

Paper 1 Prep

Topics to be covered:

☐ **Topic 1:** Circular flow

☐ **Topic 2:** Business cycles

☐ **Topic 3:** Public sector

☐ **Topic 4:** International trade

Macro-economics

☐ **Topic 5:** Protectionism and free trade

☐ **Topic 6:** Economic growth and development

☐ **Topic 7:** Industrial development policies

☐ **Topic 8:** Economic and social performance indicators

Economic Pursuits

Paper 1 Prep

Essays

**As per 2021 examination
Guideline.**

Paper 1 Prep Macro

Possible essays in circular flow

- 1. Discuss in detail 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 (monetary and capital) - Foreign exchange market - Link the operation of financial and foreign exchange markets to the participants of the circular flow

Not assessed on the last 2 Years – Possible

Paper 1 Prep

Possible essays in business cycles

- 1. Discuss in detail 'The new economic paradigm' /** Explain the 'smoothing of cycles' - Explain demand-side policies. o Explain clearly how monetary and fiscal policies (expansionary and contractionary) can be used in smoothing out business cycles o Relate to inflation (peak) and unemployment (trough) by using the Phillips curve - Explain supply-side policies and how aggregate supply can be stimulated through: o Reduction in costs o Improving efficiency in inputs o Improving efficiency in markets. **Not assessed in the last 2 years – Possible)**
- 2. Discuss in detail the features underpinning forecasting:** - Indicators o Leading o Coincidence o Lagging o Composite - Length of a cycle - Amplitude - The trend line - Extrapolation - Moving averages **2025 (Short Questions only!!)**

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Possible essays in public sector

1. **Discuss in detail the reason(s) for public sector failure** and link them to typical problems experienced through public sector provisioning:- Management failure- Apathy- Lack of motivation- Bureaucracy- Politicians
- Structural weaknesses- Special interest groups

Not assessed in the last 2 years – Possible!

2. **Discuss in detail the main objectives of the public sector in the economy** - Economic growth - Full employment - Exchange rate stability - Price stability - Economic equity

Not assessed in the last 2 Years – Possible!!

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Possible essays in international trade

Discuss in detail the reasons for international trade

Demand reasons:

- Size of population- Income levels- Change in the wealth of the population- Preferences and taste
- The difference in consumption patterns- Absolute and Comparative advantage

Supply reasons:

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

Demand Reasons Assessed in Sept 2024! Less likely!

Paper 1 Prep Economic Pursuits

Economic growth and development: Possible Essays

1. **Discuss in detail the demand-side approach in promoting growth and development in South Africa** - Give an overview of the demand-side approach:
 - o The monetary policy (interest rate changes, open market transactions, moral suasion)
 - o The fiscal policy (progressive personal income tax, wealth tax, cash benefits, natural benefits, other redistribution, land restitution and redistribution, subsidies on property)

Not assessed in the last 2 years. Possible!!

2. **Discuss in detail the following South African growth and development policies and strategic initiatives:-** Reconstruction and Development policy (RDP), Growth, Employment and Redistribution Programme (GEAR)- National Skills Development Strategy (NSDS)- Accelerated and Shared Growth Initiative for South Africa (AsgiSA)- Joint Initiative on Priority Skills Acquisition (JIPSA)- Expanded Public Works Programme (EPWP)- The New Growth Path (NGP)- National Development Plan (NDP)- Small Business Development Promotion Programme- Black Economic Empowerment

Programmes

Not assessed in the last 2 years. Possible!

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Possible essays in protectionism and free trade

1. Discuss in detail export promotion:

- Definition - Methods - Reasons/Advantages - Disadvantages

Not assessed in the last 2 years. Possible!

2. Discuss in detail the arguments in favour of protectionism:

- Industrial development- Infant industries- Stable wage levels and high standard of living- Increased employment- Self-sufficiency and strategic industries- Prevention of dumping- Stable exchange rates and BoP- Protection of natural resources
- Not assessed in the last 2 years. Possible!

