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KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT

LAST PUSH REVISION DOCUMENT

TEACHER GUIDE

ECONOMICS: PAPER 1&2

GRADE 12

2023

NO.	TOPIC
PAPER 1	
1.	CIRCULAR FLOW: NATIONAL ACCOUNTS AGGREGATES AND THE MULTIPLIER
2.	BUSINESS CYCLES: NEW ECONOMIC PARADIGM
3.	FOREIGN EXCHANGE MARKETS
4.	PROTECTIONISM AND FREE TRADE
5.	ECONOMIC GROWTH AND DEVELOPMENT
PAPER 2	
1.	COSTS AND REVENUES
2.	PERFECT MARKETS
3.	MONOPOLY
4.	MONOPOLISTIC COMPETITION
5.	OLIGOPOLY
6.	MARKET FAILURES
7.	INFLATION
8.	ENVIRONMENTAL SUSTAINABILITY

TOPIC 1: CIRCULAR FLOW**ACTIVITY 1**

1.1. Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A-D) next to the question numbers (1.1.1. to 1.1.5) in the ANSWER BOOK e.g. 1.1.6.A

- 1.1.1. The value of all final goods and services produced within the boundaries of a country is known as GDP at _____
 A. basic price
 B. current price ✓✓
 C. constant price
 D. factor cost
- 1.1.2. The continuous movement of factors of production, goods and services among the participants in the economy is called _____
 A. leakages
 B. injections
 C. real flow ✓✓
 D. money flow
- 1.1.3. A market for short-term loans, very-short loans and investments, is known as the _____ market
 A. Money ✓✓
 B. capital
 C. product
 D. financial
- 1.1.4. The method of calculating GDP whereby compensation of employees is taken into consideration is called _____
 A. expenditure method
 B. production method
 C. income method ✓✓
 D. value-added method
- 1.1.5. An addition to the country's stock of capital or capital goods is called _____.
 A. gross domestic product
 B. gross domestic expenditure
 C. gross capital formation ✓✓
 D. gross domestic income

(5×2) 10

1.2. Choose a description from the 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. Household	D✓	A. money receive without any productive service rendered
1.2.2. Marginal propensity to save	F✓	B. total income earned by the factors of production

1.2.3. Residual items	J✓	C. committed to maintaining international peace, security, social development and human rights.
1.2.4. System of national account	C✓	D. the owners of the factors of production in the economy.
1.2.5. Autonomous consumption	G✓	E. Involves short and long-term borrowings
1.2.6. Transfer payment	A✓	F. the proportion of income that households do not consume
1.2.7. Financial market	E✓	G. spending that take place irrespective of the level of income.
1.2.8. Gross domestic income	B✓	I. the proportion of their disposable income that households spend
		J. used for balancing national income figures

(8×1) 8

1.3 Give ONE term for each of the following descriptions. Write only the correct term next to the question number in the answer book. Abbreviations, Acronyms and examples will NOT be accepted.

- 1.3.1 A model which illustrates the flows between participants in the economy.
Circular flow ✓
- 1.3.2 The total value of all final goods and services produced within the borders of a country in a given period.
Gross domestic product ✓
- 1.3.3 The proportion of additional income that households choose to spend on goods and services.
Marginal propensity to consume ✓
- 1.3.4 A small initial increase in spending which produce a proportionately larger increase in aggregate national income.
Multiplier effect ✓

(4×1) 4

ACTIVITY 2

2.1. Answer the following questions

- 2.1.1 List the TWO flows in the circular flow. (2)
 - **Real flow ✓**
 - **Money flow ✓**
- 2.1.2. What is the relationship between the size of the multiplier and the marginal propensity to consume (mpc)? (2)
 - **A positive correlation / relationship exists as the bigger mpc will result to a bigger size of the multiplier and the smaller the mpc, the smaller the multiplier ✓✓**
(Accept any other correct relevant response)

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

NATIONAL ACCOUNT AGGREGATES SOUTH AFRICA GROSS DOMESTIC PRODUCT	
	R millions

Primary sector	324 365
Secondary sector	556 708
Tertiary sector	1 789 431
Gross value added at basic prices	A
Gross domestic product at market prices	2 964 261

[Source: SARB Quarterly Bulletin]

- 2.2.1 Identify the sector that contributes the most to the gross domestic product. (1)
Tertiary sector ✓
- 2.2.2 Name the alternative term used for gross value added in national accounts. (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 correct relevant response)
- 2.2.4 How are basic prices converted to market prices? (2)
Taxes on products are added to and subsidies on products are subtracted from GDP at basic prices to get gross domestic product at market prices. ✓✓
(Accept any other correct relevant response)
- 2.2.4 Calculate the value of A. (Show all calculations) (4)
R324 365 ✓ + R556 768 ✓ + R1 789 431 ✓
= R2 760 564 ✓

ACTIVITY 3

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

NATIONAL ACCOUNT AGGREGATES OF SOUTH AFRICA	
SUMMARY OF GROSS DOMESTIC PRODUCT (at current prices)	R million 2021
Compensation of employees	2 861 309
Net operating surplus	1 795 000
Consumption of fixed capital	797 230
Gross value added at factor cost	5 453 539
Taxes on production	131 563
Less : Other subsidies on production	12 494
Gross value added at basic price	5 572 608
Taxes on products	666 769
Subsidies on products	13 965
Gross domestic product at market prices	A

Source Quarterly Bulletin, SARB, June 2022

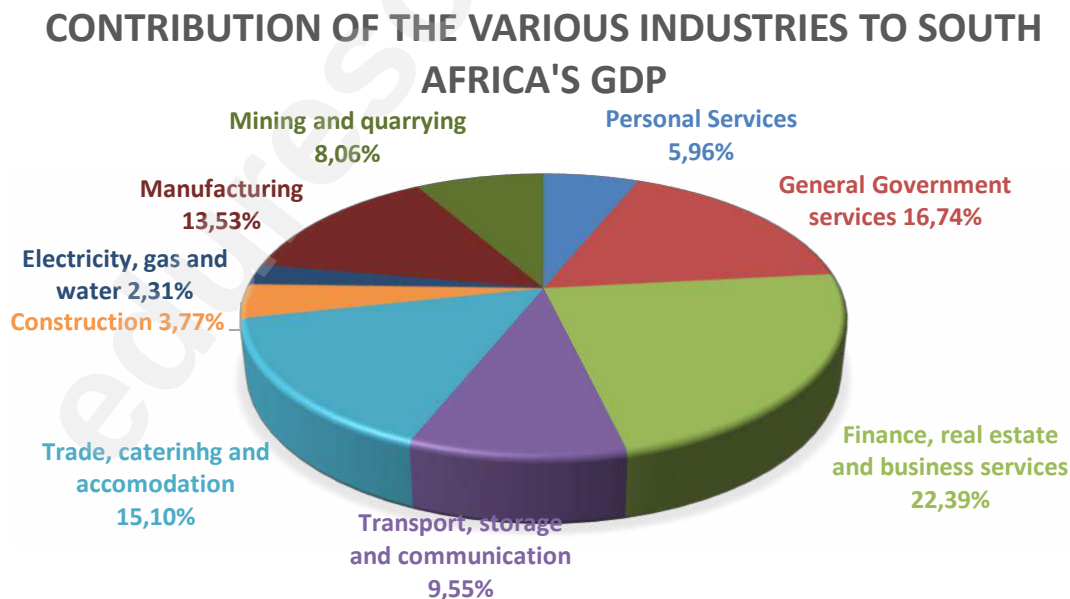
- 3.2.1 Identify the item that contributes the most to the national income in the table above. (1)
Compensation of employees ✓
- 3.2.2 Give any ONE example of taxes on products. (1)
Value Added Tax ✓
Excise tax (sin tax ,carbon tax, fuel levy) ✓

- (Accept any other correct relevant response)
- 3.2.3 Briefly describe the term *gross domestic product*. (2)
Gross domestic product refers to the value all final goods and services produced within the borders of a country. ✓✓
- (Accept any other correct relevant response)
- 3.2.4 Explain the purpose of using the System of National Account. (2)
The System of National Accounts (SNA) is the universal method of presenting national accounts aggregates prescribed by the United Nations. It enables comparison of a country's national accounts aggregates with those of other countries. ✓✓
- (Accept any other correct relevant response)
- 3.2.5 Calculate the value of gross domestic product at market price labelled (A) in the table above. Show all calculations. (4)
 $R\ 5\ 572\ 608 + R\ 666\ 769 - R\ 13\ 965 = R\ 6\ 225\ 412$ ✓✓

ACTIVITY 4

- 4.1.1 Name any TWO financial markets in the circular flow. (2×1)2
- Money market ✓
 - Capital market ✓
 - Foreign exchange market ✓
- 4.1.2 How do low savings negatively affect the South African economy? (1×2)2
- The South African economy will not be able to build up its capital stock ✓✓
 - Businesses will not be able to invest and expand their businesses. ✓✓
- (Accept any other correct relevant response)

4.2 Study the pie chart below and answer the questions that follow.

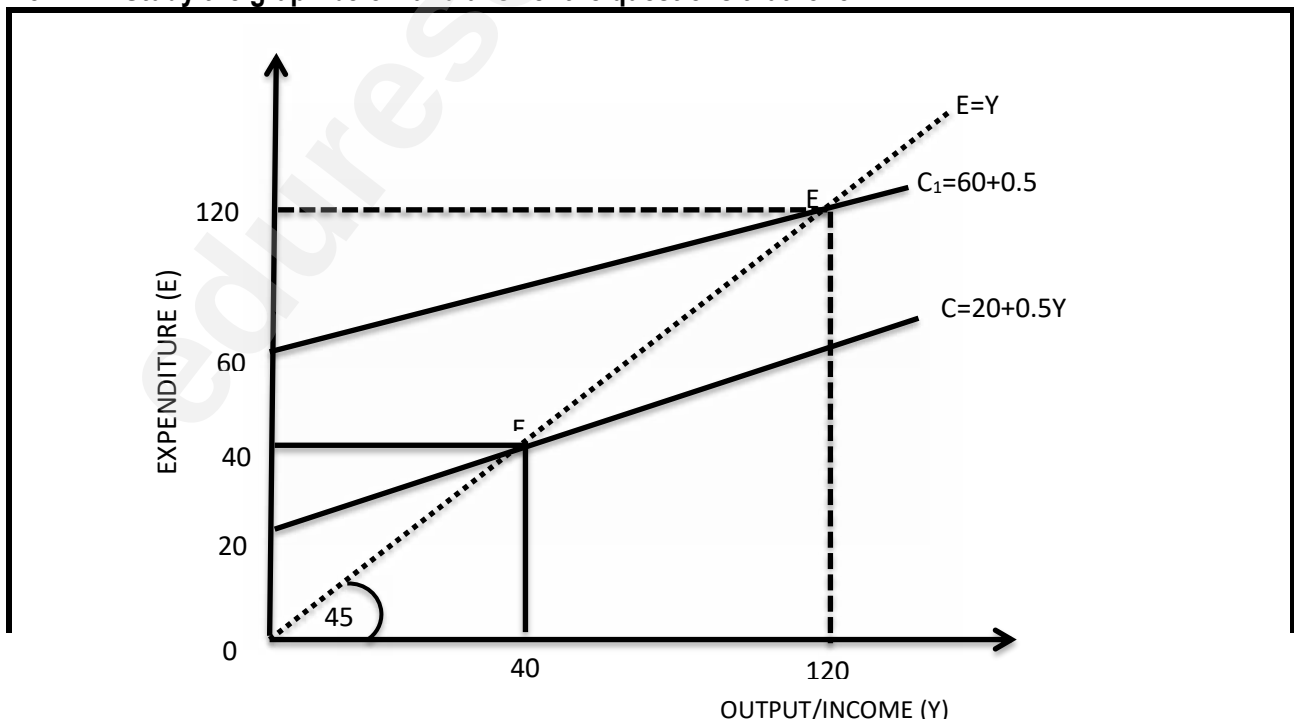


Adapted source: <https://www.southafricanmi.com>

- 4.2.1 Identify the industry which contributed the most towards economic growth in the diagram. (1)
Manufacturing ✓
- 4.2.2 Name the method used to calculate Gross domestic product in the diagram above. (1)
Production method ✓
- 4.2.3 Briefly describe the term *gross national production*. (2)
The output that a country produced by the factors of production owned by the permanent residents of that country, regardless of where the production take place. ✓✓
(Accept any other correct relevant response)
- 4.2.4 Why is the value of the multiplier in a four-sector model smaller than that of a two-sector model? (2)
The size of the multiplier will be smaller as there will be more leakages (taxes and imports) in the economy. ✓✓
(Accept any other correct relevant response)
- 4.2.5 Why is the multiplier effect important in the economy? (4)
- **Creates jobs and investment opportunities in all the sectors.** ✓✓
 - **It also spurs growth in the services such as finance and transportation** ✓✓
 - **Firms will be able to produce more quality products that are globally competitive** ✓✓
(Accept any other correct relevant response)

ACTIVITY 5

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



- 5.1.1 Identify the original consumption function on the graph. (1)
 $C=20+0.5Y$ ✓
- 5.1.2 Name any one participant that is involved in deriving macro-economic multiplier. (1)
 Businesses/households ✓
- 5.1.3 Briefly describe the term autonomous consumption. (2)
 Autonomous consumption is the spending that does not depend on the level of income. ✓✓
 (Accept any other correct relevant response)
- 5.1.4 How does an increase in tax influence the value of the multiplier? (2)
 An increase in tax decreases reduces the value of the multiplier by reducing consumption spending. ✓✓
 (Accept any other correct relevant response)
- 5.1.5 Using the formula $\Delta Y/\Delta J$, calculate the value of multiplier for the above diagram. Show all calculations. (4)
 $K = \Delta Y/\Delta J$ ✓
 $K = 80/40$ ✓
 $K = 2$ ✓✓

ACTIVITY 6

- 6.1.1 List TWO factors used to calculate macro-economic multiplier. (2)
 mps ✓ and mpc ✓
- 6.1.2 How does an increase in employment positively affect the GDP? (2)
 An increase in employment will lead to an increase in the country's economic growth and consumer spending will rise. ✓✓
 (Accept any other correct relevant response)

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

Marginal Propensity To Save



Increase in savings

÷



Increase in income

=



Marginal propensity to save

0.5

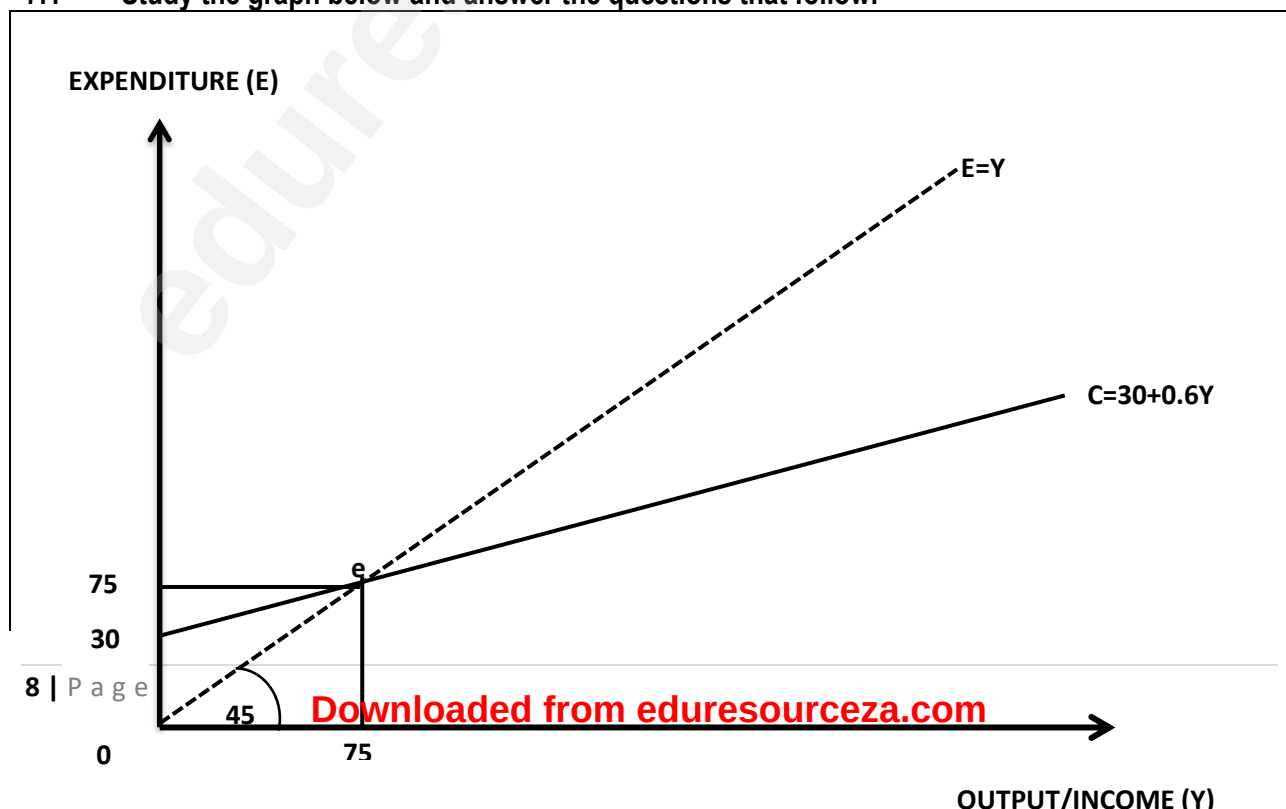
In Keynesian economics, MPS is used to determine the relationship between savings and changes in income. It shows the important aspects that are associated with expenditure habits in a household because savings and consumption are dependent on each other.

Analysts believe that an increase in government spending has a multiplier effect on the economy, while uplifting living standards for the poor.

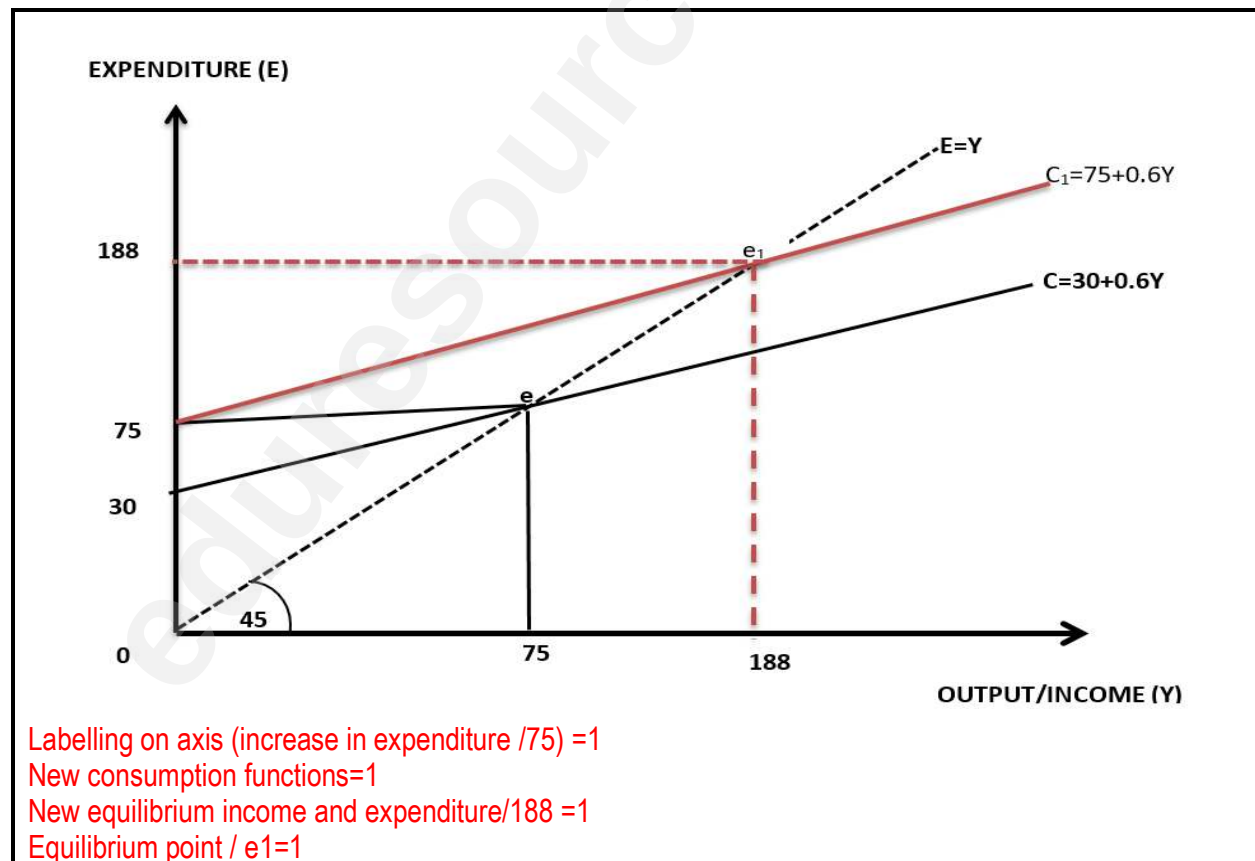
- 6.2.1 Identify an example of a leakage in the above extract. (1)
Savings✓
- 6.2.2 Name the factor that influences the size of the multiplier. (1)
mpc /mps✓
- 6.2.3 Briefly describe the concept *induced consumption*. (2)
Induced consumption is consumption that depends on the level of income. ✓✓
(Accept any other correct relevant response)
- 6.2.4 How does an increase in spending by firms affect the size of the multiplier? (2)
An increase in spending by firms creates more household's disposable income thus increasing consumer spending. This results to an increase in the size of the multiplier ✓✓
(Accept any other correct relevant response)
- 6.2.5 Suppose the marginal propensity to save is 0.5, calculate the value of the multiplier. Show all calculations. (4)
 $K = 1/mps$ ✓ = $1/0.5$ ✓ $K = 2$ ✓✓

ACTIVITY 7

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



- 7.1.1 Identify the value of the autonomous consumption in the above graph. (1)
30✓
- 7.1.2 What does the line $E=Y$ represent? (1)
Keynesian Equilibrium/ Line of equality/ 45 degree line. ✓
- 7.1.3 Briefly describe the term *marginal propensity to consume*. (2)
Marginal propensity to consume is the portion of income that is spent and not saved. ✓✓
(Accept any other correct relevant response)
- 7.1.4 Explain the relationship between the marginal propensity to consume and the multiplier. (2)
The bigger the mpc, the bigger the multiplier and the smaller the mpc, the smaller the multiplier
✓✓
(Accept any other correct relevant response)
- 7.1.5 Copy the above graph in your answer book and indicate the new consumption curve and the new equilibrium point after investment increased by 45 million. (4)



ACTIVITY 8

- 8.1 Discuss the role of firms in the circular flow. (8)
- Firms purchase the factors of production from households in the factor market. ✓✓
 - Businesses sell these goods and services to households, government and the foreign sector. ✓✓
 - Businesses receive an income from the other three participants. ✓✓
 - Firms act as buyers in the factor market and sellers in the goods market, with profit as their aim. ✓✓
 - Firms use the factors of production to produce goods and services. ✓✓
(Accept any other correct relevant response)
- 8.2 Briefly discuss the expenditure method and the income method to determine Gross domestic products. (8)
- EXPENDITURE METHOD**
- GDP at market price is determined by adding the spending of four main sectors of the economy – households, government, businesses and the foreign sector. ✓✓
 - Using the method to determine GDP yields GDP at market price. ✓✓
 - Also known as GDP(E). ✓✓
- INCOME METHOD**
- GDP at factor cost by adding all the income earned by the owners of the factors of production (Gross domestic income). ✓✓
 - This method yield to GDP at factor cost. ✓✓
 - Also known as GDP (I). ✓✓
(Accept any other correct relevant response)
- 8.3 How can the households contribute to building the economy? (8)
- By supplying factors of production that are used in the production of goods and services. ✓✓
 - Households provide savings for investments in the economy which contributes directly to increased production of goods and services. ✓✓
 - Buying South African goods which will stimulate local production and increase penetration to global markets. ✓✓
 - Paying taxes which leads better service delivery and infrastructure development by the state. ✓✓
(Accept any other correct relevant response)
- 8.4 How do financial markets benefit the economy? (8)
- Financial markets help to efficiently direct the flow of savings and investment in the economy. ✓✓
 - They do this in ways that facilitate the accumulation of capital and the production of goods and services. ✓✓
 - The markets make it easy for buyers and sellers to trade their financial holdings. Financial markets provide finance for companies so they can hire, invest and grow. ✓✓
 - Financial markets play a vital role in facilitating the smooth operation of other markets by allocating resources and creating liquidity for businesses and entrepreneurs. ✓✓
 - Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers). ✓✓
(Accept any other correct relevant response)
- 8.5 Evaluate the functioning of markets in the circular flow model. (8)
- Positive impact:**
- Facilitate the exchange of factors of production for economic activities, such as capital for investments through the factor market. ✓✓

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

Negative impact:

- Markets fail to provide relevant skills required in the economy, employment possibilities will be limited, if the factor market is ineffective. ✓✓
- SMMEs fail to provide quality goods due to lack of capital. ✓✓

(Accept any other correct relevant response)

- 8.6 Calculate the change in aggregate income if there is an injection of R20 billion into the economy with a marginal propensity to save of 0,3. Explain how the multiplier effect could influence the government to create more jobs. Show ALL calculations. (8)

Calculation:

$$k = 1 / mps$$

$$k = 1 / 0.3 ✓$$

$$k = 3.3 ✓$$

- Change in National Income = R20bn x 3.3 ✓
= R66bn / R66,6 / R67 ✓ (Max 4)
 - Due to the injection of R20b in the economy, jobs are created and resulted in increased national income. ✓✓
 - Increased in national income resulted in increased spending in the economy which will ultimately lead to even more jobs being created – knock-on effect. ✓✓
 - Government can also decrease taxation, putting more money in the pockets of the consumer. The extra money will be spent by the consumer, leading to increased employment. ✓✓
 - Government can decrease company taxes that might lead to increased investment by businesses focusing on labour intensive production methods. ✓✓
- (Accept any other correct response)

BUSINESS CYCLES

- 1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write ONLY the letter (A-D) next to the question number (1.1.1 – 1.1.5)

- 1.1.1 The policy that is used to dampen an over-heated economy?

