogeneous) ✓✓
- There are no barriers of entry, meaning that there is freedom of entry and exit ✓✓
- Buyers and sellers act independently - no collusion between sellers ✓✓
- No government interference to influence the market – the market is unregulated ✓✓
- Free movement between markets - all factors of production are completely mobile ✓✓
- Both buyers and sellers have full knowledge of all the prevailing market conditions (perfect information) ✓✓
- If any of the above conditions are not met, the market is regarded as an imperfect market ✓✓ (Max 10 marks)

If the conditions are only listed, a learner can obtain a maximum of 5 marks.

If the conditions are discussed, a maximum of 8 marks can be allocated.

The final 2 marks can only be obtained if a learner examined the conditions (the underlined).

CONCLUSION

Freedom of entry and exit into the perfect market alter the supply of goods on the market. This result in changes in price which influences the profit or loss of a business.

✓✓ If price falls to a level where it is equal to the AVC then the firm will shutdown. ✓✓

(Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

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5	Candidate has interpreted topic correctly and has linked facts to topic. (31–45)

(Max 5 marks)

QUESTION 9: (LO3 AS2) ECONOMIC PURSUITS

Regional Industrial Development refers to policies that are aimed at increasing the economic livelihood of specific areas.

- **Discuss regional industrial development in South Africa by focusing on Spatial Development Initiatives and Industrial Development Zones.** (30 marks)
- **How appropriate are the various financial incentives granted by the South African government for the establishment of new businesses?** (10 marks)

INTRODUCTION

South Africa's overall objective of Industrial Development Policy is to ensure international competitiveness in its nine provinces ✓✓✓ /

Regional development is aimed at increasing the economic livelihood of specific areas or regions ✓✓✓ /

Regional development attempts to limit the negative effects of economic activities in only a few areas ✓✓✓ /

It attempts to promote the advantages of a more even regional development by using labour and other natural resources and infrastructure in neglected areas ✓✓✓

Accept any relevant introduction.

(Max 3)

BODY: MAIN PART**SPATIAL DEVELOPMENT INITIATIVES (MAIN PART)**

- SDI Programme attracts infrastructure and business investments to underdeveloped areas to create employment. ✓✓
- Department of Trade and Industry is driving force behind industrial and spatial development. ✓✓
- DTI plans together with central, provincial and local government, IDC, parastatals and research institutions. ✓✓
- Industrial Development Policy Programme (Spatial Development) has 2 focus points: - spatial development initiative (SDI) ✓✓ and - financial incentives. ✓✓
- SDI refers to government's initiative and economic development potential of certain specific spatial locations in SA. ✓✓
- Key objectives
 - ✚ stimulate economic activity in selected strategic locations. ✓✓
 - ✚ generate economic growth and foster sustainable industrial development; ✓✓
 - ✚ develop projects of infrastructure in certain areas and finance them through lending and private sector investment ✓✓
 - ✚ establish private-public partnerships (PPP's) ✓✓
- In areas with high poverty and unemployment, SDI focuses on:
 - ✚ high-level support in areas where socio-economic conditions require concentrated government assistance ✓✓
 - ✚ where inherent economic potential exists. ✓✓
- The approach is towards international competitiveness, regional cooperation and a more diversified ownership base. ✓✓
- Some of the main focus points of the SDI Programme are:
 - ✚ Lubombo Corridor (agro-tourism, education, craft, commercial and agricultural sectors); ✓✓
 - ✚ KwaZulu-Natal (ports of Durban and Richards Bay); ✓✓
 - ✚ West Coast SDI (fishing and industrial ports); ✓✓
 - ✚ Coast-2-Coast Corridor with agro-tourism. ✓✓
- It also makes it possible for private sector businesses to take advantage of the economic potential of underdeveloped areas in **private-public-partnerships (PPPs)**.
- In a PPP a private business may provide the capital to build the factory and to buy raw materials and employ labour, while the government provides the capital for the infrastructure such as roads and water and electricity. The business benefits from profits and the government benefits from taxes, levies and employment opportunities. There are TWO types of PPP's which are compensated differently:
 - ✚ **Unitary payments**: private sector builds and runs a project (it performs the function on behalf of the public sector); the payment provides an acceptable return on the total investment (building cost, maintenance, operational expenses)

- ✚ **User-fees:** private sector constructs the project and then is given the right to charge a toll fee (e.g. public road); the toll covers costs of construction, maintenance, operation.