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Industrial development policies: Possible Essays

- 1. Discuss in detail South Africa's initiatives (endeavours) in regional development spatial development initiatives:** (SDIs) in South Africa and link to private-public partnerships. ■ Briefly discuss corridors in South Africa ■ Discuss industrial development zones (IDZs) in South Africa ■ Discuss Special Economic Zones (SEZs) in South Africa. (Relate this new development to the shortcomings of the IDZs and the benefits of SEZs) ■ Name the various spatial initiatives (SDI, corridors).

Assessed in 2024. Less Likely!

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Economic and social performance indicators: Essays

- 1. Discuss in detail the following economic indicators:** - ***Production indicators** o Nominal GDP o Real GDP o Per capita GDP - **Inflation rate indicators** o Production prices (PPI) o Consumer prices (CPI) - **Foreign trade indicators** o Terms of trade o The exchange rate - **Employment indicators** o Economically active population (EAP) o Employment rate o Unemployment rate - **Productivity indicators** o Labour productivity o Remuneration per worker - **Interest rate indicators** o Repo rate - **Money supply indicators** o M1 o M2 o M3 **Assessed in 2025. Highly Unlikely!!!!(Short Questions only!)**
- 2. Discuss in detail the following social indicators:** - **Demographic indicators** o Population growth o Life expectancy - **Nutrition and health indicators** Nutrition o Malnutrition o Obesity **Health** o Child mortality o Under 5 mortality o Spending on health o Access to clean water o Access to sanitation - **Education** o Percentage public-sector spending o Percentage enrolment in secondary schools - **Services** o Electricity o Refuse/Garbage removal o Water supply o Sanitation - **Housing and urbanisation** Housing o Number of houses completed Urbanisation o Natural growth in population o Migration o Founding of new towns **Not assessed in the last 2 years. Unlikely!**

Paper 1 Prep Macro

Topic 1

Circular flow

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Circular flow

- ❑ **Circular flow:** is the flow of expenditure, income and output for an economy over time, usually yearly
- ❑ **Circular flow participants:** Households, government, firms, foreign sector and financial sector
- ❑ **Real flow:** flow of goods, services and the four factors of production (land, labour capital and entrepreneurship)
- ❑ **Money flow:** consumer spending, income, tax, etc.
- ❑ **GDP** = Consumption spending (C) + Investment spending (I) + Government spending (G) + (Exports (X) – Imports (M))

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Circular flow

- ❑ **Injectons (J)** = Investment (I) + Government spending (G) + Exports (X)
- ❑ **Leakages (L)** = Imports (M) + Savings (S) + Taxes (T)
- ❑ **Product market:** Goods and services are traded on this market
- ❑ **Factor market:** The four factors of production are traded for income on this market
- ❑ **Money market:** used as a means for borrowing and lending in short term, <3 years

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Circular flow

- ❑ **Capital market:** where individuals and institutions trade financial securities in the long term, >3 years
- ❑ **Financial market:** consists of banks, pension funds, insurance companies, and the JSE
- ❑ **Foreign exchange market:** where one currency can be exchanged into another
- ❑ **GDP / GVA:** total value of all final goods and services produced within the boundaries of a country over a period of time, usually yearly

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Circular flow

- ❑ **Measuring GDP:** income, production and expenditure method
- ❑ **Production method:** Primary sector + Secondary sector + Tertiary sector = GDP @ basic prices
+ taxes on products – subsidies on products = GDP @ market prices
- ❑ **Income method:** Compensation of employees + Net operating surplus + Consumption of fixed capital = GDP @ factor cost + other taxes on production – other subsidies on production = GDP @ basic prices + taxes on products – subsidies on products = GDP @ market prices
- ❑ **Expenditure method:** Final consumption expenditure by households + Final consumption expenditure by government + Gross capital formation + Residual item = GDE + exports – imports = GDP @ market prices
- ❑ **GNI:** a measure of income earned by South Africans regardless of wherever they are in the world

Circular flow

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- ❑ **Multiplier:** based on the principle that spending by one becomes the income of another person, which then becomes that person's spending, and so on
- ❑ **Multiplier effect:** described as a situation when change in spending causes a disproportionate change in aggregate demand and hence in the level of aggregate income
- ❑ **Multiplier formula:** $K = \Delta Y \div \Delta J$ or $K = 1 \div (1 - mpc)$
- ❑ **Relationship between the multiplier and the mpc:** the higher the mpc, the larger the multiplier and vice versa
- ❑ Brief reference to the impact of a 3-sector and 4-sector economy on the value of the multiplier