- A. fiscal policy
- B. expansionary fiscal policy
- C. restrictive fiscal policy ✓✓
- D. monetary policy

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

- A. boom.
- B. depression
- C. recession ✓✓
- D. recovery

- 1.1.3 The vertical distance between the trough and peak is called...
- A. peak
 - B. length
 - C. trend
 - D. amplitude. ✓✓
- 1.1.4 Cycles that lasts 7-11 years and are caused by changes in the level of investments are called...
- A. juglar. ✓✓
 - B. kitchin.
 - C. kuznet.
 - D. kondratief.
- 1.1.5 The indicator that changes after the economy has changed is known as.....
- A. leading
 - B. lagging ✓✓
 - C. economic
 - D. coincident
- (5x2) 10

1.2 Choose the 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 Open market transactions	E✓	A. When banks are requested to act in a manner that is desirable to economic conditions
1.2.2 Supply side approach	C✓	B. Compulsory payment to the government made by those who receive income
1.2.3 Peak	F✓	C. An assumption that if the economy is stimulated to produce more goods and services economic growth will occur.
1.2.4 Moral suasion	A✓	D. The period of prosperity in a business cycle.
1.2.5 Kitchin cycle	I✓	E. The buying and selling of government securities to control money supply
1.2.6 Inflation	G✓	F. The higher turning point of a business cycle.
1.2.7 Taxation	B✓	G. The sustained and considerable increase in the general prices of goods and services.
1.2.8 Deregulation	H✓	H. Removal of rules to increase efficiency of markets
		I. They are cause by changes in the inventory levels

(8X1) 8

1.3 Give ONE 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 An indicator that informs the household, investors and the government about the current state of the economy.
Coincident indicator✓
- 1.3.2 A measure employed by the reserve bank to stimulate the economy.
Expansionary monetary policy✓
- 1.3.3 The rate at which one currency can be exchanged for another.
Exchange rate✓
- 1.3.4 The worst phase of a business cycle where unemployment is the highest.
Depression✓
- 1.3.5 The movement of the economy in a general direction.
Trend✓
- 1.3.6 The causes of business cycles that develop inside the economy.
Endogenous reasons✓

(6X1) 6

ACTIVITY 2

2.1 Answer the following questions

2.1.1 Give any TWO types of business cycles. (2)

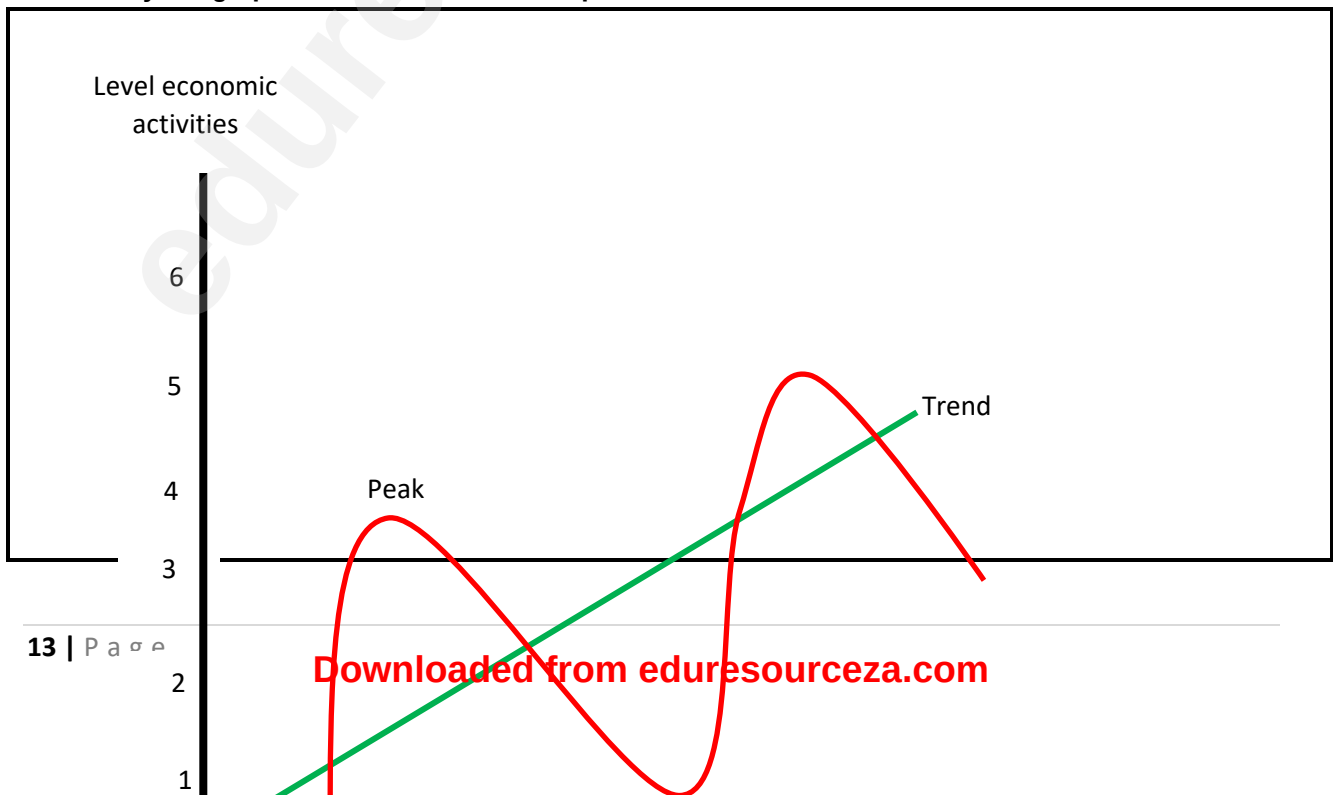
- **Kitchin cycle**✓
- **Juglar cycle**✓
- **Kuznet cycle**✓
- **Kondratief**✓

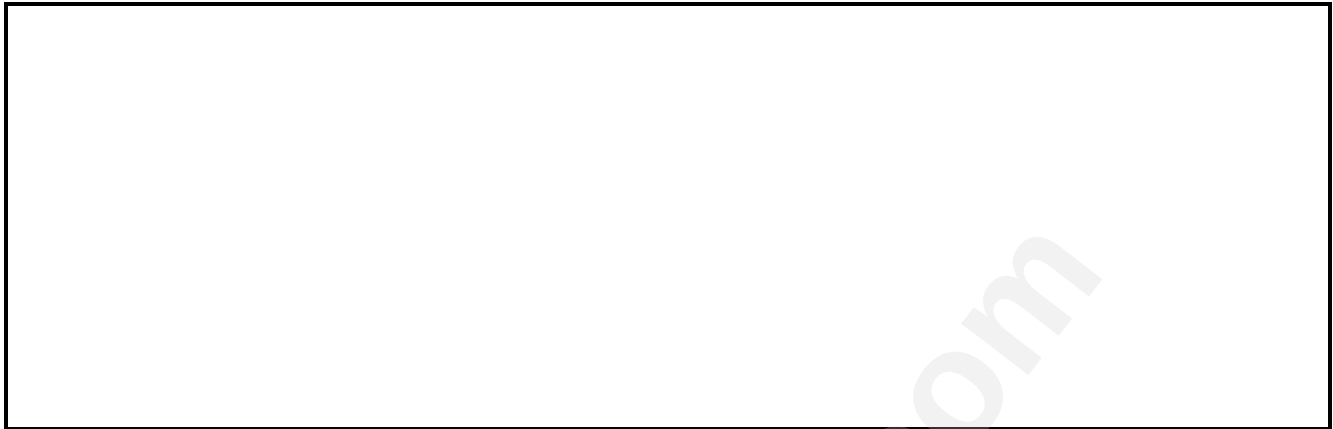
2.1.2 What is a purpose of an amplitude as a feature underpinning forecasting of business cycles? (2)

The purpose of an amplitude is to measure the severity of fluctuations of economic activities in the economy. ✓✓

(Accept any other relevant correct answer)

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





2.2.1 Identify the lowest turning point on the graph above. (1)

Trough ✓

2.2.2 What type of trend is shown on the business cycle above? (1)

Positive trend ✓

2.2.3 Briefly describe the term *business cycle*. (2)

Business cycle is a fluctuation in the level of economic activities which result in contraction or expansion over time. ✓✓

(Accept any other relevant correct answer)

2.2.4 How are business cycles measured? (2)

- Length is used to measure business cycle from peak to peak or trough to trough ✓✓

(Accept any other relevant correct answer)

2.2.5 Calculate the value of amplitude between the years 2018 and 2019. (4)

$$A = x - y ✓$$

$$A = 5 - 1 ✓✓$$

$$A = 4 ✓$$

2.2.6 Use the GDP data below to calculate a five year moving average for 2020. (4)

Year	2016	2017	2018	2019	2020	2021	2022
GDP(R(bn))	6	6	7	9	5	8	11

$$6+6+7+9+5 ✓ = 33/5 ✓✓ = 6.6 ✓$$

ACTIVITY 3

3.1 Answer the following questions

3.1.1 Give TWO periods of a business cycle (2)

- Contraction ✓ / downswing ✓

- Expansion ✓ / upswing ✓

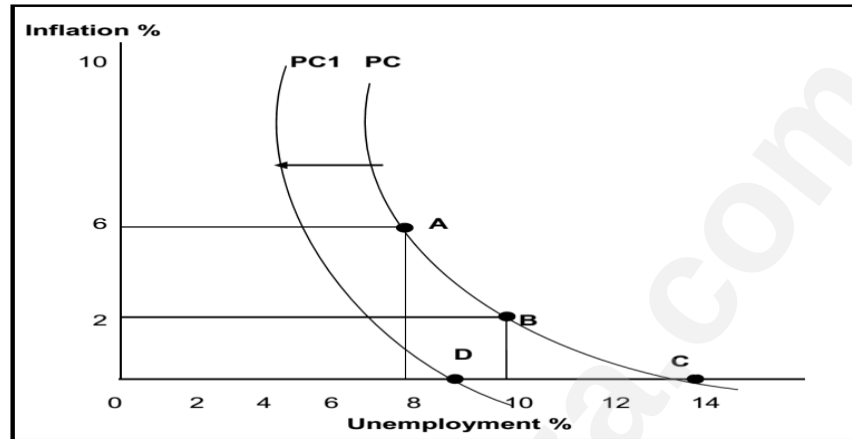
3.1.2 What does a positive trend line imply about the economy of the country? (2)

A positive trend line implies a growth in the level of economic activities in the economy. ✓✓

(Accept any other relevant correct answer)

3.2 Study the graph below and answer questions that follow.

THE RELATIONSHIP BETWEEN UNEMPLOYMENT AND INFLATION



3.2.1 Identify the value of inflation when unemployment rate is at 14%? (1)

0%✓

3.2.2 What is depicted by the graph above? (1)

Phillips curve✓

3.2.3 Briefly describe the term *new economic paradigm*. (2)

New economic paradigm is a policy that focuses on demand and supply side policies to smooth out business cycles. ✓✓

(Accept any other relevant correct answer)

3.2.4 Why does inflation increase if unemployment decreases? (2)

An increase in employment enables people to earn income which increase their disposable income. ✓✓

Increases in disposable income stimulate the aggregate demand which leads to increase in price as the demand increases faster than the supply. ✓✓

(Accept any other relevant correct answer)

3.2.5 How can a reduction in cash reserves requirements stimulate the economic activities? (4)

- The banks will have more money/cash available to offer to their clients leading to an increase in aggregate demand. ✓✓
- The level of spending by consumers will increase and realise high profit margins leading to an increase in the level of employment in the country. ✓✓

- Firms will have access to credit that could be used to increase production leading to economic growth. ✓✓

(Accept any other relevant correct answer)

ACTIVITY 4

4.1 Answer the following questions.

4.1.1 List any TWO instruments of the monetary policy. (2)

- Interest rates✓
- Money supply✓
- Cash reserve requirements✓
- Moral suasion✓

4.1.2 How can a moving average be used to forecast business cycle? (2)

A statistical calculation of a moving average is performed in a series of data to spot out the trend and forecasters can smooth out minor fluctuations in a series of data. ✓✓

(Accept any other relevant correct answer)

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

SOUTH AFRICAN LEADING BUSINESS CYCLE INDICATOR

The composite leading business indicator in South Africa dropped 0.1% month-on-month in June 2023 from a 1.7% fall in the previous period. It marked the softest decline in the current contraction sequence as six of the nine available component time series increased but was slightly outweighed by the remaining three.

Source: <http://www.tradingeconomics.com/south-africa>

4.2.1 Identify a period of business cycle from the extract above. (1)

Contraction✓/Downswing✓

4.2.2 Name a feature that is used to forecast business cycles from the extract above. (1)

Leading business cycle indicator /Leading indicator✓

Composite indicator✓

4.2.3 Briefly describe the term *business cycle*. (2)

Business cycle is successive periods of growth and decline in the economic activities. ✓✓

(Accept any other relevant correct answer)

4.2.4 How can an increase in money supply positively influence the business sector? (2)

- When money supply increases, the market demand increases simultaneously and businesses can realise high profit margins. ✓✓
- An increase in money supply allows the business sector to take advantage of resources thereby operating at their optimum capacity. ✓✓
(Accept any other relevant correct answer)

4.2.5 How could the fiscal policy be used to stimulate the economic activity in a country? (4)

- A decrease in tax increases disposable income of consumers which results to increase in aggregate demand. ✓✓
- An increase in government spending creates more job opportunities leading to an increase in production of goods and services in the economy. ✓✓
(Accept any other relevant correct answer)

ACTIVITY 5

5.1 Answer the following questions

5.1.1 Name TWO views of business cycles? (2x1) (2)

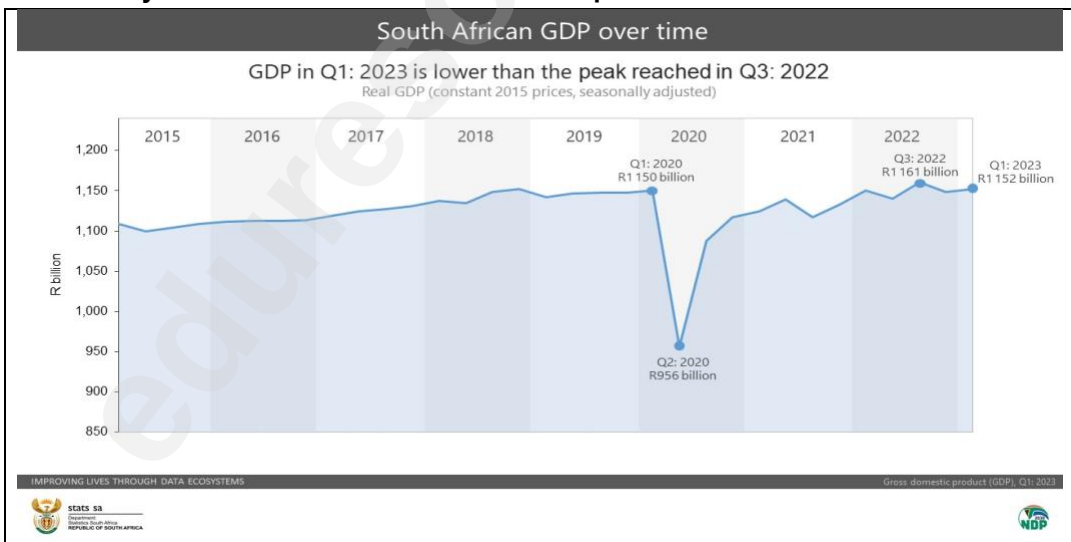
- Monetarist view ✓✓
- Keynesian view ✓✓

5.1.2 How can interest rates be used to dampen an overheating economy? (2)

The South African reserve bank may increase interest rates to make credit more expensive and unaffordable. ✓✓

(Accept any other relevant correct answer)

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



Source: StatsSA

5.2.1 Identify the base year from the graph. (1)

2015 ✓✓

- 5.2.2 When was the lowest turning point in South African economy according to the graph above? (1)
Q2:2020 ✓✓
- 5.2.3 Briefly describe the term *extrapolation*. (2)
Extrapolation is the technique that is used to predict the future of a business cycle from previous data. ✓✓
(Accept any other relevant correct answer)
- 5.2.4 Briefly explain the importance of measuring the economic growth. (2)
Economic growth is measured to determine the value of the real gross domestic product over a given period of time. ✓✓
Economic growth is used to compare the economic performance of a country against other countries by the World Bank. ✓✓
(Accept any other relevant correct answer)
- 5.2.5 How does low economic growth affect the economy? (4)
Low economic growth affects the economy by:
- decreasing in the level of employment which results to increase in poverty. ✓✓
 - reducing the level of income which decreases aggregate demand ✓✓
 - decreasing government revenue as a result of increased unemployment and low investments ✓✓
- (Accept any other relevant correct answer)

ACTIVITY 6

- 6.1 Briefly discuss endogenous and exogenous reasons as causes of business cycle fluctuations. (8)

Endogenous reasons	Exogenous reasons
• The Keynesian (endogenous) view that markets are inherently unstable, therefore government intervention is necessary to stabilize the economy. ✓✓ • They argue that changes in the value of total expenditure bring about changes in demand. ✓✓ • Government can intervene through fiscal policy which includes taxes and government spending. ✓✓ • During a recession, the government can increase its spending and reduce taxes to stimulate economic activity. ✓✓ • This will increase the level of economic activity e.g. production, employment, income and demand. ✓✓	• The Monetarist (exogenous) believes markets are inherently stable by nature, departures from the disequilibrium state are caused by factors outside the market system. ✓✓ • Exogenous factors are also called sunspot theory / exogeneous approach / monetarist approach. ✓✓ • Market forces (supply and demand) kick in and bring the economy back to its natural state or equilibrium route. ✓✓ • The monetarist believes that the growth of the economy is determined by the natural growth in the supply of available resources. ✓✓ • If imbalances occur, the market forces will always bring the markets back to the equilibrium. ✓✓

- During the peak the government can increase taxes and reduce government spending. ✓✓ - This will result in reduced income, reduced demand for the factors of production and expenditure. ✓✓ (Accept any other correct relevant response)	- They believe that any government intervention upset the inherently stable market system resulting in fluctuations in the level of economic activity, therefore government should not intervene in the market. ✓✓ - They believe that major causes of fluctuations are caused by inappropriate government policies e.g. undesirable increases and decreases in money supply, weather conditions etc. ✓✓ (Accept any other correct relevant response)
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ACTIVITY 7

Discuss in detail the features underpinning forecasting of business cycles. (26)
How can open market transactions be used as a tool to smoothen business cycles? (10)

Introduction

Business cycle is successive periods of growth and decline in the economic activities ✓✓ (max 2)
(Accept any other relevant correct answer)

Body:

Main part

- Leading economic indicators** ✓✓
 - These are indicators that change before the economy changes ✓✓
 - They give consumers, businesses and policy makers a glimpse of where the economy is heading. ✓✓
 - They reach the peak before the economy reaches the peak. ✓✓
 - This is the most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
 - When these indicators show prosperity, the level of economic activities will also rise in a few months' time. ✓✓
 - E.g. number of new vehicles sold, real exports of goods, etc. ✓
- Coincident economic indicators** ✓✓
 - They move at the same time as the economy. ✓✓
 - It indicates the current state of the economy. ✓✓
 - If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at the same time. ✓✓
 - E.g. retail sales. ✓
- Lagging indicators** ✓✓
 - They change direction after the business cycle has changed its direction. ✓✓

- They serve to confirm the behaviour of coincident indicators. ✓✓
 - If the business cycle reaches the peak and begins to decline, we are able to predict the value of new machinery sold. ✓✓
 - E.g. new machinery sold. ✓
4. **Composite indicators**✓
- It is a grouping of various indicators of the same type into a single value. ✓✓
 - The single figure forms the norm for a country's economic performance. ✓✓
5. **Length**✓
- This is the time that it takes for a business cycle to move through one complete cycle. ✓✓
 - It is measured from peak to peak/ trough to trough. ✓✓
 - It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
 - If business cycles have longer length, we consider the economy to be strong. ✓✓
6. **Amplitude**✓
- It is the difference between the total output between a peak and a trough. ✓✓
 - It measures the distance of the oscillation of a variable from the trend line.
 - It measures the intensity of upswing and downswing in the economic activity. ✓✓
 - The larger the amplitude the more extreme the changes that may occur. ✓✓
7. **Trend line**✓
- A trend line shows the general direction of the economy. ✓✓
 - It usually has a positive slope because the production capacity of the economy increases over time. ✓✓
 - It indicates the rate of increase or decrease in the level of output. ✓✓
8. **Extrapolation**✓
- This is the technique of using past data to make predictions about the future. ✓✓
 - e.g. prediction of future share price. ✓✓
9. **Moving averages**✓
- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time. ✓✓
 - Moving averages are used to smooth out any minor fluctuations and reveal trends in the business cycles. ✓✓
- (Accept any other relevant correct answer) (Max.26)

Additional part

How can open market transactions be used as a tool to smooth out business cycles?