The above options can be combined. E.g. hospital (cost of building is an annual payment and a user-fee is also charged)

Corridors: a track of land that forms a passageway allowing access from one area to another and particular advantages to mining, manufacturing and other businesses ✓✓

- Two types: Domestic corridor ✓✓ e.g. Lubombo, West Coast, Fish River ✓✓
- Corridors beyond the South African borders (SADC) ✓✓ e.g. Maputo Development Corridor, Mozambique. ✓✓
- Reasons in support of South Africa's regional integration in Southern Africa:
 - ✚ have political and stable neighbours ✓✓
 - ✚ have important export markets and a future source of water and energy supplies ✓✓
 - ✚ integration may be a precondition for support from foreign investors, donors and multilateral institutions ✓✓
 - ✚ a robust regional transport system and a solid infrastructure base hold the key to attracting investment into the SADC region – improving competitiveness and promoting trade. ✓✓
- Advantages from corridor development:
 - ✚ greater levels of economic efficiency and productivity ✓✓
 - ✚ compact urban form ✓✓
 - ✚ corridor developments will often occur due to private investment ✓✓
 - ✚ integration of land use and transport planning will lead to generally efficient integration ✓✓
 - ✚ efficient urbanisation leads to efficient use of land and promotion of an efficient transport system. ✓✓

INDUSTRIAL DEVELOPMENT ZONES (IDZs)

- Geographically designed, purpose-built industrial sites providing services tailored for export-orientated industries. ✓✓
 - Physically enclosed and linked to an international port or airport. ✓✓
 - Specifically designed to attract new investment in export-driven industries. ✓✓
 - Falls outside domestic customs zones and able to import items free of customs and trade restrictions, add value, and then export their goods. ✓✓
 - Development and management done by private sector. ✓✓
 - Government IDZ policy designed to boost exports and jobs. ✓✓
 - IDZs aim to encourage economic growth – attract foreign investment in industrial development – facilitate international competitiveness regarding manufacturing. ✓✓
- (Any 15 x 2) (Max 30)

BODY: ADDITIONAL PART**FINANCIAL INCENTIVES**

- **Small and Medium Enterprise Development Programme (SMEDP)** ✓
This incentive has provided a tax-free cash grant for investment in industries in South Africa ✓✓ E.g. manufacturing, agricultural, processing, aquaculture and tourism. ✓✓
- **Critical Infrastructure Fund Programme (CIF)** ✓
A tax-free cash grant incentive for projects has improved critical infrastructure in South Africa ✓✓ e.g. for installation, construction of infrastructure, payment of employees, materials directly consumed during installation. ✓✓
- **Duty-free Incentives (for businesses operating in the IDZs)** ✓
This has encouraged export-orientated manufacturing to increase their competitiveness ✓✓ and helped to promote foreign and local direct investment. ✓✓
- **Foreign Investment Grant (FIG)** ✓
This has assisted foreign investors to invest in new manufacturing businesses in SA ✓✓ benefited in terms of the cost of relocating new machinery and equipment from abroad. ✓✓
- **Strategic Investment Projects (SIP)** ✓
This has attracted investment from local and foreign entrepreneurs in manufacturing, computer, research and engineering sectors. ✓✓
- **Skills Support Programme (SSP)** ✓
This cash grant for skills development has encouraged greater investment in training in general and stimulated the development of new advanced skills. ✓✓
- **Black Businesses Supplier Development Programme (BBSDP)** ✓
This 80% cash grant has provided black-owned enterprises with access to training which has improved management of their enterprises. ✓✓
- The government has introduced **Special Economic Zones (SEZ)** as an extension to the current financial incentives to further promote regional development. ✓✓
The major incentive is a tax reduction of 15 % for businesses settling in this area. ✓✓ This does not mean that existing businesses in the IDZ can relocate to take advantage of this incentive. ✓✓ If a current business in the IDZ wants to expand they are allowed. ✓✓
(Max 10)

If incentives are only listed, a learner can obtain a maximum of 5 marks.

If incentives are discussed, a maximum of 10 marks can be allocated. (A learner can obtain 10 marks by discussing at least 3 incentives.)

[50]**CONCLUSION**

From the above discussion it is clear that different initiatives form part of South Africa's Regional Industrial Development Programme. ✓✓
(Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

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(Max 5 marks)

QUESTION 10 LO4AS1 CONTEMPORARY ECONOMIC ISSUES

Inflation is an economic problem that every member of society has experienced.