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Topic 2

Business Cycles

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Business cycles

- ❑ **Business cycles:** successive periods of fluctuations in economic activity
- ❑ **Business cycles (Phases):** (i) Recovery, (ii) Prosperity, (iii) Recession, (iv) Depression
- ❑ **Business cycles (Turning points):** (i) peak, (ii) trough
- ❑ **Causes of business cycles:** (i) Exogenous causes / Monetarist approach, (ii) Endogenous causes / Keynesian approach

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Business cycles

- ❑ **Kinds of business cycles:** (i) Kitchen cycles (3-5 years), (ii) Juglar cycle (7-11 years), (iii) Kuznets cycles (15-25 years), (iv) Kondratier wave (45-60 years)
- ❑ **Smoothing business cycles:** (i) Fiscal policy, (ii) Monetary policy
- ❑ **Fiscal policy:** Executed by the Ministry of finance which is headed by the minister of finance (Enoch Godongwana). It can either be restrictive or expansionary

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Business cycles

- ❑ **Expansionary fiscal policy:** Used during a downswing, its done by increasing expenditure (G) and decreasing taxation (T)
- ❑ **Restrictive fiscal policy:** Used during an upswing, its done by increasing taxation (leakage) and decreasing expenditure (injection)
- ❑ **Monetary policy:** Executed by the SARB's Monetary Policy Committee (MPC) which is lead by the governor (Lesetja Kganyago). The policy can also be restrictive or expansionary.

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Business cycles

- ❑ **Expansionary monetary policy:** it is used during a downswing and this is done by lowering interest rates in the hope that easy credit will entice businesses into expanding
- ❑ **Restrictive monetary policy:** it is used during an upswing and it is done by increasing interest rates in the hope that demand-pull inflation can be curbed
- ❑ **New economic paradigm:** Demand-side policies: (i) Monetary policy, (ii) Fiscal policy

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Business cycles

- ❑ **New economic paradigm:** Supply-side policies: (i) increase the efficiency of markets, (ii) decrease in production cost, (iii) increase the efficiency of inputs
- ❑ **Economic indicators used for forecasting:** (i) leading indicators: change before the economy changes, (ii) lagging indicators: change after the economy changes, (iii) coincident indicators: change at approximately the same time as the whole economy

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Business cycles

❑ **Other business cycle concepts:** (i) length: time it takes for a business cycle to move through one complete cycle (peak-peak / trough-trough), (ii) amplitude: difference between a peak and a trough / measures the intensity of a business cycle, (iii) trend-line: line showing the general direction that fluctuations seem to be heading, (iv) extrapolation: using past data to predict about the future, (v) moving average: method of repeatedly calculating a series of different average values along a time series to produce a smooth curve

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Topic 3

Public Sector

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Public sector

- ❑ **Composition of the public sector:** (i) central (national) government, (ii) provincial (regional) government, (iii) local government, (iv) public corporations e.g. SAA, SAPD, SABC, Eskom
- ❑ **Necessity of the public sector:** (i) to avoid market failure, (ii) provision of public goods and services, (iii) problems with externalities require government intervention, (iv) provision of merit goods – broad social benefit, (v) discourage demerit goods – taxes to discourage consumption and production, (vi) prevention of monopolies or encourage competition, (vii) redistribution of income for the benefit of society, (viii) managing the economy, (ix) protecting natural resources

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Public sector

- ❑ **State's Macro-economic objectives (EFEPEB):** (i) economic growth, (ii) full employment, (iii) exchange-rate stability, (iv) price stability, (v) economic equity, (vi) balance of payment equilibrium
- ❑ **The budgets:** main budget: presented by the minister of finance in February each year for the next fiscal year.
- ❑ **Fiscal year:** runs from 01 April to 31 March
- ❑ **Functions of the government budget:** (i) allocation of resources, (ii) distribution of income and wealth, (iii) stabilization of the economy