- Reducing or increasing the supply of money by buying or selling government securities and treasury bills in the open market to control money supply. ✓✓
- Buying and selling government bonds to banks and other financial institutions. ✓✓
- Debiting the bank's account with the value of the sale and the bank's balance with the Reserve Bank to reduce its ability to offer credit. ✓✓

- Crediting the bank's account with the amount of the purchase thus leaving the bank with enough money to lend borrowers. ✓✓
- Using the policy during recession as a strategy of stimulating the economy. ✓✓ (10)
(Accept any other relevant correct answer)

Conclusion

Economists need to foretell what is likely to happen in the economy by studying and monitoring a variety of economic variables. ✓✓

(Accept any other relevant correct answer) (2)

ACTIVITY 8

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

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

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

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. ✓✓
- But as unemployment falls, inflation starts to rise. ✓✓
- The relationship between unemployment and inflation is shown using the Phillips curve. ✓✓

(Max. 13 Marks)

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. ✓✓

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. ✓✓
- **Infrastructural 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. ✓✓

Improving the efficiency of inputs✓

- **Tax rates**✓: low rates of personal income tax and corporate income tax are an incentive as they reduce costs and increase profits✓✓.
- **Capital consumption**✓: Replacing capital goods regularly creates opportunities for businesses to keep up with technological development. ✓✓
- **Human resources development**✓: Improving skills and training 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. ✓✓

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. This disadvantages the private sector.✓✓

(Max. 13 marks)

(Accept any other relevant correct answer)

(26)

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

The government should strike a balance between supply- side and demand -side policies so as to avoid provoking inflation and unemployment. ✓ ✓
(max 2)
(Accept any other relevant and correct response)

TOPIC 3: BALANCE OF PAYMENTS

ACTIVITY 1

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 numbers (1.1.1- 1.1.8) in the ANSWER BOOK, for example 1.1.8. D.

- 1.1.1 When the value of exports exceeds the value of imports is called a.....
A. trade balance
B. trade deficit
C. trade surplus ✓ ✓
D. trade account
- 1.1.2 The sum of direct investment, portfolio investment and other investment is known as.....
A. current account
B. financial account ✓ ✓
C. capital transfer account
D. current transfer account
- 1.1.3 An international institution that helps countries with ongoing balance of payments problems is known as the.....
A. World Bank
B. United Nations
C. World Trade Organisation
D. International Monetary Fund ✓ ✓
- 1.1.4 Goods and services that are sold to other countries are called.....
A. exports ✓ ✓
B. imports
C. trade
D. merchandise
- 1.1.5 Money, goods and services exchanged between residents and non- residents without rendering any productive service is referred to as....
A. current transfers ✓ ✓
B. current assets
C. capital transfer
D. current account
- 1.1.6 A financial instrument created by the International Monetary Fund to member countries when experiencing balance of payment difficulties is called....
A. foreign exchange rate
B. special drawing rights ✓ ✓

- C. balance of payments
D. net financial derivatives
- 1.1.7 Purchase of liquid assets where the investor is only interested in the expected financial return is referred to as....
A. direct investment
B. other investment
C. financial investment
D. portfolio investment ✓✓
- 1.1.8 An item of the current account that captures inflow of capital from services rendered by a South African in other countries is known
A. income payments
B. income receipts
C. service receipts ✓✓
D. service payments

(8x1) 8

- 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 Merchandise imports	A. the value of exports minus imports	I ✓
1.2.2 Balance of payments	B. money, goods or services transferred between residents and non- residents without receiving anything tangible in return	D ✓
1.2.3 Capital transfer account	C. various forms of foreign currency, deposits and securities used to balance international transactions	F ✓
1.2.4 Trade deficit	D. a systematic record of a country's transactions with the rest of the world	G ✓
1.2.5 Direct investment	E. a component of the balance of payments that covers claims on or liabilities to non-residents concerning financial assets	H ✓
1.2.6 Financial account	F. transactions and grants relating to the ownership of assets by migrants	E ✓
1.2.7 Trade balance	G. when country imports a greater value of goods and services than it exports	A ✓
1.2.8 Reserve assets	H. investments in foreign businesses for the purpose of getting a meaningful percentage share and control of the business	C ✓
	I. tangible goods bought from other countries	

(8x1)8

- 1.3 Give one term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1- 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples WILL NOT be accepted.
- 1.3.1 The balance of payments account that records transactions related to exports and imports

of goods and services.

current account✓

1.3.2 An item in the balance of payments that caters for any omissions and errors.

Unrecorded transactions✓

1.3.3 A record of all transactions between one country and the rest of the world.

balance of payments✓

1.3.4 A financial contract that derives its value from an underlying asset.

financial derivative✓

1.3.5 A balance of payments with import expenditure not having the same value as its export income.

disequilibrium✓

1.3.6 The difference between visible exports and visible imports.

trade balance✓

(6x1) (6)

ACTIVITY 2

2.1.1 Name any TWO examples of merchandise exports.

(2)

minerals, ✓ clothing✓, vegetation✓, vehicle✓

(Accept any other relevant and correct response)

2.1.2 Why are liabilities reflected as a positive entry in the financial account?

(2)

Liabilities show an inflow of funds as money is coming into the country e.g. loans from abroad. ✓✓

(Accept any other relevant and correct response)

2.2 Study the extract below and answer questions that follow

SA's CURRENT ACCOUNT DEFICIT

South Africa posted a current-account deficit for the first time in three years in 2022 as imports increased and power shortages and rail constraints curbed exports, heightening the nation's vulnerability to external shocks.

Adapted from News 24

2.2.1 Identify one reason leading to South Africa having a current account deficit in 2022.

(1)

increase in imports✓

power shortages✓

rail constraints✓

2.2.2 Name another sub- account of the balance of payments.

(1)

financial account✓

capital transfer account✓

2.2.3 Briefly describe the term *current transfers*.

(2)

Current transfers refer to the money, goods and services exchanged between residents and non-residents without rendering any productive services. ✓✓

(accept any other relevant correct response)

2.2.4 What is the purpose of the balance of payments?

(2)

The purpose of the balance of payments is to record all trade transactions between South Africa and the rest of the world ✓✓

(accept any other relevant correct response)

2.2.5 How does continuous balance of payments surplus negatively affect the country?

(4)

- More money flows in the economy of the country through export earnings that will lead to inflation. ✓✓

- Less goods and services will be exported to high prices ✓✓

- Increase in interest rates in an attempt to curb the inflation ✓✓
(accept any other relevant correct response)

ACTIVITY 3

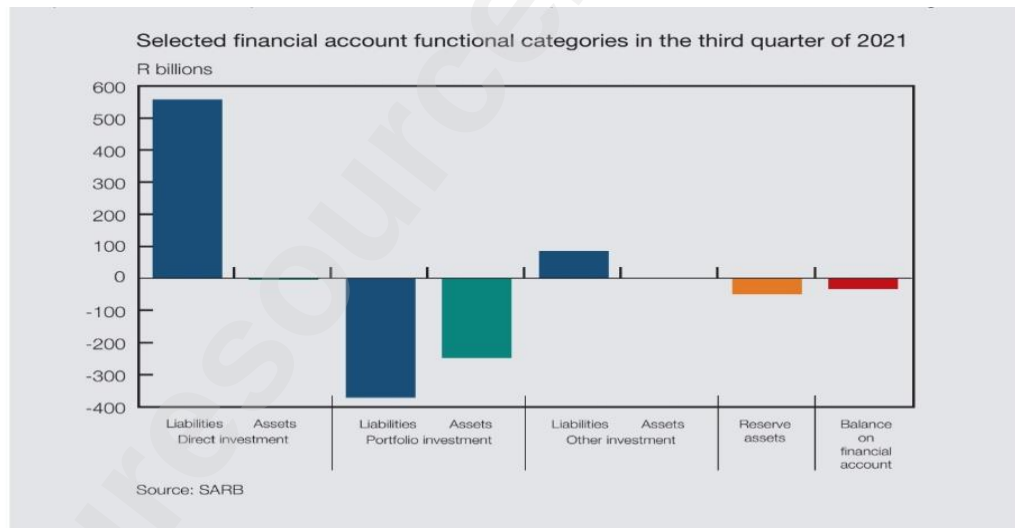
3.1.1 Name any TWO items of the current account. (2)

Merchandise export ✓
Merchandise import ✓
Net gold export ✓
Current transfers ✓
Service receipts ✓
Payment for services ✓

3.1.2 How can import control be used to correct balance of payments disequilibria? (2)

Import control can be used by putting ban and embargo to restrict imports goods and Services. ✓✓
(Accept any other correct relevant response)

3.2 Study the graph below and answer questions that follow



3.2.1 Identify the balance of payments' sub-account in the above graph. (1)

Financial account ✓

3.2.2 Name any ONE item recorded in portfolio investment. (1)

Ordinary shares ✓
Debt securities ✓
(accept any other relevant responds)

3.2.3 Briefly describe the term *reserve assets*. (2)

Reserve assets refer to the currency, commodities and other financial capital held by SARB to finance trade imbalance. ✓✓
(Accept any other correct relevant response)

- 3.2.4 What is the impact of an increase in imports on balance of payments (2)
 More imports will create a deficit on balance of payment. ✓✓
 (accept any other relevant response)
- 3.2.5 How does load-shedding affect South Africa's current account? (4)
 Less goods and services are produced which reduces the quantity of goods exported. ✓✓
 Allow the foreign services which increases the outflow of money ✓✓
 Good are imported from other countries which create deficit on current account. ✓✓
 (accept any other relevant response)

ACTIVITY 4

- 4.1.1 Name any TWO subaccounts of the balance of payments. (2)
 Current account ✓
 Financial account ✓
 Capital Transfer account ✓
- 4.1.2 What impact will a deficit on current account have on the balance of payments? (2)
 A deficit on the current account will have negative impact on the balance of payments ✓✓
 (Accept any other relevant and correct response)

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

SOUTH AFRICA'S BALANCE OF PAYMENTS – 2022	
Item	Rands
Merchandise exports	300 000
Net Gold exports	180 000
Merchandise imports	100 000
Services receipts	50 000
Services payments	28 000
Income receipts	15 000
Income payments	10 000
- Net transfers	12 00

- 4.2.1 Identify the item that captures donations from one country to another country? (1)
 Net transfers ✓
- 4.2.2 Name ONE example of merchandise export. (1)
 Motor vehicles ✓ / clothing ✓ // furniture ✓ // food ✓ / minerals ✓
 (Accept any other correct response)
- 4.2.3 Briefly describe the term *portfolio investments*. (2)
 Portfolio investments refers to buying of shares that do not give controlling interest in that company. ✓✓
 (Accept any other correct response)
- 4.2.4 Why is net gold export recorded as a separate item on the current account? (2)
 Net gold export is recorded separately because of the high amount of money that it earns as an individual product and SA relies heavily on it an earner of income. ✓✓
 (Accept any other correct response)
- 4.2.5 Calculate the balance of trade from the table above. (4)
 Merchandise exports + Net Gold Exports – Merchandise imports

$$\begin{aligned}
 &= \text{R}300\,000 \checkmark + \text{R}180\,000 \checkmark - \text{R}100\,000 \checkmark \\
 &= \text{R}380\,000 \checkmark
 \end{aligned}$$

ACTIVITY 5

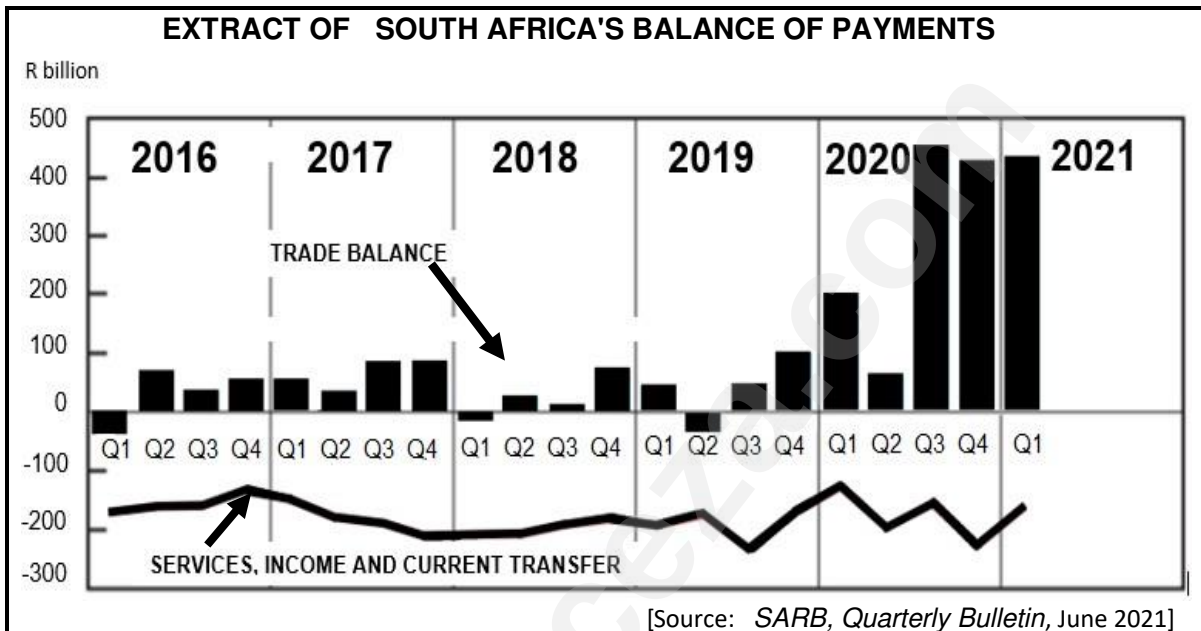
5.1 Study the information below and answer questions that follow.

	Years	2021	2022			
	Quarters	Q1–4	Q1	Q2	Q3	Q4
	Current account items	R bn	R bn	R bn	R bn	R bn
	Exported goods	1176	1193	1233	1258	1260
	Net gold exports	72	56	50	70	93
	Service receipts	210	208	213	215	215
	Income receipts	97	123	106	117	121
	Current transfers	-35	-36	-35	-36	-36
	Imported goods	1223	1207	1314	1284	1250
	Service payments	218	221	229	226	230
	Income payments	251	266	230	303	241
			[Adapted from SARB QB, December 2022]			

- 5.1.1 Identify the current account item that captures donations? (1)
Current transfers ✓
- 5.1.2 Give the economic concept illustrated in the table above. (1)
Balance of payments/BOP ✓
- 5.1.3 Briefly describe the term *trade balance*. (2)
Trade balance is the difference between merchandise exports plus net gold export and the merchandise imports. ✓✓
 (Accept any other relevant and correct response.)
- 5.1.4 Why are net gold export figures positive in South Africa? (2)
This is because South Africa is the world's largest exporter of gold, and therefore a net exporter. ✓✓
 (Accept any other relevant and correct response.)
- 5.1.5 Calculate the balance on the current account for the second quarter of 2022. Show ALL calculations. (4)
Current account balance = (inflows) – (outflows) + (current transfers)
= (R1 233 + R50 + R213 + R106) ✓ – (R1 314 + R229 + R230) ✓ + (-35)
= 1 602 – 1773 – 35
= - 206 ✓✓

ACTIVITY 6

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



- 6.1.1 Identify any year in which South Africa experienced a trade surplus in all four quarters. (1)
2017/ 2020 ✓
- 6.1.2 Name the balance of payments sub-account represented by the graph above. (1)
Current account ✓
- 6.1.3 Briefly describe the term *current transfers*. (2)
Current transfers record the transactions of money such as donations, gifts and pension transferred between residents and non-residents. ✓✓
(Accept any other correct relevant response)
- 6.1.4 Explain the effect of the rand depreciation on the trade balance. (2)
Imports will become expensive while export become cheaper resulting in trade balance surplus as inflow of funds will be greater than the outflow. ✓✓
(Accept any other correct relevant response)
- 6.1.5 How can an increase in interest rates improve the balance of payments? (4)
- Borrowing may be expensive for households which will discourage expenditure on imports, reducing deficit on the current account. ✓✓
 - Higher returns on financial investments to foreign investors may create net capital inflow, increasing the balance on financial account. ✓✓
 - Higher interest rates encourage local households to save and discourage expenditure on imports, increasing the trade balance. ✓✓
- (Accept any other correct relevant response)

ACTIVITY 7

7.1 How can South Africa reduce imports in order to correct the balance of payment deficit? (8)

South Africa can reduce imports in order to correct the Balance of Payment (BOP) deficit by:

- increasing interest rate to discourage domestic expenditure including imported goods and services. ✓✓
 - increasing indirect taxes such as personal income tax to reduce household's disposable income and discourage their expenditure on imports. ✓✓
 - imposing import tariffs and duties to make imported goods and services more expensive and reduce domestic expenditure on them. ✓✓
 - reducing the availability of foreign exchange to discourage domestic expenditure on imports. ✓✓
 - implementing strict customs procedures to delay the process of purchasing imports. ✓✓
 - encouraging domestic production of imports such that consumers will purchase them on local markets. ✓✓
 - increasing aggregate supply of goods and services to avoid shortages on local markets. ✓✓
 - devaluing the rand to make imports relatively more expensive. ✓✓
- (Accept any other correct and relevant response.)

FOREIGN EXCHANGE ACTIVITIES

ACTIVITY 1

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 (1.1.1-1.1.3) in the ANSWER BOOK

1.1.1 Deliberate action by the government to lower the value of the currency is known as ...

- A depreciation
- B appreciation
- C devaluation ✓✓
- D revaluation

1.1.2 The ratio of the index export prices and import prices is known as ...

- A terms of trade ✓✓
- B exchange rate
- C balance of trade
- D current account

1.1.3 A decrease in the value of the currency because of market forces is known as.....

- A overvalued
- B depreciated ✓✓
- C undervalued
- D appreciated

(3x 2) (6)

ACTIVITY 2

2.1 Answer the following questions:

2.1.1 Name any TWO types of exchange rate systems. (2)

Free floating exchange rate ✓

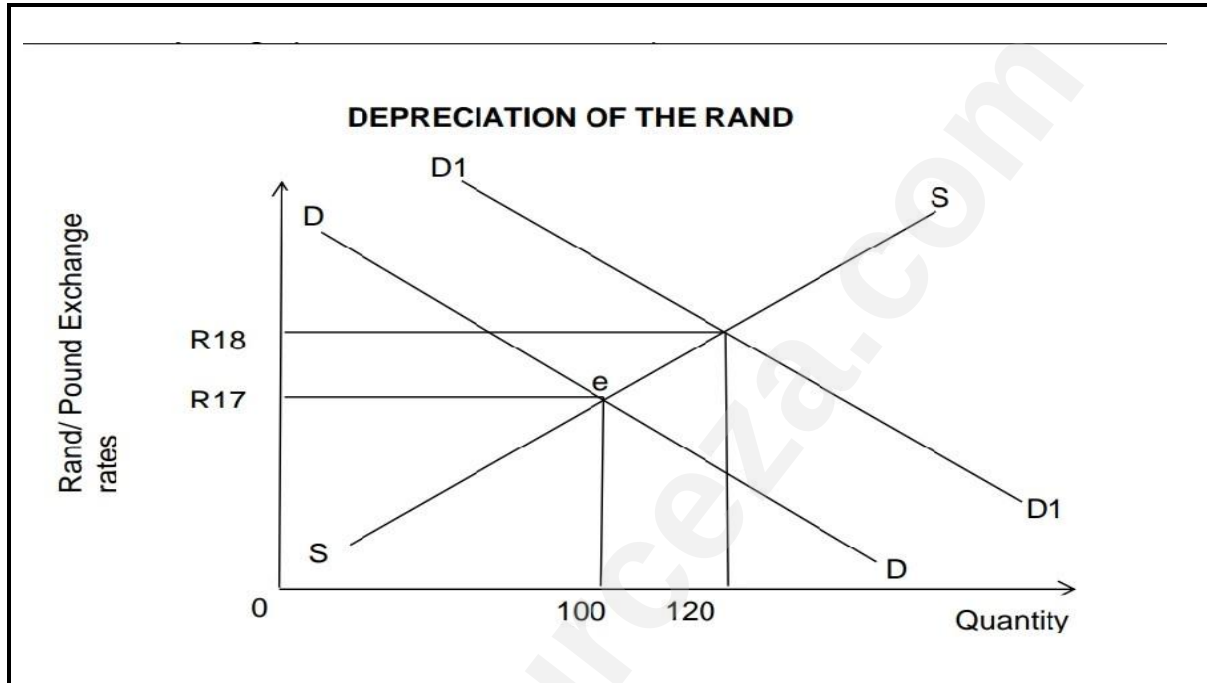
Managed/ Controlled exchange rate ✓

Fixed exchange rate ✓

2.1.2 What impact will the depreciation of a currency have on the balance of payment account? (2)

It will have a positive impact because exports will increase, and imports will decrease. This will cause an inflow of foreign exchange✓✓
(Accept any other correct and relevant response.)

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



- 2.2.1 Identify the original demand curve in the above graph? (1)
DD✓
- 2.2.2 What has happened to the value of the rand when prices change from R17 to R18? (1)
Rand depreciates✓
- 2.2.3 Briefly describe the term *exchange rate*. (2)
The price of one currency expressed in terms of another✓✓
(Accept any other correct relevant response)
- 2.2.4 Explain the effect of devaluation of a currency on exports. (2)
Devaluation of a currency will make local products to be cheaper leading to an increase in exports. ✓✓
(Accept any other correct and relevant response.)
- 2.2.5 How will the depreciation in the value of a currency affect businesses? (4)
Depreciation of a currency affects businesses by:
- Making imports expensive leading to an increase in prices of goods and services. ✓✓
 - Reducing aggregate demand of local products resulting to a decrease in profits✓✓
 - Reducing export prices which results to an inflow of foreign currency. ✓✓
- (Accept any other correct and relevant response.)