- **Examine the different policies to combat inflation. (30 marks)**
- **Analyse the consequences of inflation on income and wealth. (10 marks)**

INTRODUCTION

Although economists differ on the measures that would effectively fight inflation, government tries to keep it under control. Three measures to curb inflation are considered / A sustained and significant increase in the general price level over a period of time usually one year ✓✓✓ (max 3)

BODY: MAIN PART**MONETARY MEASURES ✓✓**

The monetary authorities (SARB) can apply certain measures ✓✓

- A fine balance must be maintained between goods and services and the monetary sector ✓✓
- The monetary authorities must adjust the quantity of money to the needs of the economy ✓✓
- Inflation caused by excess demand can be curbed if the monetary authorities reduce the money supply ✓✓
- The bank rate affects the rates of interest in the economy ✓✓
- monetary authorities can raise the bank rate that will encourage savings ✓✓
- Excessive credit can cause inflation ✓✓ monetary authorities can restrict the granting of credit by banks ✓✓
- Monetary authorities can apply moral pressure on financial institutions to be more careful when granting credit ✓✓
- Relaxing exchange controls is also often mentioned as a measure to combat inflation ✓✓

FISCAL MEASURES ✓✓

Fiscal measures are taken by the minister of finance through policies for taxation and expenditure ✓✓

- Excess demand can be lessened by increased direct taxation ✓✓
- (e.g. personal income tax) ✓✓
- Indirect taxation can be increased ✓✓
- e.g. VAT ✓✓
- A loan levy can be introduced or increased ✓✓
- The state can attempt to cut back on its expenditure by postponing or cancelling government projects ✓✓
- e.g. building roads and irrigation dams ✓✓
- Financing of budget deficit undertaken on a non-inflationary basis ✓✓
- e.g. loans from the non-banking sector ✓✓
- Imposing a surcharge on imported goods will increase imported goods prices and fewer goods will be bought ✓✓
- An alternative fiscal approach is Ronald Reagan's supply-side economy ✓✓
- reducing taxation on personal income, reducing taxation on companies, reducing taxation on interest and dividends and reducing government spending ✓✓

OTHER NON-MONETARY MEASURES ✓✓

- Increasing productivity is a positive long-term measure to reduce inflation ✓✓
- e.g. education and training, better utilization of labour, capital en resources and effective management ✓✓
- Price control is a direct method to combat inflation ✓✓
- Prices of certain goods are fixed and will only increase under certain conditions ✓✓
- A wage policy is propagated to break the inflationary spiral ✓✓
- Stricter conditions for consumer credit can restrict excessive demand ✓✓
- Encouraging personal savings will correct the imbalance between demand and supply ✓✓
- Import control can be relaxed ✓✓
- A floating exchange rate ✓✓
- As the fight against inflation fails, the insistence on indexation grows ✓✓
- inflation cannot be beaten, the effects should be lessened – learn to live with inflation ✓✓
- Inflation targeting is a new approach to control inflation and policy measures should be applied to meet the target ✓✓ (Max 30)

BODY: ADDITIONAL PART**CONSEQUENCES OF INFLATION ON INCOME AND WEALTH:**

- Purchasing power of money decreases ✓✓
 - The monetary unit loses its function as a measure of value ✓✓
 - Creditors suffer due to price increases ✓✓
 - while debtors benefit from price increases ✓✓
 - Salary and wage earners suffer because their income remains constant ✓✓
 - Pensioners with a fixed income suffer the most ✓✓
 - People who depend on savings as income are disadvantaged, because the real value of money drops (purchasing power) ✓✓
 - Investors are disadvantaged due to investment in assets with fixed values ✓✓ while investment in assets with flexible market values benefit ✓✓
 - Entrepreneurs benefit because they can increase profit margins more than cost ✓✓
 - Government: progressive income tax leads to a bracket creep that results from a combination of inflation and progressive income tax ✓✓
- Accept any other relevant fact.
A maximum of 5 marks will be allocated for listing of facts. (Max 10)

CONCLUSION

From the above discussion it is clear how important the measures are to combat inflation, due to all the causes of inflation ✓✓ (Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

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(Max 5 marks)

[50]

TOTAL SECTION C: 100
GRAND TOTAL: 300