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Public sector

- ❑ **Budget principles:** (i) transparency, (ii) participation, (iii) accountability, (iv) equity & equality
- ❑ **Sources of government revenue:** (i) Personal income tax, (ii) corporate income tax, (iii) VAT, (iv) customs and excise duties, (v) fuel levies and many other ways.
- ❑ **MTEF:** a three year rolling budget presented by the minister of finance every October
- ❑ **Medium Term Budget Policy Statement (MTBPS)** Sets out the policy framework for the coming budget.
- ❑ **Problems of public sector provisioning:** (i) accountability, (ii) privatization, (iii) parastatals, (iv) efficiency, (v) the problem of assessing needs, (vi) pricing policy
- ❑ **Characteristics of the fiscal policy:** (i) goal bound, (i) demand based, (iii) cyclical

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Public sector

- ❑ **Composition of the fiscal policy:** (i) taxation, (ii) government spending, (iii) State debt
- ❑ **Effects of the fiscal policy:** (i) income distribution, (ii) consumer spending, (iii) stimulation or discouragement of certain sectors of the economy, (iv) price level, (v) labour productivity
- ❑ **Laffer curve:** explores the relationship between tax rates and tax revenue collected by the government
- ❑ **Reasons of public sector failure:** (i) management and accountability, (ii) incompetence, (iii) pricing and market forces, (iv) long term motivation, (v) government intervention and evasion, (vi) lack of vision, (vii) special interest groups, (viii) lack of adequate and accurate information, (ix) cost of administration and enforcement, (x) politicians, (xi) bureaucracy, (xii) rent-seeking interest group

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Topic 4

International Trade

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International Trade

- ❑ **Reasons for international trade:** **Demand reasons:** (i) level of income, (ii) consumer preference and taste, (iii) international migration, (iv) level of development, (v) religious, socio-cultural. **Supply reasons:** (i) natural resources are unevenly distributed, (ii) climatic conditions differ, (iii) labour resources are unevenly distributed, (iv) technology differs from country to country, (v) specialization, (vi) the principle of comparative advantage applies, (vii) the principle of comparative advantage applies
- ❑ **Effects of international trade:** (i) appreciation, (ii) depreciation, (iii) specialization, (iv) mass production, (v) efficiency
- ❑ **Balance of payment:** a systematic record of a country's transactions with the rest of the world for a particular period of time

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International Trade

- ❑ **Components of the BOP:** (i) current account, (ii) financial account, (iii) capital transfer account, (iv) official reserve / foreign reserve account
- ❑ **Components of the current account:** (i) merchandise imports (-), (ii) merchandise exports (+), (iii) net gold exports (+), (iv) service receipts (+), (v) service payments (-), (vi) income receipts (+), (vii) income payments (-), (viii) current transfers (+/-)
- ❑ **Trade balance:** Merchandise exports + Net gold exports – Merchandise imports
- ❑ **Terms of trade:** it is the relative price of exports in terms of imports. **Formula:**
$$\text{Index of export prices} \div \text{index of import prices} \times 100$$
- ❑ **Capital transfer account:** records the net change in ownership of foreign assets

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International Trade

- ❑ **Components of the financial account:** (i) direct investments (+/-), (ii) portfolio investments (+/-), (iii) other investments (+/-), (iv) unrecorded transactions (+/-)
- ❑ **Change in reserve:** SA's foreign reserves include gold, Special Drawings Rights (SDR)
- ❑ **Foreign exchange** is the process by which people in possession of different currencies exchange them.
- ❑ **Currency:** refers to money in any form when in actual use or circulation, as a medium of exchange, especially circulating paper money.

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International Trade

- ❑ **An exchange rate:** is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in terms of another currency.
- ❑ **Foreign exchange controls:** are various forms of controls imposed by a government on the purchase/sale of foreign currencies by residents or on the purchase/sale of local currency by non- residents.
- ❑ **Bureau de change:** is a business where people can exchange one currency for another.
- ❑ **Exchange rate systems:** (i) free-floating, (ii) managed floating, (iii) fixed

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International Trade

- ❑ **Appreciation:** it is when a country's currency gains value due to the interaction of market forces of demand and supply
- ❑ **Depreciation:** it is when a country's currency loses value due to the interaction of market forces of demand and supply
- ❑ **Devaluation:** it is the loss of value of a currency due to a deliberate move done by the SARB and this is usually done so as to make exports cheaper
- ❑ **Revaluation:** it is when a country's currency gains value due to a deliberate move by the SARB