ACTIVITY 3

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

SOUTH AFRICA: TERMS OF TRADE 2022			
Month	Index of import prices	Index of export prices	Terms of Trade
January	108.2	102.9	95.1
February	107.9	105.4	97.6
March	107.7	109.7	A

Source: Statistics South Africa

- 3.1.1 Identify a month with the lowest index of exports. (1)
January ✓
- 3.1.2 What is the trend in the index of import prices? (1)
The trend is decreasing ✓
- 3.1.3 Briefly describe the term *terms of trade*. (2)
Terms of trade refers to the ratio of the index of export prices and index of import prices. ✓✓
(Accept any other correct and relevant response.)
- 3.1.4 What is the impact of an increase in the level of income on trade between countries? (2)
Increase in the level of income will lead to an increase in imports and exports. ✓✓
(Accept any other correct and relevant response.)
- 3.1.5 Calculate the terms of trade for March (A). Show ALL calculations. (4)
- $$\frac{\text{Index of export prices} \times 100}{\text{Index of import prices}}$$
- $$\frac{105,4}{107,7} \times 100$$
- $$97,86$$

ACTIVITY 4

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

RAND AGAINST THE DOLLAR								
Year	2021				2022			
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Exchange rate	14,96	14,13	14,64	14,70	14,55	14,75	15,00	14,80

Adapted from google

- 4.1.1 Identify the economic concept illustrated above. (1)
Foreign Exchange Rate ✓ / Exchange Rate ✓
- 4.1.2 During which exact period did the rand enjoy the most favourable fluctuation against the US dollar? (1)
2nd quarter of 2022 ✓
- 4.1.3 Briefly describe the term *devaluation*. (2)
Devaluation is the deliberate action by authorities (SARB) to decrease the value of a country's currency. ✓✓
(Accept any other correct and relevant response.)
- 4.1.4 Why most economies in the world use free-floating exchange rates? (2)

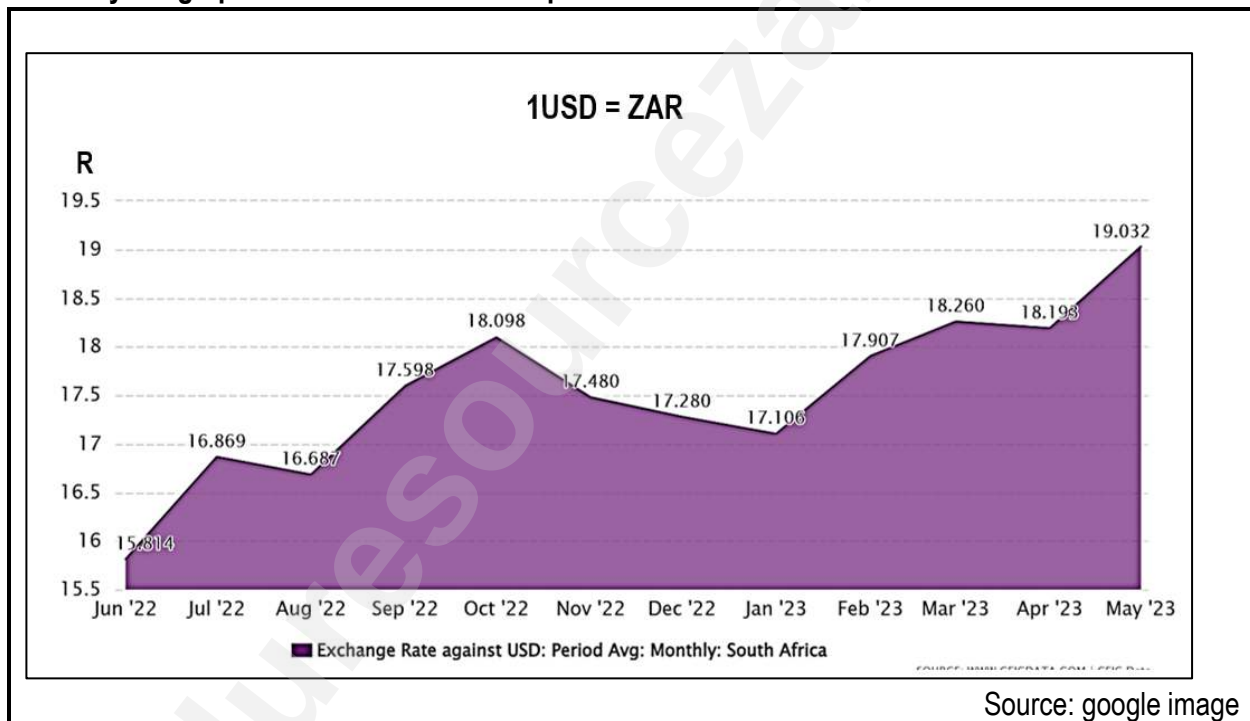
Free-floating exchange rate shows a real performance of country's markets. ✓✓
(Accept any other correct and relevant response.)

4.1.5 What was the reasons for the rand to hit an extreme low against the US Dollar in term 1 of 2021? (4)

- South Africa was still fresh from a period of economic inactivity that saw the country elevated to level 5 of lockdown. ✓✓
- Productivity by firms was so low to an extent that very little was exported to other countries, and the current account of the balance of payment was negatively affected. ✓✓
- The terms of trade that rely on export prices and import prices deteriorated as well, and thereby causing unfavourable fluctuations in the exchange rate. ✓✓
- Many businesses had to shut down and international trade was negatively affected. ✓✓
(Accept any other correct relevant response.)

ACTIVITY 5

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



5.1.1 Identify the date on which the Rand was the weakest against the Dollar? (1)

May 2023 ✓

5.1.2 Which type of exchange rate is depicted in the graph? (1)

Free Floating Exchange Rate ✓

5.1.3 Briefly describe the concept *exchange rate*. (2)

It is the value of a currency of one country in terms of the currency of another country. ✓✓
(Accept any other correct, relevant answer.)

5.1.4 Why is it important for a country to have a stable exchange rate? (2)

- To attract more foreign investments. ✓✓
- To attract more international tourists. ✓✓

(Accept any other correct, relevant answer.)

5.1.5 How will an appreciation of the rand against other currencies affect consumers? (4)

- It decreases the foreign price of goods and services - consumers will import more. ✓✓
- Lower local prices reduce living costs and improves standard of living. ✓✓
- People will rather work in South Africa than emigrate and employment will increase ✓✓
- Consumers will invest more, because they can afford shares. ✓✓
- Consumers will find it more affordable to go overseas. ✓✓
- E.g The gas price will decrease because it is determined by the price of oil, therefore consumers can afford more gas. ✓✓

(Accept any other correct, relevant answer.)

ACTIVITY 6

6.1 Discuss factors affecting the demand for foreign currency. (8)

- Importing goods increases demand for a foreign currency. ✓✓
- Payment for services from foreign countries requires a foreign currency. ✓✓
- Buying shares in another country increases demand of a foreign currency. ✓✓
- Tourists spending money overseas need to exchange their money to that of the country they are visiting. ✓✓
- Repayment of debt borrowed from foreign countries ✓✓

(Accept any other correct, relevant answer.)

6.2 How does a strong currency influence trade between countries? (8)

When a currency's exchange rate increases relative to another country's currency:

- The price of its goods and services increases. ✓✓
- Exports become expensive, thus decreasing the quantity of exports. ✓✓
- Imports become cheaper, thus increase imports. ✓✓
- The terms of trade will be positive. ✓✓
- Importers will be able to purchase with the same nominal amount. ✓✓
- Exporters will enjoy added real value to their nominal value ✓✓

(Accept any other correct relevant response)

TOPIC 8: PROTECTIONISM AND FREE TRADE

ACTIVITY 1

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A-D) next to the question numbers (1.1.1. to 1.1.6) in the ANSWER BOOK e.g. 1.1.7.A

1.1.1. Production of goods locally because of sanctions is referred to as ...

- A. voluntary import substitution
- B. enforced import substitution ✓✓
- C. enforces export substitution
- D. voluntary export substitution

1.1.2. A foreign company selling their business interest in another country is regarded as

- A. sanctions
- B. boycotts

- C. disinvestments
D. investments✓✓
- 1.1.3. Payment made by government to local producers for them to be competitive is.....
A. subsidies✓✓
 B. tariffs
 C. quotas
 D. incentives
- 1.1.4. Import duties are levied as a particular amount per unit are
 A. ad valorem
B. specific✓✓
 C. single tariff
 D. multiple tariff
- 1.1.5. A deliberate decrease in the value of currency by authorities is known as
 A. depreciation
 B. appreciation
C. devaluation✓✓
 D. revaluation
- 1.1.6. The practise of selling goods in a foreign country at a lower price than in a country of origin is known as
 A. exportation
B. dumping✓✓
 C. importation
 D. import substitution

2X6=12

- 1.2. Match the description in column B with the concept in column A. Only write the correct letter next to the corresponding number. Example: 1.2.9. K

COLUMN A		COLUMN B	
1.2.1.	Dumping	A. Cash payment to exporters	D ✓
1.2.2.	Incentives	B. Is when a country has lower costs in the production of a certain good than the other country.	F ✓
1.2.3.	Specific tariffs	C. These are laws passed to restrict or abolish trade with certain countries.	H ✓
1.2.4.	Diversification	D. Selling goods in a foreign market at prices that are below their cost of production.	E ✓
1.2.5.	Comparative advantage	E. Expansion of manufacturing makes economies less dependent on foreign countries	B ✓
1.2.6.	Quota	F. Financial assistance given to exporters to encourage them to export more goods and services.	G ✓
1.2.7.	Direct subsidies	G. Is a fixed limit, usually by quantity of good that may be imported.	A ✓
1.2.8.	Sanctions	H. An amount per unit, mass or size, e.g. food, animals and plants	C ✓
		I. Occurs when foreign companies withdraw investment from South Africa	

(8X1)8

- 1.3 Provide the correct term or concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations will be accepted.
- 1.3.1 The newly established industry which cannot be able to compete with existing foreign producers.
Infant industry✓
- 1.3.2 Duties that are levied as a certain percentage of the value of imported goods.
Ad valorem✓
- 1.3.3 The reduction in costs per unit as output increases.
Economies of scale✓
- 1.3.4 The process by which many developing countries encourage the use of local goods and services than importing them.
Import substitution✓
- 1.3.5 The policy that Involves removing barriers to international trade.
Trade liberalisation✓
- 1.3.6 The international global organisation that deals with the rules of trade between countries.
World Trade Organisation✓

(6X1)6

ACTIVITY 2

- 2.1. Study the cartoon below and answer the questions that follow.



Source: www.google.com

- 2.1.1. Identify one problem that is shown by the cartoon? (1)
Trade war / sanctions/ pandemic ✓
- 2.1.2. Name the institution that regulates free trade between countries. (1)
World Trade Organisation✓
- 2.1.3. Briefly describe the term *protectionism*. (2)
The implementation of trade policies aimed at restricting the importing of certain goods. ✓✓

- (Accept any relevant response)
- 2.1.4. Explain the purpose of export promotion. (2)

The purpose of export promotion is to increased production of goods and services that can be sold to other countries ✓✓

(Accept any relevant response)

- 2.1.5. How does imposing of tariffs affect the economy? (4)

- Government will have an increased revenue when imports enter domestic market. ✓✓
 - Domestic industries also benefit from reduction in competition because the prices of imported goods are artificially inflated. ✓✓
 - Consumers suffer because higher import prices mean higher prices for goods. ✓✓
- (Accept any relevant response)

ACTIVITY 3

- 3.1.1 Name any two types of trade protocols. (2)

Free trade area✓

Custom union✓

Common markets✓

Economic union✓

How does dumping negatively affect job opportunities. (2)

Cheaper imports lead to lower demand for locally manufactured products. This can result in increased job losses for local workers. ✓✓

(Accept other correct relevant responses)

- 3.2 Study the extract below and answer the questions that follow.

United States-Southern African Customs Union (SACU) Free Trade Agreement Negotiations:
Negotiations to launch a Free trade agreement (FTA) between the US and the five members of the SACU (Botswana, Lesotho, Namibia, South Africa and Swaziland) began on June 3, 2003. A potential FTA would eliminate tariffs, eliminate non tariffs barriers, liberalize trade and provide technical assistance to help SACU nations achieve the goals of the agreement.

[Source:www.bea.gov/international]

- 3.2.1 Identify ONE trade agreement that South Africa is part of with other African countries. (1)

SACU ✓

- 3.2.2 Name the form of economic integration that satisfies the requirement of custom union. (1)

Common market. ✓

- 3.2.3 Briefly describe the term *free trade area*. (2)

Free trade area is the removal of trade restrictions between countries themselves but are free to apply whatever trade restrictions when they wish on non-members. ✓✓

(Accept any other correct relevant response.)

- 3.2.4 Explain the impact of free trade on the prices of good. (2)

As more goods are exported, the cost of production will decrease because of economies of scale. ✓✓

Free trade reduces the global prices of goods as imported goods can be cheaper thus increasing the buying power of consumers. ✓✓
(Accept any other correct relevant response.)

3.2.5 How would imposing tariffs on imported goods benefit South Africa? (4)

- Tariffs on trade are often used as a means to restrict imports by increasing the price of goods and services purchased from other countries. ✓✓
- It protects newly established infant industries against well-established foreign competition. ✓✓
- Imposing tariff will create more revenue for the government, that revenue will benefit South Africa. ✓✓
- It prevents countries from dumping their products in the South African market. ✓✓
(Accept any other correct relevant response.)

ACTIVITY4

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



4.1.1 Identify the international organization that encourages free trade? (1)

World trade organization ✓

4.1.2 Name the term that relates to the worldwide integration of the economy through trade. (1)

Globalisation ✓

4.1.3 Briefly describe the term *export promotion*. (2)

Export promotion refers to measures taken by government to increase the production of goods and services that can be exported ✓✓

(Accept any other correct relevant response.)

4.1.4 Explain the importance of free trade in developing countries? (2)

- Free trade increases competition and this encourages innovation in goods and processes. ✓✓
- Improves global efficiency: Under free trade, resources are allocated more efficiently as markets expand, because each country specializes in its most effective production. ✓✓

- Free trade leads to greater world production of traded goods, leading to an increase in economic welfare. ✓✓

(Accept any other correct relevant response.)

4.1.5 Why does government protect key strategic industries against industrial take-overs? (4)

- Infant industries should be given protection in their early years, they may grow and take advantage of economies of scale, lower their average costs and become competitive. ✓✓
 - To increased employment in local industries thus improving standard of living. ✓✓
 - To increase gross domestic product and make domestic economy more competitive ✓✓
- (Accept any other correct relevant response.)

ACTIVITY 5

5.1 How successful are the methods implemented by South Africa to promote exports of goods and services? (8)

The government has been successful in the implementation of export promotion by:

- Implementing incentives to foreign market exporters. ✓✓
 - Establishing research centres for new markets to develop. ✓✓
 - Providing concessions on transport charges to encourage local producers to enter the export markets. ✓✓
 - Paying cash subsidies to exporters. ✓✓
 - Cash refunds on import tariffs to businesses offering general tax rebates ✓✓
 - Offering concessions on profits earned from exports or on capital invested to produce export goods. ✓✓
 - Offering employment subsidies and assistance in financing exports. ✓✓
- (Accept any other correct relevant response)

5.2 Evaluate the successes of government in promoting South African products to foreign markets? (8)

Government promote South African products to foreign markets through:

- Supplying the information on export markets in order to stimulate exports and to increase the amount of their production. ✓✓
 - Other examples are research on new markets/concessions on transport charges/export credit. ✓✓
 - Export subsidies are the financial incentives that the government gives businesses to help them produce products for export more cheaply. Direct subsidies are subsidies that are offered to the producer e.g. cash payments to exporters ✓✓
 - Indirect subsidies are refunds on import tariffs related to export activities and general tax rebates to provide relief. ✓✓
 - Subsidies equal in size to import duties; are paid. ✓✓
- (Accept any other relevant correct response)

5.3 How can the government protect local infants' industries? (8)

The government can protect local infants' industries by:

- Tariffs: Customs duties or import duties are taxes on imported goods. They can be ad valorem (based on the value) or specific to certain goods. Prices of imported goods increase for domestic consumers, and they tend to shift demand from imports to domestic products (goods). ✓✓

- Quotas: Limits are put on the supply of goods and services. Supply is reduced and prices rise. Foreign enterprises benefit if demand for their products remains high. ✓✓
- Subsidies: They enable relatively high cost domestic enterprises to undercut more efficient foreign enterprises in the domestic market. ✓✓
- Exchange control: Government reduces imports by limiting the amount of foreign exchange made available to those who wish to import. ✓✓
- Physical control: A complete ban or embargo is imposed on the import of certain goods from a particular country. ✓✓
- Diverting trade: Monetary deposits, time-consuming customs procedures and high-quality standards are imposed to make the importing of goods more difficult. ✓✓
(Accept any other relevant correct response)

ACTIVITY 6

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



- 6.1.1 Identify the trade bloc depicted in the above picture. (1)
BRICS ✓
- 6.1.2 List one country that recently joined this trade block. (1)
Saudi Arabia / Ethiopia / Argentina / Egypt / United Arab Emirates ✓
- 6.1.3 Describe the concept *trade protocols* (2)
These are agreements that set out how trade between two or more countries will be conducted. ✓✓
(Accept any relevant response)
- 6.1.4 Why custom duties are levied on imports? (2)
To make imports expensive so that imports are discouraged. ✓✓
Custom duties serve as income to the government. ✓✓
The aim of levying custom duties is to protect local industries from foreign competition. ✓✓
(Accept any relevant response)
- 6.1.5 How successful is SACU as South Africa's trade protocol. (4)
SACU
Jointly negotiated free trade areas with other countries. ✓✓

SACU made provision for a uniform tariff on trade with non-member countries. It was aiming to protect local industries. ✓✓
(Accept any relevant response)

ACTIVITY 6

ESSAY

- 6.1 Discuss in detail export promotion. (26)
Evaluate import substitution as South Africa's trade policy. (10)

Introduction:

Export promotion involves providing incentives to encourage local businesses to produce goods for exports. ✓✓
(Accept any relevant response) max 2

Reasons for promoting export

- The country achieves significant export-led economic growth. ✓✓
- Export promotion enlarges the production capacity of the country because surplus production will be exported. ✓✓
- Export markets are much bigger than local markets. ✓✓
- More workers will be employed in order to increase production. ✓✓
- Prices will be reduced because of economies of scale. ✓✓

Approaches/Methods

Incentives:

- The government supplies information on export markets, research on new markets, concessions on transport charges, export credit, etc. in order to stimulate exports. ✓✓
- These incentives encourage manufacturers to export an increasing amount of their production. ✓✓

Subsidies:

These include direct and indirect subsidies:

- **Direct subsidies:** Cash payments to exporters encouraging them to produce for exports. ✓✓
- **Indirect subsidies:** Refunds on import tariffs and general tax rebates. ✓✓

The challenge for governments is to design incentives and subsidies in such a manner that the prices of export goods cannot be viewed as dumping. ✓✓

If not, the countries receiving the imports are allowed to retaliate with tariffs. ✓✓

Dumping means selling goods in a foreign market at prices that are below their cost of production. ✓✓

Trade neutrality:

- Subsidies equal in size to import duties are paid. ✓✓
- Since the protection of domestic industries raises the cost of inputs for potential export producers, the latter can only become internationally competitive and experience growth in exports if the cost-raising effects of protection are neutralised by direct and indirect subsidies. ✓✓
- **Neutrality** can be achieved through trade liberalisation. ✓✓
- A popular alternative method of obtaining neutrality in a developing country that has implemented protection measures is the establishment of **export processing zones (EPZs)** An **EPZ** is a **free trade enclave** within a protected economy. ✓✓
- It is fenced and controlled industrial park that falls outside the domestic customs area and is usually located near a harbour or airport. ✓✓

Advantages of export promotion

- There are no limitations to size of scale since the market is very large. ✓✓
- Production is based on cost and efficiency. ✓✓
- There is increased domestic production. ✓✓
- Exchange rates would be realistic and there is no need for exchange control and quantitative restrictions. ✓✓
- Value can be added to natural resources of the country. ✓✓
- Creates employment opportunities. ✓✓
- An increase to exports has a positive effect on the balance of payments. ✓✓
- Increase in production leads to lower domestic prices, which benefit local consumers. ✓✓

Disadvantages of export promotion

- The real cost of production is reduced by subsidies and incentives. ✓✓
- The lack of competition because of incentives and subsidies forces competitors out of the market. ✓✓
- Export promotion results in increased tariffs and quotas by powerful overseas competitors. ✓✓
- Export promotion results in the protection of labour-intensive industries by developed countries. ✓✓
- Withdrawal of incentives often leads to closure of affected companies, which leads to an increase in unemployment. ✓✓
- Incentives often lead to inefficiencies in the production process, since companies don't have to do their best to compete, it can be seen as dumping ✓✓
(Accept any relevant response)

Additional part

Evaluate import substitution as South Africa's trade policy. (10)

Import substitution as a trade policy has benefited the country in the following ways:

- Increased employment stimulates the economy and GDP increases ✓✓
- Bigger variety of products produced/Diversification/Broader industrial base ✓✓
- Decrease in imports will have a positive effect on BOP ✓✓
- Industrial development encouraged which contributes revenue to the treasury ✓✓
- Easy to implement through the imposition of tariffs and quotas /Method of restricting imports ✓✓
- More choice because goods are locally produced. The foreign exchange that becomes available can be used for other imports, thereby increasing the choices made available to consumers ✓✓

Import substitution has also disadvantaged the country because:

- Capital and entrepreneurial talent are drawn away from the areas of comparative advantage ✓✓
- Technology is often borrowed from abroad where capital is relatively abundant ✓✓
- It lowers the competitiveness of sectors where a comparative advantage exists ✓✓
- It often leads to demands for protection to industries that provide inputs ✓✓
- Policy often causes exchange rates to be overvalued – discourage exports ✓✓
- Does not necessarily lead to an overall reduction in imports – SA imports capital and intermediate goods ✓✓
- Local production can be inefficient ✓✓
- Domestic consumers are forced to buy goods at prices that are higher than prices of goods on international market ✓✓

(Accept any other relevant correct response)

CONCLUSION

South Africa's international trade policies facilitate globalisation thereby impacting positively on the balance of payments.

(Accept any other relevant correct response)

- 6.2 Discuss in detail the arguments in favour of protectionism. (26 marks)
How successful is South Africa in protecting the local textile industry against foreign competition? (10)

INTRODUCTION

Protectionism refers to a deliberate policy on the part of the government to erect trade barriers, such as tariffs and quotas, in order to protect domestic industries against international competition. ✓✓

(Accept any other relevant correct response) max 2

Raising revenue for the government

- Import tariffs raise revenue for the government. ✓✓
- In smaller countries the tax base is often small due to low incomes of individuals and businesses. ✓✓
- Low incomes do not provide much in the form of income taxes and therefore custom duties on imports is a significant source of income or revenue ✓✓

Protecting the whole industrial base

- Maintaining domestic employment ✓✓
- It is thought that using protectionism the country's citizens will would purchase more domestic products and raise domestic employment ✓✓
- Countries with high unemployment are continuously pressured to stimulate employment creation and therefore resort to protectionism in order to stimulate industrialisation. ✓✓
- These measures on domestic employment creation at the expense of other countries, led to such measures as 'beggar-my-neighbour' policies ✓✓
- Applying import policies is likely to reduce other countries ability to buy country's exports and may provoke retaliation ✓✓

Protecting workers

- It is argued that imports from other countries with relatively low wages represent unfair competition and threaten the standard of living of the more highly paid workers of the local industries ✓✓
- Local industries would therefore, be unable to compete because of higher wages pushing up the price levels of goods ✓✓
- Protection is thus necessary to prevent local wage levels from falling ✓✓ or even to prevent local businesses from closing down due to becoming unprofitable ✓✓
- Competition from low-wage countries may also reflect the fact that those countries have a comparative advantage in low-skilled labour-intensive industries ✓✓

Diversifying the industrial base

- Overtime counties need to develop diversified industries to prevent over specialisation ✓✓
- A country relying too heavily on the export of one or a few products is very vulnerable ✓✓

- If a developing country's employment and income is dependent on only one or two industries, there is the risk that world fluctuations in prices and demand and supply-side problems could result in significant fluctuations in domestic economic activity✓✓
- Import restrictions may be imposed on a range of products in order to ensure that a number of domestic industries develop✓✓

Develop strategic industries

- Some industries such as the iron-ore and steel, agriculture, (basic foodstuffs, such as maize), energy (fuels) and electronics (communication) among others, are regarded as strategic industries✓✓
- Developing countries, may feel that they need to develop these industries in order to become self-sufficient ✓✓

Protecting specific industries

Dumping

- Foreign industries may engage in dumping because government subsidies permit them to sell at very low prices✓✓ or because they are seeking to raise profits through price discrimination ✓✓
- The reason for selling products at lower prices may be to dispose of accumulate stocks of the goods✓✓ and as a result consumer in the importing country stand to benefit ✓✓ however, their long term objective may be to drive out domestic producers and gain control of the market✓✓ and consumers are likely to lose out in the reduction in choice✓✓ and higher prices that the exporters will be able to charge✓✓

Infant industries

- Usually newly established and find it difficult to survive due to their average costs being higher than that of their well-established foreign competitors✓✓however, if they are given protection in their early years they may be able to grow and thereby take advantage✓✓ lower their average costs and become competitive and at this point protection can be removed ✓✓

Declining industries/sunset industries

Structural changes in the demand and supply of a good may severely hit an industry ✓✓ such industries should be permitted to go out of business gradually✓✓ declining industries are likely to be industries that no longer have a comparative advantage✓✓ and however, if they go out of business quickly there may be a sudden and large increase in unemployment✓✓

- Protection may enable an industry to decline gradually thereby allowing time for resources including labour to move to other industries ✓✓
- Protecting domestic standards✓✓ domestic regulations of food safety✓✓human rights and environmental standards have been increasingly acting as trade restrictions✓✓

(Max. 26)

(Accept any other relevant fact)

Additional Part

How successful is South Africa in protecting the local textile industry against foreign competition?