Paper 1 Prep Economic Pursuits

Topic 5

Protectionism and Free Trade

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Protectionism and Free Trade

- ❑ **Methods / Approaches to export promotion:** (i) incentives, (ii) subsidies, (iii) trade neutrality (iv) Advantages & Disadvantages
- ❑ **Methods / Approaches to import substitution:** (i) tariffs, (ii) quotas, (iii) subsidies, (iv) exchange control, (v) physical control, (vi) diverting trade, (vii) voluntary import substitution, (viii) forced import substitution, (ix) Advantages & Disadvantages

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Protectionism and Free Trade

❑ **Arguments in favour of protectionism:** (i) Raising revenue for the government, (ii) Protecting the whole industrial base – maintaining domestic employment – protecting workers – Diversifying the industrial base, Developing strategic industries, (iii) Protecting particular industries: - Dumping – Infant industries – Declining industries, (iv) Protecting domestic standards.

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Protectionism and Free Trade

❑ **Arguments against protectionism:** (i) Misallocation of resources, (ii) The danger of retaliation and trade wars, (iii) The potential for corruption, (iv) Increased costs of production due to lack of competition, (v) Higher prices for domestic consumers, (vi) Increased costs of imported factors of production, (vii) Reduced export competitiveness

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Protectionism and Free Trade

❑ **Arguments in favour of free trade:** (i) Improves welfare for society, (ii) Permits faster growth, (iii) low priced imports, (iv) higher levels of output, (v) economies of scale, (vi) leads to mutual gains to all countries, (vii) efficient distribution of resources, (viii) consumers have greater choice, (ix) War is made less likely, (x) enhances national security.

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Protectionism and Free Trade

❑ **Arguments against free trade:** (i) Domestic production may be negatively affected, (ii) free trade in raw materials retrogrades development, (iii) international trade requires more resources to distribute, (iv) Sheltering infant industries may pay off later, (v) Free trade favours developed nations in certain areas, (vi) Influence of foreign firms, (vii) Free trade benefits only the wealthy within countries

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Protectionism and Free Trade

- ❑ **Trade protocols:** (i) Free trade areas, (ii) Customs union, (iii) Common markets, (iv) Economic union
- ❑ **South Africa's trade policy:** (i) South African Customs Union (SACU), (ii) Southern African Development Community (SADC), (iii) African Union (AU), (iv) European Union-SA FTA, (v) Mercusor-SA, (vi) WTO, (vii) BRICS, (viii) Japan-SA Partnership Forum, (ix) Multilateral Monetary Area (MMA),
- ❑ **Trade liberalization:** involves removing barriers to trade between different countries and encouraging free trade. It involves: Reducing tariffs, reducing/eliminating quotas, reducing non-tariff barriers

Paper 1 Prep

Topic 6

Economic Growth and Development

Paper 1 Prep

Economic growth and development

- ❑ **Economic growth:** an increase in the real value of production and income in a country.
- ❑ **Economic development:** structural changes in the economy that can lead to an increase in the standard of living and an increase in the level of economic welfare of the poor.
- ❑ **Characteristics of developing countries:** (i) low standards of living, (ii) high levels of unemployment, (iii) low levels of productivity, (iv) high birth rates, (v) overpopulation, (vi) dependency on primary sector, (vii) agriculturally-based economy, (viii) deficient infrastructure, (ix) high mortality rate, (x) illiteracy, (xi) low social mobility, (xii) low per capita income, (xiii) malnutrition, (ixv) strong attachment to tradition, (xv) history of colonialism

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Economic growth and development

- ❑ **Supply-side approach to economic growth and development:** (i) education and training, (ii) small, medium and micro-enterprises, (iii) fiscal policy, (iv) competition, (v) deregulation, (vi) labour legislation, (vii) research and development, (viii) privatization, (ix) infrastructure
- ❑ **Demand-side approach to economic growth and development:** (i) monetary policy, (ii) fiscal policy
- ❑ **The North-South divide:** refers to the geographical location of countries and also to socio- economic and political division amongst countries

Paper 1 Prep

Topic 7

Industrial Development Policies

Paper 1 Prep

Industrial development policies

- ❑ **Industry:** an industry consists of the numerous firms that produce the same product
- ❑ **Industrial development:** is the planning and building of new industries in the economy
- ❑ **Growth and development policies implemented since 1994:** (i) the Reconstruction and development Programme (RDP), (ii) the Growth, Employment and Redistribution Programme (GEAR), (iii) Black Economic Empowerment, (iv) the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), (v) Broad Based Black Economic Empowerment (BBBEE), (vi) Small, Medium and Micro Enterprises (SMME), (vii) Joint Initiative on Priority Skills Acquisition (Jipsa), (viii) National Skills Development Strategy (NSDS), (ix) Expanded Public Works Programme (EPWP)
- ❑ **Cross cutting issues identified by government to improve the business environment on a micro-economic level:** (i) infrastructure, (ii) access to finance, (iii) human resource development, (iv) technology

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Industrial development policies

- ❑ **Regional development:** the provision of aid and other assistance to regions which are less economically developed
- ❑ **Spatial Development Initiative (SDIs):** refers to national government initiative programme aimed at unlocking inherent and underutilized economic development potential of certain specific spatial locations in South Africa
- ❑ **SDIs in South Africa:** (i) KwaZulu-Natal SDI, (ii) Wild Coast SDI, (iii) Fish River SDI, (iv) West Coast Investment initiative, (v) Coast-to-Coast Corridor, (vi) Platinum SDI, (vii) Phalaborwa SDI, (viii) Gauteng Special Economic Zone, (ix) Maputo Development Corridor, (x) Lubombo SDI, (xi) Richards Bay Initiative

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Industrial development policies

- ❑ **Industrial Development Zone (IDZs):** they are geographically designed, purpose-built industrial sites providing services tailored for export-orientated industries
- ❑ **Aims of IDZs:** (i) job creation, (ii) promote exports, (iii) strengthen surrounding economies, (iv) raise the standard of living, (v) attract new investment, (vi) enhance competitiveness of local industries
- ❑ **IDZs in South Africa:** (i) Coega, (ii) East London, (iii) Richards Bay, (iv) OR Tambo International Airport, (v) Saldanha Bay, (vi) Dube Trade Port
- ❑ **Special Economic Zone (SEZ):** a geographically demarcated area where special economic activities have been identified to be developed

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Industrial development policies

- ❑ **Corridor:** a track of land that forms a passageway allowing access from one area to another and particular advantages to mining, manufacturing and other businesses.
- ❑ **Initiatives to promote industrial development:** (i) Small and Medium Enterprise Development Programme (SMEDP), (ii) Critical Infrastructure Fund Programme (CIFP), (iii) Duty-free Incentive, (iv) Foreign Investment Grant (FIG), (v) Strategic Investment Project (SIP), (vi) Skills Support Programme (SSP), (vii) Black Businesses Supplier Development Programme (BBSDP)

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Topic 8

Economic and Social Performance Indicators

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Economic and social performance indicators

- ❑ **Economic indicators:** they provide measurements for evaluating the health of our economy, the latest business cycles and how consumers are spending
- ❑ **Economic indicators: Production indicators:** (i) Real GDP, (ii) GDP @ current prices, (iii) per capita GDP. **Price change indicators:** (i) CPI, (ii) PPI. **Monetary change indicators:** (i) money supply, (ii) repo rate, (iii) prime interest rate, **Foreign trade indicators:** (i) terms of trade, (ii) exchange rate. **Employment indicators:** (i) full employment, (ii) economically active population (EAP), (iii) unemployment rate, (iv) employment rate, **Productivity indicators:** (i) labour productivity,

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Economic and social performance indicators

- ❑ **Social indicators:** statistics that measure the level of social development and human welfare within a country
- ❑ **Social indicators: Demographic indicators:** (i) population growth, (ii) life expectancy. **Income distribution indicators:** (i) head count index, (ii) Gini-coefficient. **Education indicators:** (i) literacy rate. **Housing and services indicators:** (i) housing, (ii) services. **Urbanisation.** (i) urbanisation. **Nutrition and health indicators:** (i) infant mortality, (ii) under-five mortality, (iii) health expenditure, (iv) access to safe drinking water, (v) access to sanitation facilities, (vi) child malnutrition, (vii) overweight children