(10)

Not successful:

- Many domestic textile manufacturers closed down due to unfair international competition ✓✓

- Many wholesalers make use of suppliers from abroad ✓✓ e.g. Woolworths/Walmart ✓
- Dumping still occurs ✓✓ – European manufacturers still dump clothing in Africa out of season at prices below cost. ✓
- Job losses due to a lack of protection in this industry. ✓✓
(Accept any other relevant fact)

CONCLUSION

- Most countries agree that protectionism is harmful to the economy if not well managed. My opinion is that protectionism in certain areas of importance is needed especially where young industries come into existence ✓✓
(Accept any other relevant higher order conclusion)

ECONOMIC GROWTH AND DEVELOPMENT

ACTIVITY 1

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

- 1.1.1 The strategy that failed in its objective to halve poverty and unemployment by 2014 is called
- A. New Growth Path
 - B. Accelerated and Shares Growth Initiative for South Africa ✓✓
 - C. Reconstruction and Development Programme
 - D. National Development Plan
- 1.1.2 The policy use by the government to influence the economy through taxation is called.....
- A. monetary
 - B. trade
 - C. growth
 - D. fiscal ✓✓
- 1.1.3 An interest rate that commercial banks offer to their most valued clients is called.....
- A. prime rate ✓✓
 - B. repo rate
 - C. fixed rate
 - D. preference rate
- 1.1.4 The growth and development policy that aims to eliminate poverty and reduce inequality by 2030 is called....
- A. National Development Plan ✓✓
 - B. New Growth Path
 - C. Joint Initiative for Priority Skills Acquisition
 - D. Reconstruction and Development Programme
- 1.1.5 Buying and selling of government securities by SARB are called
- A. open market transaction ✓✓
 - B. cash reserve requirement
 - C. interest rate
 - D. moral suasion
- 1.1.6 A tax system where high income-earners pay higher rate of tax is called...
- A. regressive
 - B. capital formation
 - C. proportional
 - D. progressive ✓✓

(6x2)=12

1.2 Choose a description from column B that matches the item in Column A. Write only the letter next to the question number. (1.2.1- H)

COLUMN A	COLUMN B	Answer
1.2.1 Moral suasion	A. Nationwide government intervention to create employment using labour intensive methods.	1.2.1 B✓
1.2.2. JIPSA	B. SARB consultation with banks to act in a desirable manner according to prevailing economic condition	1.2.2 F✓
1.2.3 Economic growth	C. The minimum amount of money that the SARB requires banks to maintain in order to manipulate money creation activities.	1.2.3 E✓
1.2.4 Expanded public works programme	D. the process that focuses on the improvement of people's standard of living.	1.2.4 A✓
1.2.5. Cash reserve requirement	E. Increase in the country's production capacity	1.2.5 C✓
1.2.6. Repo Rate	F. Focus on the skills acquisition	1.2.6 G✓
	G. rate at which SARB charges commercial banks when lending.	

(6x 1) (6)

1.3. Give one term for each of the following description. Write only the term next to the question numbers.

- 1.3.1 Return of land to those who have lost it due to discriminatory laws of the past.
Land restitution ✓
- 1.3.2 The process that focuses on the improvement of people's standard of living.
Economic development ✓
- 1.3.3 Tax levied on gains earned on the sale of capital goods, such as properties and shares.
Wealth taxes ✓
- 1.3.4 An increase in capacity of a country to produce goods and services
Economic Growth ✓
- 1.3.5 A plan that aims to increase the number of previously disadvantaged group who manage and own businesses.
Broad Based Black Economic Empowerment ✓
- 1.3.6 Duties paid to the estate of the deceased.
Estate duties ✓
- 1.3.7 A labour-intensive government programme to create employment.
Expanded Public Works Programme ✓
- 1.3.8 A redress policy that focuses on land for residential and production farm for previously disadvantaged groups
Land redistribution. ✓

(8X1) 8

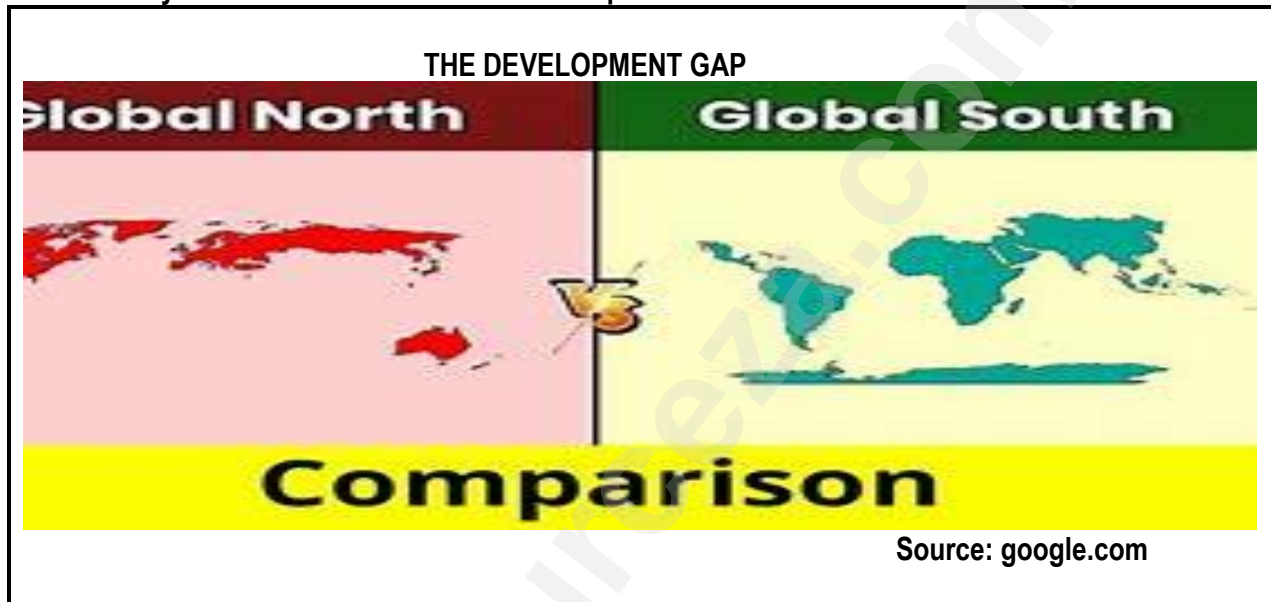
ACTIVITY 2

- 2.1.1 Name any TWO monetary policy instruments. (2)
- Interest rate ✓**
- Moral suasion ✓**
- Open market transaction ✓**
- Cash reserve requirement ✓**

- 2.2.1 How can the interest rate be used by South African Reserve Bank to stimulate production of goods and services. (2)
Low interest rate reduces the cost of borrowing and increases investment leading to an increase in production of goods and services. ✓✓
(Accept any relevant answer)

ACTIVITY 3

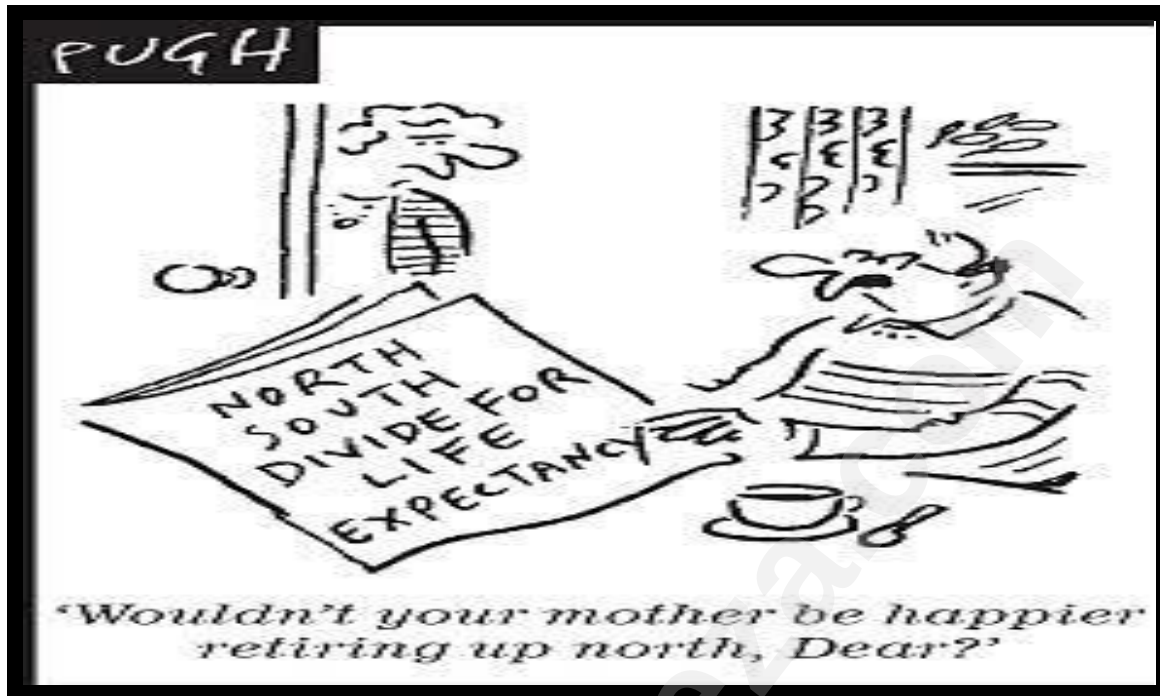
- 3.1 Study the cartoon below and answer the questions that follow.



- 3.1.1 Identify the economic concept illustrated in the above cartoon. (1)
North South divide ✓
Development gap ✓
- 3.1.2 List ONE country that is in the global north. (1)
Canada/USA/France/Germany/Japan. ✓
(Accept any other country in global north)
- 3.1.3 Briefly explain the term *globalisation*. (2)
Globalisation is the worldwide interaction of economies with trade as an important element. ✓✓
(Accept any other correct relevant response)
- 3.1.4 Explain the standard of living of countries in the northern hemisphere. (2)
Real GDP per capita is high in the north. ✓✓ / Life expectancy is 75 years and higher in developed countries. ✓✓ / Education and literacy level is high in the north. ✓✓
(Accept any other correct relevant response)
- 3.1.5 Why do countries in the southern hemisphere experience poor economic conditions? (4)
People don't have access to health care which result to low life expectancy. ✓✓
low level of education and training lead to low levels of productivity. ✓✓
Lack of necessary infrastructure is also a main reason for these conditions. ✓✓
(Accept any other correct relevant response)

ACTIVITY 4

- 4.1 Study the cartoon below and answer the questions that follow



Source:google.com

- 4.1.1 Identify the component related to the standard of living
Life expectancy✓ (1)
- 4.1.2 Name any country that is referred to as a developing country. (1)
India/South Africa/Botswana ✓
(accept any relevant answer)
- 4.1.3 Briefly describe the term *per capita income*. (2)
Per capita income is a measure of the amount of income per person in a nation.✓✓
(accept any relevant answer)
- 4.1.4 Explain the challenge of globalization between the North and South. (2)
- It has helped raise the standard of living for many people worldwide, but also driven other people deeper into poverty. ✓✓
 - Small businesses in the South are not capable of updating their technology as often as their counterparts in the North without foreign investment from the North ✓✓
 - They often do not grow to their full potential✓✓
 - If they do achieve growth with foreign investment, they lose a lot of their profits to their investors in the North ✓✓
(Accept any other correct relevant response)
- 4.1.5 How could countries in the South overcome the income gap. (4)
- Obtaining foreign direct investment from the North.✓✓
 - Investing in capital to increase productive capacity.✓✓
 - Processing raw materials before exporting them as intermediate or finished goods. .✓✓
 - Making the education system more effective.✓✓
 - Increasing social services so that everyone has equitable food, water and shelter.✓✓
(Accept any other correct relevant response)

ACTIVITY 5

- 5.1.1 Name any TWO fiscal policy instruments that the government can use to stimulate growth and development. (2)
Progressive personal income tax ✓
Wealth taxes ✓
Cash benefit ✓
Benefits in kind ✓
- 5.1.2 How Northern countries contribute to the destruction of the environment? (2)
Countries in the North contribute to the destruction of the environment by:
Causing pollution through mass production of goods and services. ✓✓
Causing climate change by being involved in high levels of industrial activities. ✓✓
Exhausting natural resources due to over industrialisation. ✓✓
Deforestation due to over industrialisation. ✓✓
(Accept any other correct relevant response)

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

Breaking Down the Key Economic Development Stages

The structural transformation refers to a change in the composition of GDP. Initially, economic activities and jobs are based in the agricultural sector. The share of agriculture in GDP decreases as economic activities shift towards the industrial sector.

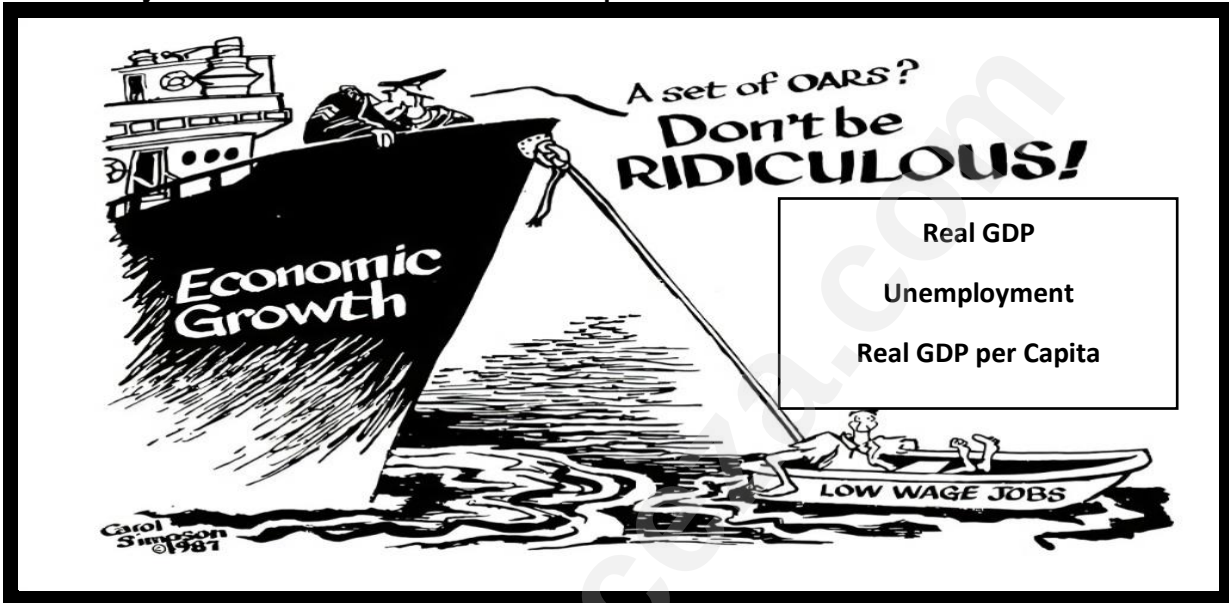
Source: google.com

- 5.2.1 Identify the economic sector that contributes less to the GDP in the above extract. (1)
Agricultural sector ✓
- 5.2.2 Name the development policy that aims to eliminate poverty and reduce inequality by 2030 (1)
National development Plan ✓
- 5.2.3 Briefly describe the term *economic development*. (2)
Economic development is the process that focuses on the improvement of people's standard of living. ✓✓
(Accept any other correct relevant response)
- 5.2.4 Explain the use of human resource development in alleviating poverty. (2)
• By providing skills and training, job opportunities can be attained, hence reducing poverty. ✓✓
• By acquiring education and training, citizens have a better chance to become active participants in the job industry which earn them income. ✓✓
(Accept any other correct relevant response)
- 5.2.5 How can the NDP increase the employment rate in South Africa? (4)
NDP can increase the employment rate by:
• expanding economic opportunities. ✓✓
• investing in infrastructure. ✓✓
• private investment in the economy. ✓✓
• creating entrepreneurship opportunities. ✓✓
(Accept any other correct relevant response)

ACTIVITY 6

- 6.1.1 Name TWO demand side approach measures. (2)
Fiscal policy ✓
Monetary policy ✓

- 6.1.2 How can the cost of doing business influence the supply of goods and services? (2)
 High input or production cost will lead to fewer goods be produced by businesses/ Low input or production cost will lead to more goods be produced by businesses. ✓✓
 (Accept any other correct relevant response)
- 6.2 Study the cartoon below and answer the questions that follow.

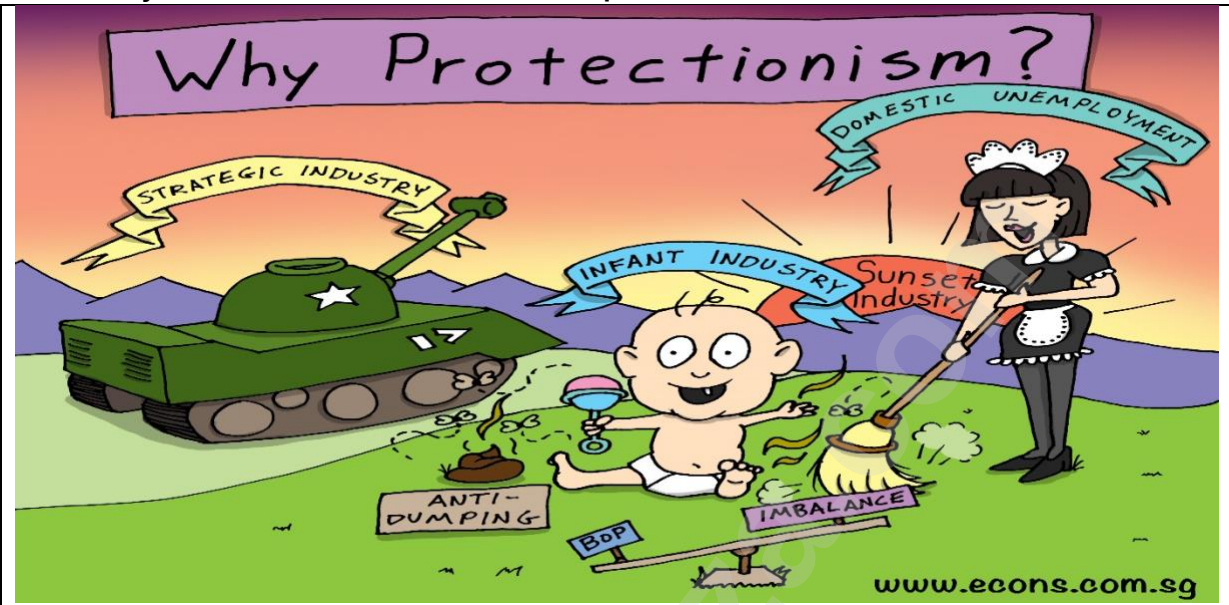


Source: goole.com

- 6.2.1 Identify ONE example that measures the economic growth. (1)
 Real GDP ✓
- 6.2.2 Name the growth policy that failed to meet its objective in 2014. (1)
 Accelerated and Shared Growth initiative for South Africa (ASIGSA) ✓
- 6.2.3 Briefly describe the term *globalisation* (2)
 Globalisation is the worldwide interaction of economies with trade as an important element. ✓✓
 (Accept any other correct relevant response)
- 6.2.4 Explain the impact of an increase in consumer spending on the production of goods and services (2)
 Demand of goods and services will increase, encouraging businesses to produce more ✓✓
 (Accept any other correct relevant response)
- 6.2.5 How successful is the South African government in improving the quality of labour? (4)
Positive
- improving skills development through SETA's ✓✓
 - improving physical and social infrastructure for example more educational institutions were established in most areas after 1994 making bursaries and study loans accessible every year. ✓✓
- Negative**
- Not all children are attending schools – some are excluded due to their poor family background or lack of information some people still can't afford further education like universities. ✓✓
 - much needed upgrading of infrastructure like roads and bridges have not been done which could have created thousands of much needed jobs ✓✓
- (Accept any other correct relevant response)

ACTIVITY 7

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



7.1.1 Identify the trade policy applied by the government in the cartoon above. (1)

Protectionism ✓

7.1.2 Name the method that is used to limit the supply of goods and services. (1)

Import quotas ✓

7.1.3 Briefly describe the term *free trade area*. (2)

A free trade area is where restrictions such as tariffs and quotas have been removed. ✓✓
(Accept any other correct relevant response)

7.1.4 Explain the benefit of import tariffs on the South African economy? (2)

An increase in import tariffs will reduce imports thereby saving on foreign exchange. ✓✓

Lead to an increase in domestic production ✓✓

Increase revenue to government through direct and indirect taxation. ✓✓

(Accept any other correct relevant response)

7.1.5 How does protection positively affect the value of the rand. (4)

The rand (currency) will appreciate when the exchange rate improves due to a negative trade balance. ✓✓

Protectionism measures correct the deficit on the Balance of Payments therefore increase the value of rand. ✓✓

(Accept any other correct relevant response)

ACTIVITY 8

8.1 Briefly discuss poverty and trade as challenges of globalisation. (8)

Poverty

- There is a growing gap between the rich and poor, particularly in Africa. ✓✓
- Developed countries have low poverty levels and countries in the South divide (developing) have high levels of poverty. ✓✓
- The inequalities in poverty levels still continue. ✓✓

Trade

- Rich countries continue to subsidise production of their agricultural goods. ✓✓
 - These countries make it hard for developing countries to compete while insisting that developing countries eliminate their tariffs on manufactured goods. ✓✓
- (Accept any other correct relevant response)

8.2 Differentiate between *economic growth* and *economic development*. (8)

Economic growth

- It is the increase in the real GDP over a period of time ✓✓
- It focus on the production of goods and services ✓✓
- Increase the production capacity of the economy ✓✓

Economic development

- It is the increase in the real per capita GDP ✓✓
- It focus on the increase in living standards ✓✓

(Accept any other relevant fact)

8.3 How can the Expanded Public Work Programmes be used to reduce the unemployment rate? (8)

EPWP can be used by:

- Investing on labour-intensive infrastructural development while creating job opportunities. ✓✓
 - Provision of skills that can help the communities to become employable. ✓✓
 - Giving ordinary citizens the opportunity to establish their own business using skills acquired from the programme. ✓✓
 - Providing workers with a combination of work experience and training. ✓✓
 - Improving the lives of South Africans by building and maintaining community assets and providing services to communities. ✓✓
- (Accept any other correct relevant response.)

ACTIVITY 9

ESSAYS

- 9.1 Discuss in detail the South African growth and development policies (26)
Analyse the challenges of the South African government in reducing the unemployment rate in the economy. (10)

INTRODUCTION

- Economic growth is the increase in the productive capacity of the country. ✓✓
 - Economic development is the improvement in the standard of living of the people ✓✓
- (Accept any other correct relevant response) max (2)

Reconstruction and Development Programme (RDP) ✓

- The policy was introduced in 1994 as a development strategy for the government. ✓✓
- The main aims were to alleviate poverty and address the inequalities and shortfalls in social services. ✓✓
- It focused on job creation through public works, provision of housing, water and sanitation and electrification. ✓✓
- It also aimed at creating accountable and transparent processes for all levels of government. ✓✓

Growth, Employment and Redistribution (GEAR) ✓

- The main strategy was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor. ✓✓

Key elements of the policy were:

- To have an exchange rate policy that can result in stability to the currency - A consistent monetary policy to prevent an uncontrollable inflation. ✓✓
- A reduction in tariffs to reduce the costs of inputs and facilitate industrial reforms. ✓✓
- Tax incentives to stimulate new investments in labour intensive industries ✓✓

Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓

- Its objective was to co-ordinate government initiative to create economic development. ✓✓

The key elements were:

- Halve unemployment and poverty by 2014. ✓✓
- Accelerate economic growth to an average of 6% between 2010 and 2014. ✓✓
- The government had planned to increase public sector investment in infrastructure in order ✓✓
- To eliminate the second economy (informal sector) by developing it to the status of the formal economy. ✓✓

Joint Initiative on Priority Skills Acquisitions ✓ (JIPSA)

- It is the skills development arm of ASGISA. ✓✓
- Focus is on skills development, especially through the SETAs. ✓✓

Expanded Public Works Programme (EPWP) ✓

- It is a nationwide government intervention to create employment using labour intensive methods, and to give people skills they can use to find jobs when their work in the EPWP is done. ✓✓

The New Growth Path (NGP) ✓

- Its aim was to enhance growth, create employment and create greater equity. ✓✓
- Its focus was to create 5million jobs by 2020 reducing unemployment from 25% to 15 ✓✓

National Development Plan (NDP)

- Its aim is to eliminate poverty and inequality by the year 2030. ✓✓
- Sets out to expand economic opportunities through investment in infrastructure, more innovation investment and entrepreneurship. ✓✓

Small business Development Promotion Programme (SBDPP)

- It was designed to deliver support and services to small, medium and micro enterprises. ✓✓
- Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and the National Small Business Act offer these services. ✓✓
- Laws are revised to help change power imbalance. ✓✓

Black Economic Empowerment Programmes (BEE) ✓

- The BBBEE was designed to create economic opportunities for the previously disadvantaged groups. ✓✓
- This means the government is creating conditions for increase in businesses that are owned and managed by black people. ✓✓

National Skills Development Strategy (NSDS) ✓

- It is the main strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs. ✓✓
- It is intended to radically transform education and training in South Africa by improving both the quality and quantity of training. This can support increased competitiveness of industry and improved quality of life for all South Africans. ✓✓
- The National Skills Development Strategy (NSDS) is the tool used by the Department of Labour to drive the process of developing the skills of the South African labour force. ✓✓
- Six conceptual pillars: Inclusion, Relevance, Sustainability, Creativity, Quality and Quantity inform its key aims and objectives ✓✓

(Accept any other correct relevant response)

MAX 26

ADDITIONAL PART

Analyse the challenges of the South African government in reducing the unemployment rate in the economy.

- The South African government faces the following challenges in reducing unemployment ✓✓
 - Corruption among state-own enterprises creates a negative sentiment among potential investors. ✓✓
 - Lack of skills among the South African youth reduces the employability of many people. ✓✓
 - Lack of information among some of the youth reduces accessibility of employment opportunities. ✓✓
 - Covid-19 recession resulted in thousands of workers losing their jobs, sharply increasing the unemployment rate. ✓✓
 - Negative sentiment towards the economy resulted in less foreign direct investments. ✓✓
 - Lack of start-up capital among the youth result in many potential entrepreneurial ideas not invested in. ✓✓
 - Poor infrastructure in some regions of the country reduces industrial activities in such areas. ✓✓
 - Unreliable electricity supply further cripples any prospects of increasing job opportunities in South Africa ✓✓
- (max 10)

(Accept any other correct relevant response)

CONCLUSION

(Accept any other relevant conclusion)

- 9.2 Discuss in detail the demand-side approach in promoting growth and development in South Africa. (26 marks)
- Evaluate broad-based black economic empowerment (BBBEE) in promoting economic development in South Africa. (10 marks)

INTRODUCTION

South Africa's growth and development policies are designed to fulfil many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living. A demand-side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand. ✓✓

Max (2)

(Accept any other relevant introduction)

BODY

MAIN PART

The South African approach uses both monetary and fiscal measures to influence aggregate demand in the economy. ✓✓

MONETARY POLICY

The South African Reserve Bank (SARB) as the central bank in South Africa formulates the monetary policy.

They use the following instruments:

Interest rate changes ✓

- It is used to influence credit creation by making credit more expensive or cheaper. ✓✓

The exchange rate is stabilised by encouraging inflow or outflows. ✓✓

Open market transactions ✓

- To restrict credit the SARB sells securities. ✓✓
- When banks buy these securities money flows from banks to the SARB. ✓✓
- The banks have less money to lend and cannot extend as much credit as before. ✓✓
- To encourage credit creation the SARB buys securities. ✓✓
- Money flows into the banking system. ✓✓

Moral suasion ✓

- The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions.

Cash Reserve Requirements ✓

- Banks are required to hold a certain minimum cash reserve in the central bank. ✓✓
- Banks have a limited amount to give out as credit. ✓✓

FISCAL POLICY

- South Africa's fiscal policy is put into practice through the budgetary process. ✓✓
- The main purpose of fiscal policy is to stimulate macroeconomic growth and employment, and ensure redistribution of wealth. ✓✓

The following instruments are used:

Progressive personal income tax ✓

- Higher income earners are taxed at higher tax rates. ✓✓
- These taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes. ✓✓

Wealth taxes ✓

- Properties are levied (taxed) according to their market values. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when traded. ✓✓
- Capital gains tax is levied on gains on the sale of capital goods (e.g. properties, shares). ✓✓
- Estate duties are paid on the estates of the deceased. ✓✓
- These taxes are used to finance development expenditures which benefit the poor more often. ✓✓

Cash benefits ✓

- Old age pensions, disability grants, child support and unemployment insurance are cash grants. ✓✓
- These are also known as social security payments. ✓✓

Benefits in kind (natura benefits) ✓

- These include the provision of healthcare, education, school meals, protection etc. ✓✓
- When user fees are charged, poor or low income earners pay less or nothing. ✓✓ Limited quantities of free electricity and water are provided. ✓✓

Public works programmes ✓

- E.g. the Strategic Integrated Projects (SIP) provides employment subsidies and other cash and financial benefits such as training, financing and export incentives. ✓✓

Land restitution and land redistribution ✓

- Land restitution is the return of land to those that have lost it due to discriminatory laws in the past. ✓✓
- Land redistribution focuses on land for residential (town) and production (farm) for previously disadvantaged groups. ✓✓
- The money for these programmes is provided in the main budget. ✓✓

Subsidies on properties ✓

- It helps people to acquire ownership of fixed residential properties. ✓✓
- E.g. government's housing subsidy scheme provides funding to all people earning less than R3 500 per month. ✓

(Accept any other correct relevant response)

(Max 26)

ADDITIONAL PART:

Broad-based Black Economic Empowerment (BBBEE) managed to:

- empower previous disadvantaged groups through the system by being appointed into senior positions both in the public and private sectors ✓✓
- involve many previously disadvantaged people actively in the economy of the country ✓✓
- create opportunities for upcoming young entrepreneurs to enter the business world ✓✓
- offer accessibility of open business opportunities in the different sectors of the economy ✓✓
- increase the number of black people in the shareholding of large companies ✓✓

Broad-based Black Economic Empowerment (BBBEE) is not successful because:

- few people are benefiting from BBBEE due to corruption by top government officials ✓✓
 - fronting is leading to wrong people benefiting from BBBEE programs ✓✓
 - many black people do not have the skills and experience to occupy senior management positions especially in big companies ✓✓
 - black people do not have capital to establish businesses or buy shares in big companies ✓✓
- (Accept any other correct relevant response) (Max 10)

CONCLUSION

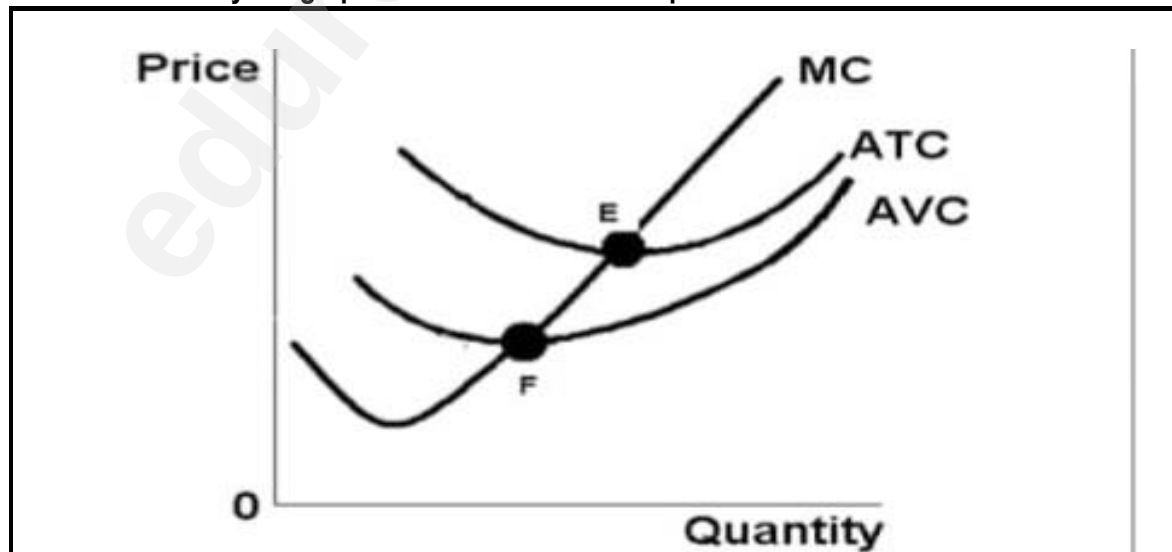
To achieve economic development, economic growth rate should exceed population growth rate. ✓✓
(Accept any other correct relevant response) (Max 2)

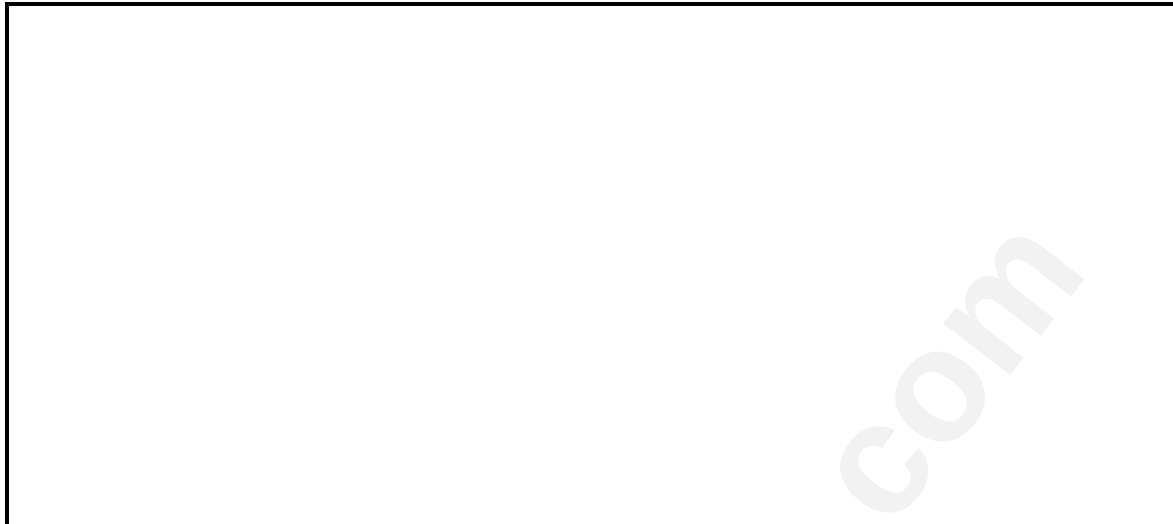
PAPER 2

EFFECTS OF COSTS AND REVENUE

ACTIVITY 1

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





- 1.1.1 Identify the shutdown point in the above graph? (1)
F ✓
- 1.1.2 Give the formula for calculating Total Costs. (1)
 $FC + VC = TC$ ✓
- 1.1.3 Briefly describe the term *marginal cost*. (2)
**Marginal cost is an additional costs incurred for producing one additional unit ✓✓
 (Accept any other correct relevant response)**
- 1.1.4 Why is AVC always below ATC? (2)
**ATC includes average fixed cost and average variable cost. ✓✓
 (Accept any other correct relevant response)**
- 1.1.5 Explain the shapes of ATC, AVC and MC. (4)
 - The ATC, AVC and MC are U shaped. ✓✓
 - As the number of units increase from zero, they start at high values and decline at decreasing rate. ✓✓
 - They reach minimum points and then increase at increasing rates. ✓✓
 (Accept any other correct relevant response)

ACTIVITY 2

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

Output	FC	VC	TC	AVC	MC
0	20	0	20	0	-
1	20	5	25	5	5
2	20	8	28	4	A
3	20	10	30	3.3	2
4	20	16	36	4	6

- 2.1.1 Identify the cost that does not change from the table above. (1)
Fixed Costs ✓

- 2.1.2 What is the total cost of producing the 4 units of output? (1)
36✓
- 2.1.3 Briefly describe the term *average variable costs*. (2)
Average variable costs are that change as production changes. ✓✓
(Accept any other correct relevant response)
- 2.1.4 Explain the impact of producing the third unit of output on average variable cost. (2)
Variable cost decreases to its lowest. ✓✓
The impact is negative, there is a decline in average variable cost. ✓✓
(Accept any other correct relevant response)
- 2.1.5 Calculate the value of A. Show ALL your calculations. (4)

$$\frac{\text{Change in TC}}{\text{Change in Quantity demanded}}$$

$$\frac{28-25}{2-1} \checkmark \checkmark$$

$$\frac{3}{1} \checkmark$$

$$3 \checkmark$$

ACTIVITY 3

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

Price	Quantity	TR	TC	Profit
10	0	0	25	- 25
10	5	A	30	20
10	10	100	35	65
10	15	150	40	B
10	20	200	45	155

- 3.1.1 Identify the quantities where the business maximise the highest profit. (1)
200 quantities✓
- 3.1.2 What is represented by the – 25 in the profit column? (1)
A loss of R25. ✓
- 3.1.3 Briefly describe the term *total revenue*. (2)
It is the total income received by the business from selling goods and services. ✓✓
(Accept any other correct relevant response)
- 3.1.4 Why is there a value for total cost when production (quantity) is 0 (zero)? (2)
There will always be fixed cost even if no production takes place. ✓✓
Firms still have to pay these fixed costs as they are not related to production level. ✓✓
(Accept any other correct relevant response)
- 3.1.5 Calculate the values of A and B. Show ALL calculations. (4)
A=P×Q
R10×5✓
R50✓
B=TR-TC
R150-R40✓
R110✓

PERFECT MARKETS

ACTIVITY 1

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 (1.1.1-1.1.4) in the ANSWER BOOK, for example 1.1.5. D

1.1.1 The market where firms are price takers is called the...

- A perfect. ✓✓
- B imperfect.
- C oligopoly.
- D monopoly.

1.1.2 The point where competitive firm's average revenue equals average variable cost is....

- A equilibrium
- B maximisation
- C shutdown ✓✓
- D break even

1.1.3 A period of production where all inputs are variable is known as.....

- A variable cost
- B short run
- C long run ✓✓
- D fixed cost.

1.1.4 The part of the marginal cost curve that is above the average variable cost curve in the perfect market represents the..... curve.

- A average revenue
- B supply ✓✓
- C demand
- D marginal revenue

(2x4) (8)

1.2 Match the concepts in column A to description in column B. Write only the correct letter next to the question number .e.g (1.2.9 J).

No.	COLUMN A	COLUMN B	Responses
1.2.1	Normal profit	A Investigates illegal business practices and makes recommendations on large mergers and takeovers	F✓
1.2.2	Explicit costs	B A period of production where only variable inputs can change	C✓
1.2.3	Sunk cost	C Actual expenditure on hired inputs that a business incurs in the production process, e.g., wages and interest	I✓
1.2.4	Competition Commission	D Is where marginal cost is equal to the marginal revenue received by the firm	A✓
1.2.5	Economic profit	E Period of production where one of the production factors is fixed	H✓

1.2.6	Implicit cost	F	The minimum earning required to prevent an entrepreneur from leaving the market.	G✓
1.2.7	Loss minimizing point	G	The value of input used in the production process that are owned by an entrepreneur	D✓
1.2.8	Short run	H	A positive difference between the total revenue and total cost	E✓
		I	The capital that was invested in a business and cannot be recovered if the business closes	

(1x8) (8)

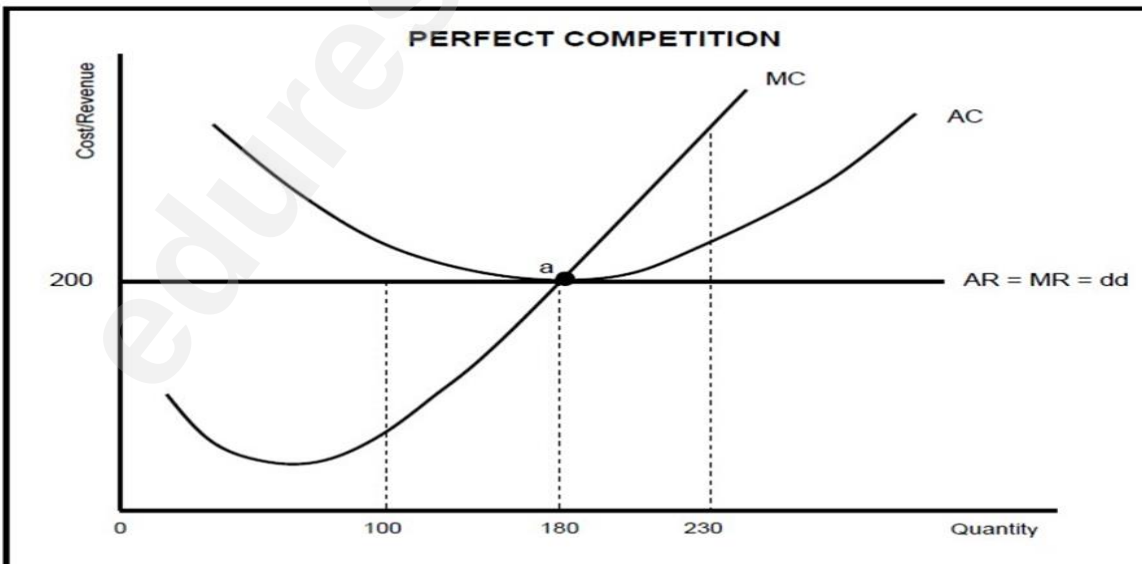
1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms, and examples will NOT be accepted

- 1.3.1 A situation where average cost rises as production increase.
Diseconomies of scale ✓
- 1.3.2 A group of businesses producing a similar kind of products.
Industry ✓
- 1.3.3 A situation where a firm cannot cover its average variable costs.
Shut down ✓
- 1.3.4 A legal body that accepts or prohibits large mergers and takeovers.
Competition Tribunal ✓
- 1.3.5 The additional revenue earned when sales increase by one more unit.
Marginal Revenue ✓
- 1.3.6 Costs per unit that change with the volume of output produced by a firm.
Average variable costs ✓

(1x6) (6)

ACTIVITY 2

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



2.1.1 Identify the profit maximisation point from the above graph.

(1)

- a✓
- 2.1.2 Which curve represents the supply? (1)
MC✓
- 2.1.3 Briefly describe the term *sunk cost*. (2)
The capital that was invested in a business and cannot be recovered if the business closes ✓✓
(Accept any other correct relevant response)
- 2.1.4 Explain the impact on the market if many firms enter this industry? (2)
The supply or production will increase leading to a decrease in the market price. ✓✓
(Accept any other correct relevant response.)
- 2.1.5 Why is it difficult for a perfect competitor to make a profit in the long run? (4)
- In a long run, a perfect competitor can only make normal profit due to easy access to the market. ✓✓
 - The economic profit will serve as a signal for others to enter the market. ✓✓
 - When new firms enter the market, supply will shift to the right/ increase and more quantity of goods will be produced. ✓✓
 - The new equilibrium will be reached and the price will decrease and the individual competitor will be forced to reduce the price as they are price takers. ✓✓
 - The perfect competitor will now earn normal profit in the long run. ✓✓
(Accept any other correct relevant response.)

ACTIVITY 2

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

PERFECT COMPETITION

If a business is making a profit in the short run, it has an incentive to expand existing factories or to build new ones. New firms may start production, as well. When new firms come into an industry in response to high profits, it is called entry.

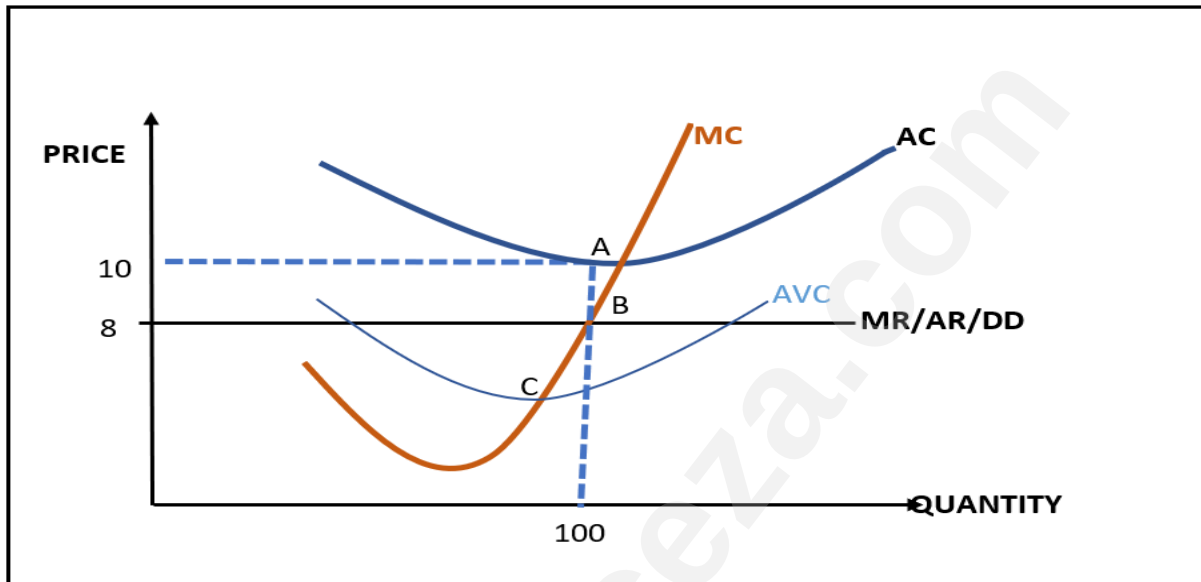
Sources: <https://courses.lumenlearning.com>

- 3.1.1 Which market structure is depicted by the above cartoon? (1)
Perfect market ✓
- 3.1.2 Identify the economic characteristic shown in the cartoon above. (1)
Free entry and exit ✓
- 3.1.3 Briefly describe the term *implicit cost*. (2)
The value of input used in the production process that are owned by an entrepreneur ✓✓
(Accept any other correct relevant response)
- 3.1.4 Explain the effect of a decrease in the number of participants on the market price. (2)
The market price will increase because the supply will decrease. ✓✓
(Accept any other correct relevant response)
- 3.1.5 How can a perfectly competitive firm increase its profits? (4)
- It can increase the quantity it is selling at a prevailing price to increase revenue. ✓✓
 - The firm maximizes profits by supplying the level of output where its marginal revenue equals its marginal cost. ✓✓
 - It can advertise its product to win customers from its competitors. ✓✓

(Accept any other correct relevant response)

ACTIVITY 4

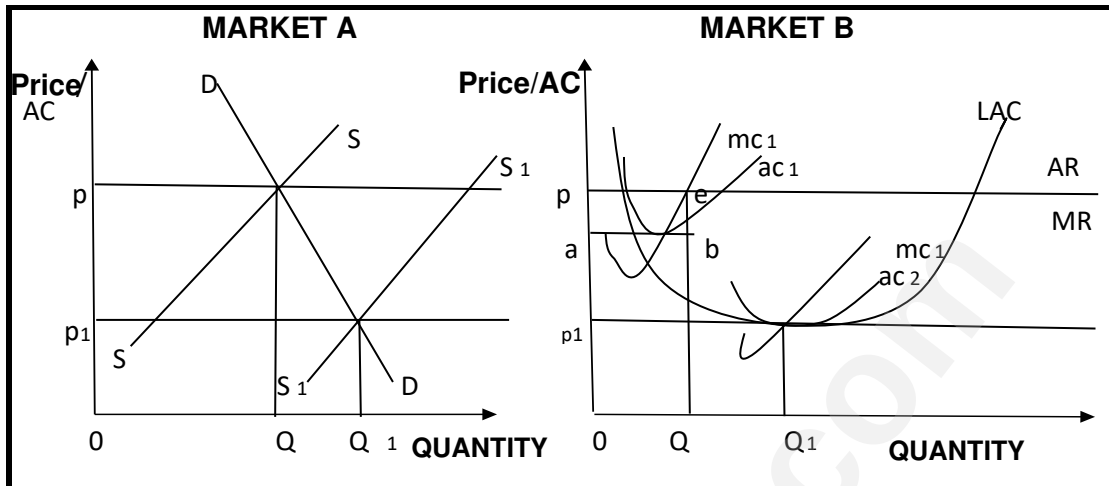
4.1 Study the graph below and answer the questions that follow



- 4.1.1 Identify the curve marked X in the diagram above. (1)
Marginal cost curve ✓
- 4.1.2 What is represented by the shaded area? (1)
Economic loss ✓
- 4.1.3 Briefly describe the term *diseconomies of scale*. (2)
A situation where average cost rises as production increase. ✓✓
 (Accept any other correct relevant response)
- 4.1.4 Explain the reason for the firm not to produce below point C. (2)
The price will be less than the average variable costs therefore the firm cannot produce any quantity below point C. ✓✓
 (Accept any other correct relevant response)
- 4.1.5 Calculate the shaded area. Show ALL calculations. (4)
- | | | |
|--------------------------|----|--------------------|
| TR-TC | OR | (AR-AC)XQ |
| (R12X250) ✓ - (R15X250)✓ | | (R12-R15) ✓ X 250✓ |
| R3000 - R3750 | | -R3 X 250 |
| -R750✓✓ | | -R750✓✓ |

ACTIVITY 5

5.1 Study the graphs below and answer the questions that follow.



5.1.1 Identify a market that represent a firm above. (1)

Market B ✓

5.1.2 Which curve indicates new entrants in market A? (1)

S₁S₁ ✓

5.1.3 Briefly describe the term *market*. (2)

Market is a mechanism that brings together buyers and sellers of a good/service to influence the price and quantity. ✓✓

(Accept any other correct relevant response.)

5.1.3 Explain the role of the Competition Commission. (2)

Competition Commission investigates restrictive business practices, abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. ✓✓

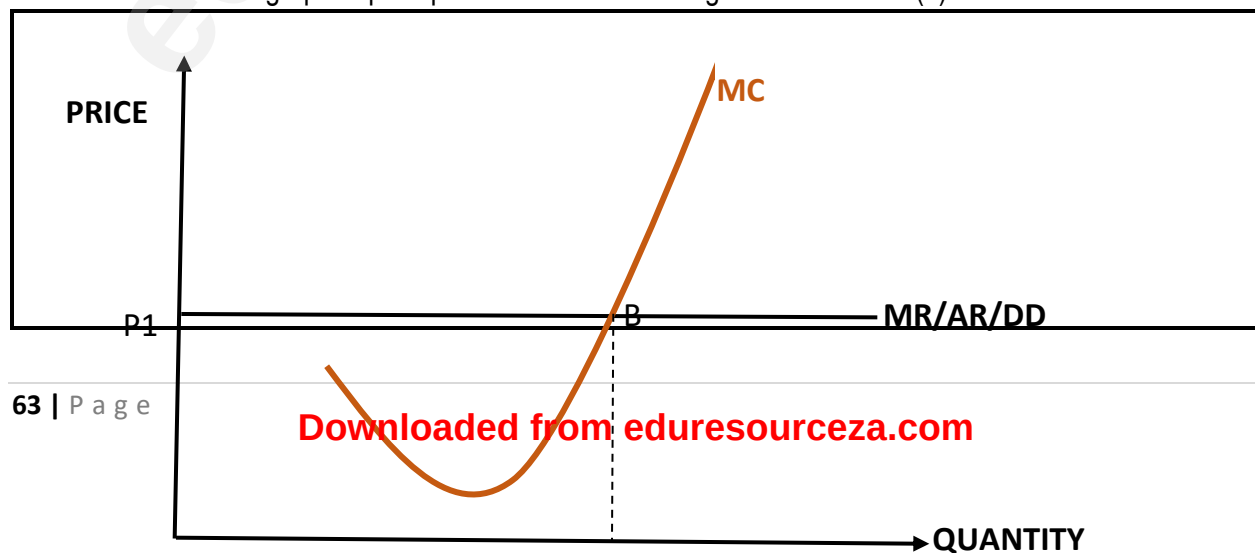
(Accept any other correct relevant response.)

5.1.5 Why do firms in the perfect market make normal profit in the long run? (4)

- The shape of the LAC curve illustrates how average costs initially decrease due to economies of scale while the firm experiences increasing returns to scale. ✓✓
 - It then exhibits constant returns as the firm operates at its optimal level. ✓✓
 - If the firm tries to expand more than its optimal point due to diseconomies of scale, it experiences decreasing returns to scale and AC increases. ✓✓
- (Accept any other correct relevant response.)

ACTIVITY 6

6.1 With the aid of a graph explain profit maximisation using MR vs MC rule. (8)



Labelling of and on axis=1

MC curve=1

MR curve=1

Labelling of profit maximisation point=1

- When MR is greater than MC the firm can continue to produce more additional units because the benefits are more than the costs i.e., the profit is increasing. ✓✓
- When MR is less than MC the firm must reduce adding additional units because the benefits are less than the costs. ✓✓
- When MR is equal to MC the firm will produce more because that's where it maximises profits. ✓✓
(Accept any other correct relevant response)

6.2 Briefly discuss market information and price control as characteristics of perfect market. (8)

Market information

- Market information means that all participants in a perfect market have access to complete and accurate information about product prices, qualities, and availability. ✓✓
- This transparency ensures that buyers can make informed decisions, leading to efficient resource allocation.
- Market information facilitates price discovery, as prices adjust quickly to changes in supply and demand. This ensures that goods and services are traded at their equilibrium prices, minimizing surpluses or shortages. ✓✓
- Market information also enables competition to work effectively, as firms can constantly evaluate their performance relative to others and strive for improved efficiency and quality, ultimately benefiting consumers in a perfect market setting. ✓✓

Control over price

- Perfect competition ensures that no single buyer or seller has the power to influence prices. Many buyers and sellers exist in the market, and none of them can significantly impact the overall supply or demand. ✓✓
- Prices naturally adjust to equilibrium levels, where supply equals demand. Any attempt to control prices, such as price ceilings (maximum prices) or price floors (minimum prices), would disrupt this equilibrium, leading to either surpluses or shortages. ✓✓
- Price control measures, like price ceilings, can create inefficiencies by discouraging producers from supplying goods and reducing the incentive for consumers to consume them, leading to market distortions. ✓✓

(Accept any other correct relevant response)

6.3 Discuss the aims of South Africa's anti-monopolistic policy.

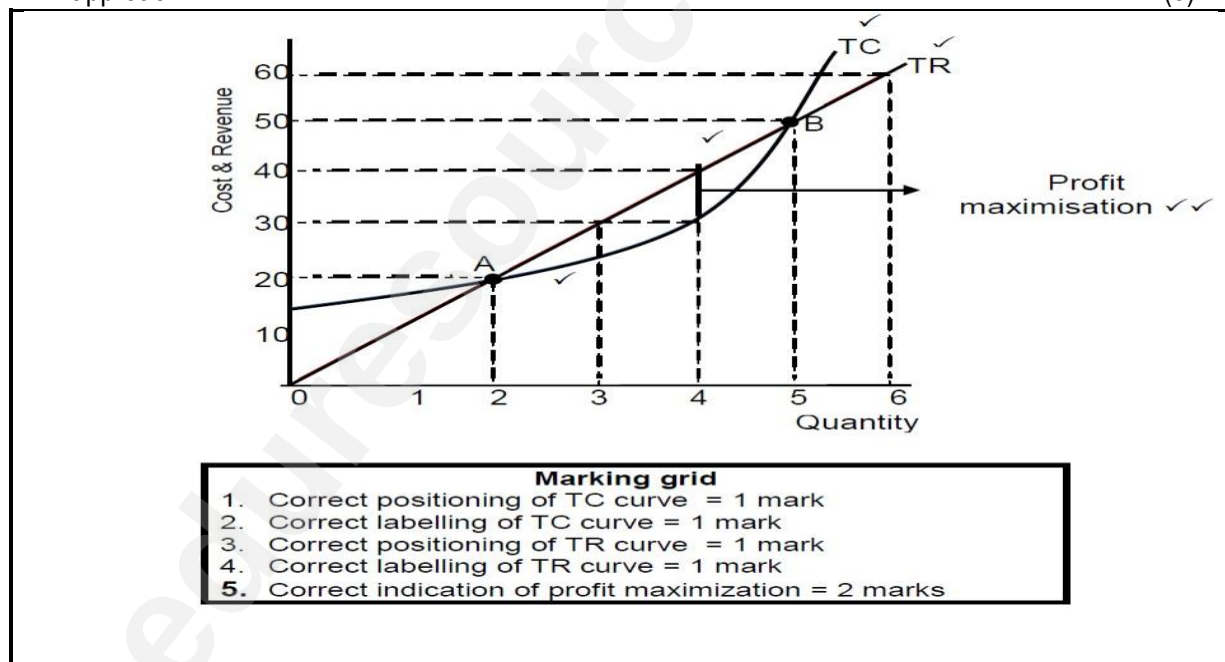
(8)

- To promote economic transformation of the economy by making sure that there is no restriction on entry in any industry. ✓✓
- To curb the economic power of big businesses in South Africa to achieve a more equitable distribution of income and wealth. ✓✓
- To help South African businesses to become more competitive / lower prices. ✓✓
- To ensure that South African competition law is in line with international standards. ✓✓
- To prevent monopolies and other powerful businesses from abusing their power. ✓✓
- To regulate the formation of mergers and acquisitions who wish to exercise market power. ✓✓
- To stop firms from using restrictive practices like fixing prices, dividing markets. ✓✓
- Regulates transfer of ownership in keeping with public interest. ✓✓
- All South Africans gets equal opportunity to participate fairly in net economy. ✓✓
- Provides markets in which consumers have access to freely select quantity and variety. ✓✓
- Provides environment to compete effectively in internal markets. ✓✓

(Accept any other correct relevant response)

6.3 With the aid of a graph, explain profit maximization in a perfect market using TR and TC approach.

(8)



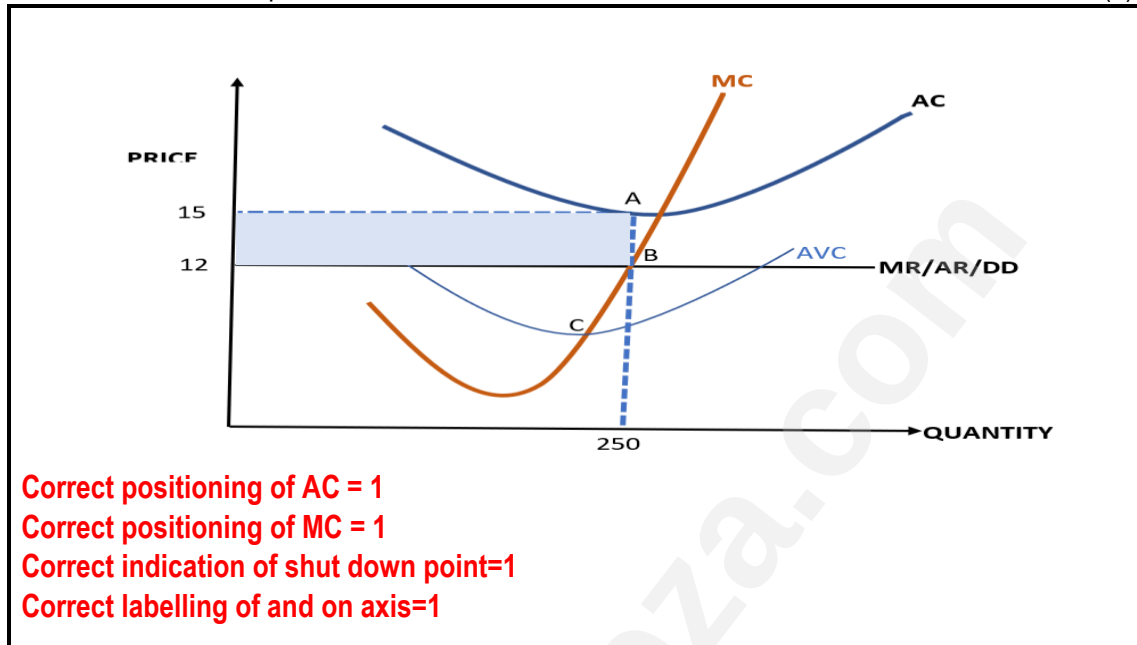
- The firm will make profits between points A and B (TR and TC) where the total revenue exceeds the total cost. ✓✓
- Profit is maximized when the gap between TR and TC is the greatest. ✓✓
- This occurs at 4 units of production at a cost of R40. ✓✓
- Breakeven points will occur at points A and B. ✓✓

(Accept any other correct relevant response)

6.5 With the aid of a well-labelled graph (cost and revenue curves), explain the shut-down point for

the individual firm in a perfect market,

(8)



- It is important that a firm's revenue covers its average variable costs or variable costs to stay in business ✓✓
- The lowest level of production is where $AR = AVC$ / $MC = AVC$ (shutdown point/C) ✓✓
- The firm will not produce below point C/ where $MC = AVC$ ✓✓
 (Accept any other correct relevant response)

ACTIVITY 7

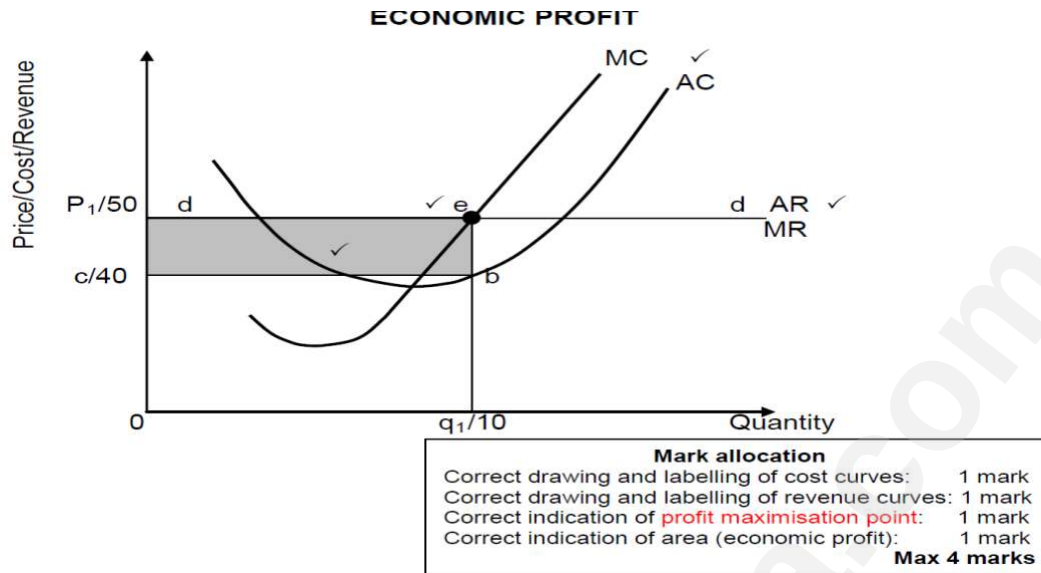
- With the aid of graphs, discuss in detail the equilibrium positions in a perfect market. (26)
- How successful is the competition policy in promoting a more competitive economy (10)

INTRODUCTION

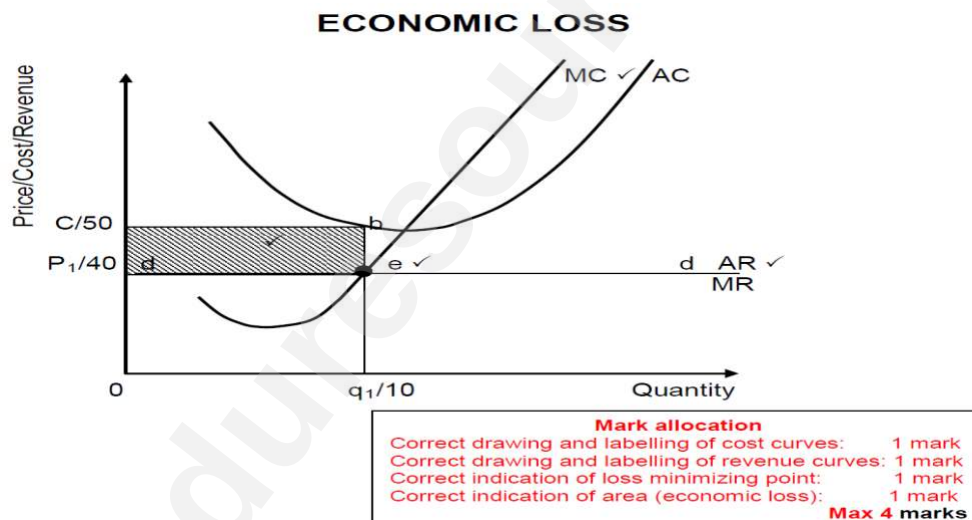
A perfect competition is a market structure with a large number of buyers and sellers ✓✓
 (Accept any other correct relevant response)

max 2

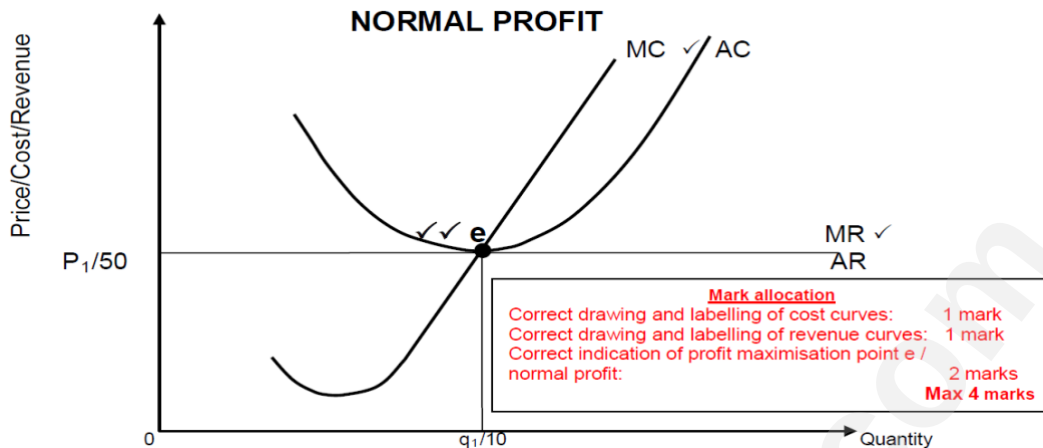
MAIN PART



- The minimum point of the short-term average cost curve (AC) is lower than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where $MR = MC$ and the business will produce at quantity q_1 and market price P_1 ✓✓
- Total revenue is equal to $0q_1 \times 0P_1$ (50×10) and total cost is equal to $0q_1 \times 0c$ (40×10) ✓✓
- The economic profit is represented by the area cP_1eb (R100) ✓✓



- The minimum point of the short-term average cost curve (AC) is higher than the market price. ✓✓
- The business is in equilibrium (it is maximising profits) at point e where $MR = MC$ and the business will produce at quantity Q and market price P . ✓✓
- Total revenue is equal to $0q_1 \times 0P_1$ (40×10) and total cost is equal to $0c \times 0q_1$ (50×10) ✓✓
- The economic loss is represented by the area P_1cbe (100) ✓✓



- At point e where $MR = MC$ the business will produce at quantity q_1 and market price P_1 . ✓✓
- The lowest point of AC is tangent to the AR/MR curves. ✓✓
- This implies that $AC = AR$ and total cost is equal to total revenue ($0P_1eq_1/500$). ✓✓
- Normal profit is minimum earnings required to prevent the entrepreneur from leaving the market. ✓✓

ADDITIONAL PART

The competition policy is successful by:

- making provision for institutions like the Competition Commission, Competition Tribunal and Appeal Court to investigate any unfair competition in the country. ✓✓
- Functioning as an investigator and evaluator of restrictive business practices. ✓✓
- Making recommendations about penalties for businesses found guilty of abuse. ✓✓
- Implementing the Competition Tribunal who accepts or rejects the investigation and recommendation of the Competition Commission and confirms penalty imposed. ✓✓
- Making it possible for businesses to appeal for a penalty imposed by the Competition Appeal Court. ✓✓
- Curbing the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth. ✓✓
- Regulating mergers and takeovers to regulate market power of mergers. ✓✓
- (Accept practical examples where Competition policy has succeeded)
- (Accept any other correct relevant response)

The competition policy is not successful because of:

- Frequency of investigations into collusive behaviour e.g. cement / steel / bread / bank industries. ✓✓
- Fines were too lenient and not acceptable to some parties. ✓✓
- Too many competitors still preventing affirmative action/young black industrialists entering into the market (BEE) ✓✓
- (Accept any other correct relevant response)

MAX 10

CONCLUSION

Businesses under perfect competition can only realise normal profits in the long-run due to the number of businesses entering in the market to share in the profits being made in the short run. ✓✓

(Accept any other correct relevant response)

MAX 2

MONOPOLY**ACTIVITY 1**

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.5) in the ANSWER BOOK, for example 1.1.6. D

- 1.1.1 Products that are sold in the monopoly are.....
 A. differentiated
 B. homogenous
 C. unique✓✓
 D. same
- 1.1.2 The demand curve of the monopolist slopes.....
 A. horizontally
 B. negatively✓✓
 C. positively
 D. increasingly
- 1.1.3 A market structure where one producer exist in the market is called.....
 A. Duopoly
 B. Oligopoly
 C. Perfect Competitor
 D. Monopoly✓✓
- 1.1.4 Monopolies will achieve a/an profit in the long run
 A. economic✓✓
 B. normal
 C. zero
 D. equal
- 1.1.5 Monopoly is also known as a/an _____
 A. industry
 B. market✓✓
 C. firm
 D. monopolistic

(5x2) 10

1.2 Choose a description from COLUMN B that matches an item in COLUMN A.

COLUMN A		Answers	COLUMN B
1.2.1	Price setter	D✓	A. A single firm or entity that holds exclusive control over the production or distribution of a particular product or service within an industry
1.2.2	Long-run	B✓	

1.2.3	Monopoly	A✓	B. A period where all inputs in the production process are variable
1.2.4	Patent	E✓	C. Where barriers to entry are of an economic nature.
1.2.5	Natural Monopoly	C✓	D. When a firm has power to determine the price for its product. E. The exclusive right to manufacture a product. F. Situation where the business does not make a profit or a loss

(1 x 5) 5

1.3 Give ONE term for each of the following descriptions.

1.3.1 The profit that the monopoly firm makes both in long run and short run.

Economic Profit✓

1.3.2 The legal right whereby the holder obtains the exclusive right to manufacture a product.

Patent✓

1.3.3 A monopoly that exists because of laws posed by the State.

Artificial Monopoly✓

1.3.4 A market structure where entry and exit are completely blocked.

Monopoly✓

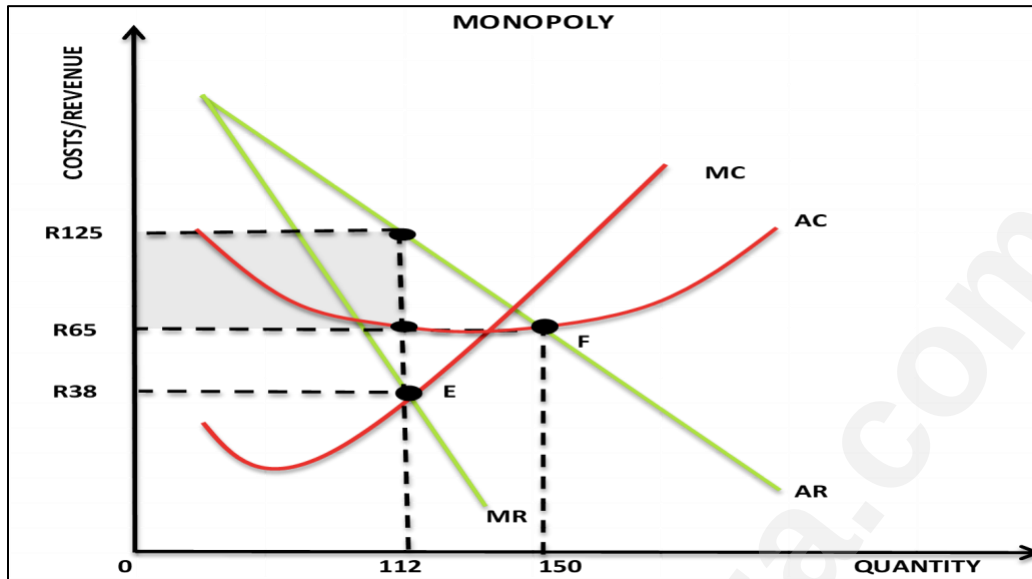
1.3.5 A point where MC equals MR yet the business is making an economic loss.

Loss Minimizing Point ✓

(1 x 5) 5

ACTIVITY 2

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



- 2.1.1 Identify the price where firms maximise profit? (1)
R125✓
- 2.1.2 Give ONE example of a natural monopoly. (1)
Eskom, Telkom, Transnet✓
- 2.1.3 Briefly describe the term marginal revenue. (2)
Marginal revenue is the additional revenue received from selling an additional unit. ✓✓
(Accept any other correct relevant response)
- 2.1.4 Why a monopolist will continue to make economic profit in the long run? (2)
Monopolist will make economic profit in the long run because the market is completely blocked. ✓✓
(Accept any other relevant response)
- 2.1.5 Calculate whether the firm above is making economic profit or loss. Show ALL calculations. (4)
Profit or Loss

$$= AR - AC \times Q$$

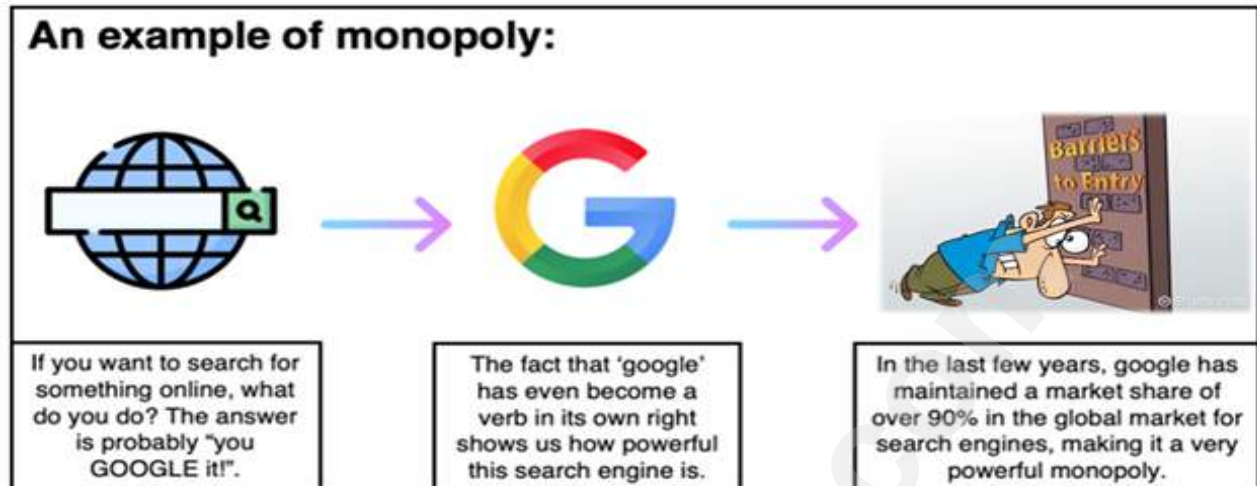
$$= R125 - R65 \times 112✓$$

$$= R60 \times 112✓$$

$$= \underline{R6\ 720}✓✓$$
Therefore, the firm is making economic profit of R6 720. ✓

ACTIVITY 3

- 3.1 Study the picture below and answer the questions that follow.

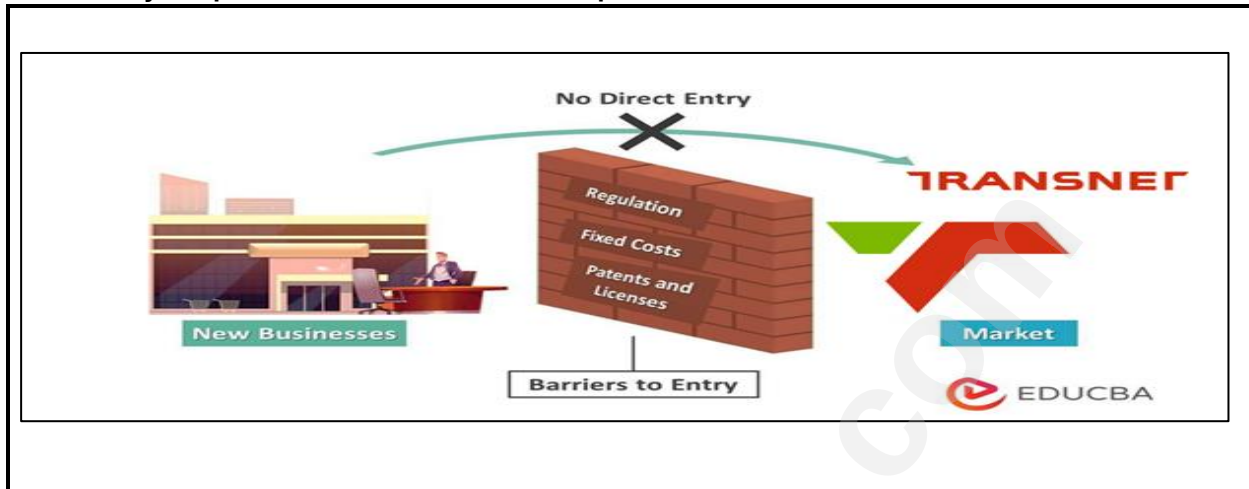


Source: Google images

- 3.1.1 Identify the market structure depicted in the above picture. (1)
Monopoly ✓
- 3.1.2 What is the nature of the product offered by monopolies? (1)
Unique ✓
- 3.1.3 Briefly describe the term *patent*. (2)
It is an exclusive (legal) right to manufacture a product ✓✓
(Accept any other correct relevant response)
- 3.1.4 How does the slope of the monopolist's demand curve differ from that of a monopolistic competitor? (2)
- The demand curve of a monopoly slopes downward due to its market power, representing the sole supplier's ability to set prices above marginal cost. ✓✓
 - In contrast, the demand curve of monopolistic competition also slopes downward but is more elastic, reflecting the presence of multiple firms offering differentiated products, leading to a wider range of substitutes and a less concentrated market power. ✓✓
 - This distinction highlights how monopolistic competition allows for greater consumer choice and competitive pressures compared to the more concentrated control of a monopoly. ✓✓
(Accept any other correct relevant response)
- 3.1.5 Why do state-owned monopolies in South Africa find it difficult to make an economic profit? (4)
- Some state-owned monopolies in South Africa have a history of corruption and incompetence which compromises the ability to make profits ✓✓
 - Due to the huge maintenance costs, revenue is not sufficient to cover all expenses ✓✓
 - Non-payment of debt of municipalities, reduces the revenue of State-Owned Enterprises ✓✓
 - Regulation bodies such as NERSA limit high price increases that reduces revenue ✓✓
 - Over-reliance on bailouts leads to inefficiencies in management decision-making processes ✓✓
 - Some state-owned enterprises provide essential goods and services such as water, which makes it difficult to set very high prices to cover costs ✓✓
(Accept any other correct relevant response)

ACTIVITY 4

4.1 Study the picture below and answer the questions that follow.

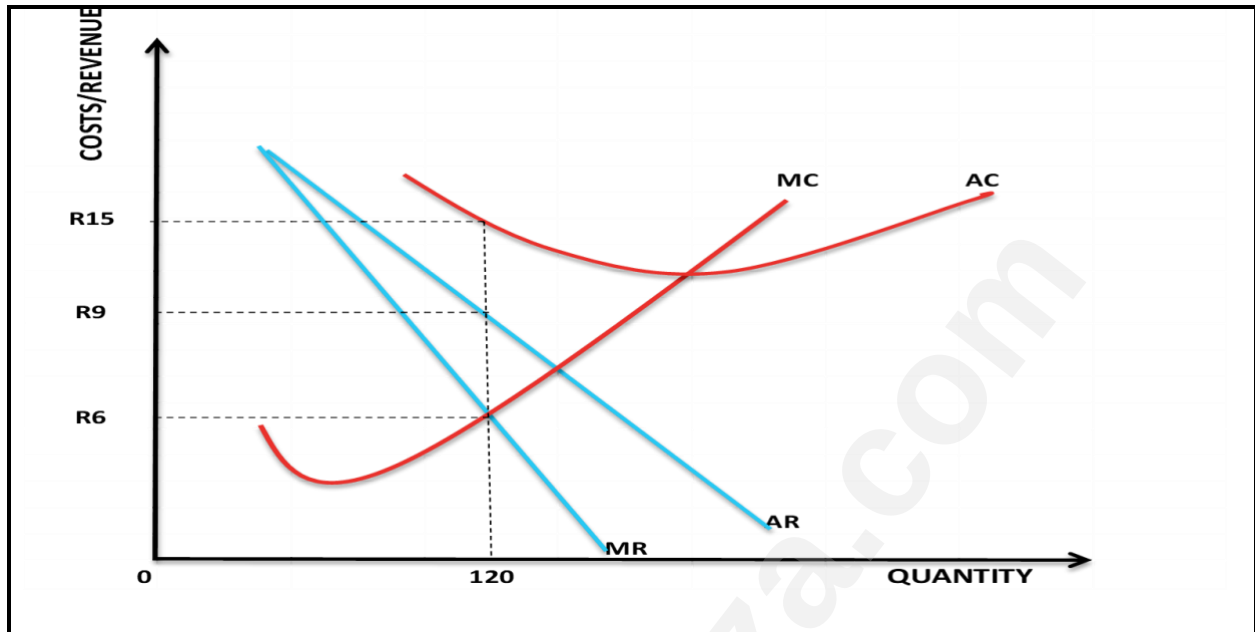


Source: Google images

- 4.1.1 Identify ONE barrier to entry in market from the above cartoon. (1)
Regulation, fixed costs, licencing✓
- 4.1.2 Name the type of monopoly that is characterised by high start-up costs. (1)
Natural monopoly✓
- 4.1.3 Briefly describe the term economies of scale. (2)
Economies of scale occur when output increases by more than the percentage increase in inputs / when the cost per unit decreases when output expands✓✓
(Accept any other relevant and correct answer)
- 4.1.4 How would barriers to entry influence profits in the market? (2)
New businesses are restricted to enter the market and existing businesses will enjoy economic profit in both short and long run✓✓
(Accept any other relevant and correct answer)
- 4.1.5 Why would a monopolist not charge excessively high prices? (4)
- **Monopoly is limited by the market demand and consumers may stop buying if prices are too high. ✓✓**
 - **Consumers have limited budgets therefore monopolies cannot charge excessive prices. ✓✓**
 - **Monopolist's product still must compete for consumers' favour with all other products in the economy. ✓✓**
 - **Price increases are sometimes regulated by the government to protect the consumer✓✓**
(Accept any other relevant and correct answer)

ACTIVITY 5

5.1 Study the following information and answer the following information.



- 5.1.1 Identify the unit cost in the above firm (1)

R15 ✓

- 5.1.2 Give the loss minimising quantity. (1)

120

- 5.1.3 Briefly describe the term natural monopoly. (2)

Natural monopoly is a type of monopoly where there are high start-up costs that prevent other firms from entering the market. ✓✓

(Accept any other correct relevant response)

- 5.1.4 Why does marginal revenue curve (MR) will always lie below the average revenue curve (AR)? (2)

The negative sloping demand curve means that more goods are sold at low prices; hence additional revenue will decrease as more goods are sold. ✓✓

(Accept any other correct relevant response)

- 5.1.5 Calculate the profit or loss of this market. Show ALL calculations. (4)

PROFIT/ LOSS

$$= (AR \times Q) - (AC \times Q)$$

$$= (AR - AC) \times Q$$

$$= (R9 \times 120) - (R15 \times 120) \quad \text{or} \quad = R9 - R15 \times 120$$

$$= R1080 - R1800$$

$$= -R6 \times 120$$

$$= -R720 \text{ Economic Loss}$$

$$= -R720 \text{ Economic Loss}$$

ACTIVITY 6

- 6.1 How does the inefficiency occur in a monopoly? (8)

- The firm will set a specific price for a good that is available to all consumers. ✓✓

- The quantity of the good will be less and the price will be higher (this is what makes the good a commodity). ✓✓
- The monopoly pricing creates a deadweight loss because the firm forgoes transactions with the consumers. ✓✓
- The deadweight loss is the potential gains that did not go to the producer or the consumer. ✓✓
- As a result of the deadweight loss, the combined surplus (wealth) of the monopoly and the consumers is less than that obtained by consumers in a competitive market. ✓✓
- A monopoly is less efficient in total gains from trade than a competitive market. ✓✓
- Monopolies can become inefficient and less innovative over time because they do not have to compete with other producers in a marketplace. ✓✓
(Accept any other relevant explanation)

6.2 Distinguish between artificial and natural monopoly

(8)

ARTIFICIAL MONOPOLY

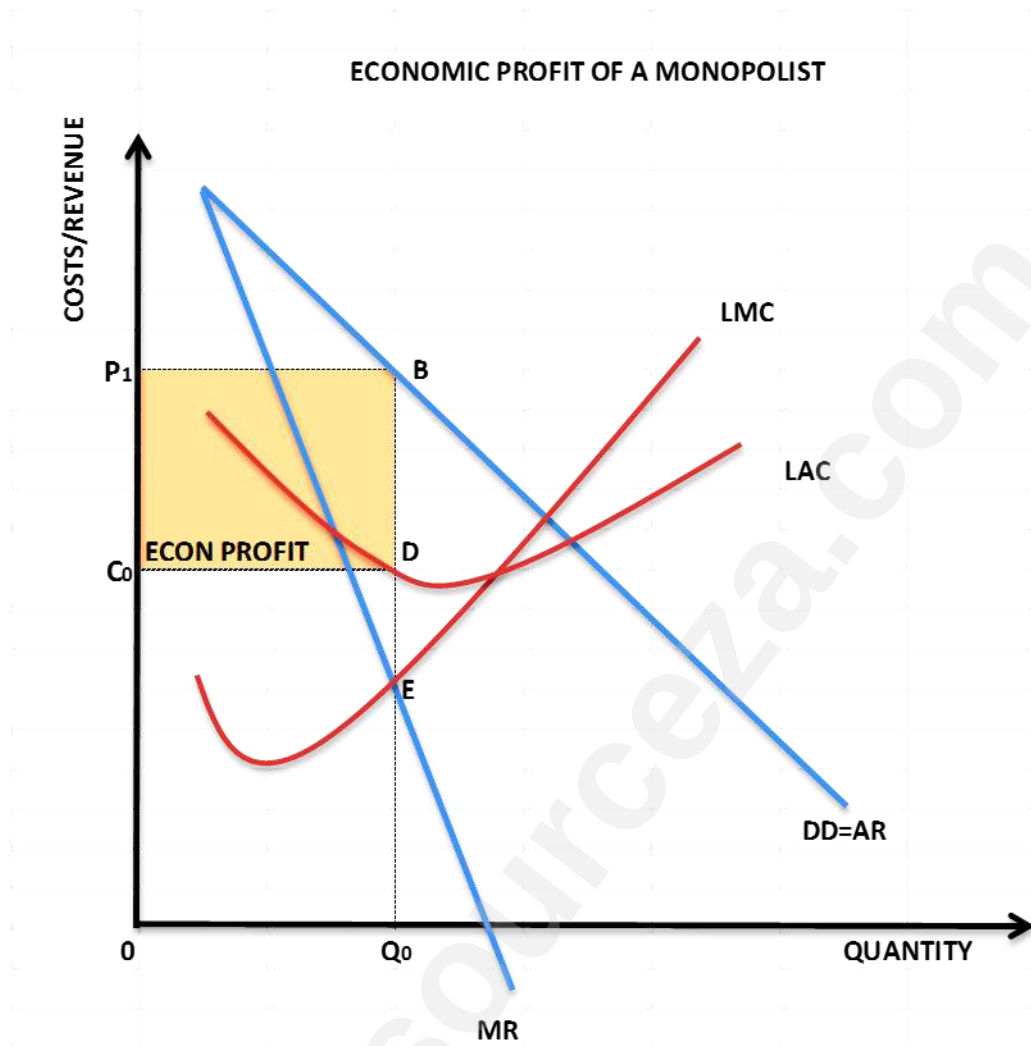
- Here the barriers to entry are not economic in nature. ✓✓
- An example of a barrier is a patent. ✓✓
- A patent is a legal and exclusive right to manufacture a product, e.g., Denel Land Systems manufacturing Casper's. ✓✓
- Licensing is another way in which an artificial monopoly is applied. ✓✓
- In South Africa licenses are required for radios, TV broadcasters, etc. ✓✓
- Licenses protect operators against entry of competitors ✓✓

NATURAL MONOPOLY

- High development costs prevent others from entering the market and therefore the government supplies the product. ✓✓
- E.g. Electricity in South Africa is provided by the government enterprise, Eskom. ✓✓
- It costs billions of rands to build and maintain power stations and therefore there are no other suppliers. ✓✓
- A single business (Eskom) can serve the whole market at a lower price than two or more businesses together.
- Such a business is frequently owned or regulated by the government. ✓✓
(Accept any other relevant explanation)

6.3 With the aid of a well labelled graph explain the long-run equilibrium of a monopoly

(8)



- In the long term the monopolist makes economic profit ✓✓
 - The LMC curve intersects the LAC curve at its minimum point ✓✓
 - Profit maximizing point is at point E ($LMC = MR$) where production is Q_0 at a price of P_1 per unit/ The monopolist will produce at Q_1 (100) (profit maximization point E) at a price of P_1 (10) ✓✓
 - At this production level the average revenue is R_{10} and average cost is R_7 ✓✓
 - Therefore, the monopolist is making a profit of R_3 per unit (total economic profit of R_{300}). The total economic profit is represented by the shaded area ✓✓
- (Accept any other relevant explanation) (Max 4 marks)

ACTIVITY 7

- Discuss in detail the characteristics of a monopoly. (26)
- With the aid of a well labelled graph explain the long-run equilibrium of a monopoly (10)

INTRODUCTION

Monopoly exist where there is only one seller of a unique product, where product has no close substitutes, and where barriers block entry into the market completely. ✓✓

max 2

(Accept any other relevant explanation)

BODY

MAIN PART (A maximum of eight marks for headings and examples)

Number of firms

- The monopoly consists of one single firm. ✓✓
- The monopoly also represents the total industry. e.g De Beers, Eskom etc. ✓✓

Demand curve

- Monopolist is also confronted with a demand curve for their product but because there is the only supplier of the product, they can decide at what point on the demand curve they wish to be. ✓✓
- The monopolist is the only supplier of a product in the market. ✓✓
- The demand curve of a monopolist is that of a market as a whole. ✓✓
- The demand curve slopes downwards from left to right. ✓✓

Production level

- Once the monopolist has decided on the price, the quantity sold is determined by demand. ✓✓
- The monopolists influence the product-price combination of the product they sell. ✓✓
- Control over price ✓✓
- A monopolist is regarded as a price maker. ✓✓
- Able to influence price through changing the quantity, but limited by market demand and the goal of profit maximisation. ✓✓
- Monopolist chooses the combination of price and quantity that suits it the best. ✓✓
- revenue curve
- Because the demand curve is downwards sloping price will decrease for each additional unit produced.
- Therefore the marginal revenue will be less than the price, thus the demand curve and marginal revenue curve is not the same.
- The marginal revenue curve lies below the demand curve.

Cost of production

- The shape of the cost revenue curve (MC and AC) is the same as any other producer.
- The MC increases as more is produced.
- The AC declines, reaches a minimum and then increases.
- Profit maximisation is where $MC = MR$

Profit

- The monopolist can earn economic profit in the short run and in the long run.
- Because new entries are blocked (no competition) and short-run economic profit cannot be reduced.
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains intact.
- Market entry
- Refers to how easy or difficult for the businesses to enter or to leave the market.
- Is entirely/completely blocked.

- A number of barriers to entry that may give rise to monopoly can be economies of scale or limited size of the market or exclusive ownership of raw materials or patents or licensing or sole rights or import restrictions. (Accept any other relevant explanation) (max 26)

Additional Part

Evaluate the effects of natural monopolies on an economy. (10)

- Natural monopoly will occur only because of either specific market conditions or because of a unique product. It generally occurs without any unfair play or business practices that might stifle rivalry.

Positively

- It helps to avoid wastage as there cannot be duplication of products or services.
- The firm with a natural monopoly is in a good space as it earns substantial amounts as revenues and profits.
- Higher profit margins help the company to set up research and development departments that will ultimately
- prove advantageous to both the firm and the consumers in terms of better products at lower costs.
- A natural monopoly is a source of revenue for a government as the firms must pay tax to them.

Negatively

- The high start-up costs of natural monopoly firm eliminate other competitors from entering the market.
- Unregulated natural monopolies prove a bad bargain for the customers as they tend to be expensive and often provide poor services like a cable company.
- Lack of rivalry can also lead to outdated and low-quality goods and services.

CONCLUSION

(Accept any other relevant high order conclusion)

max 2

MONOPOLISTIC COMPETITION

ACTIVITY 1

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

MONOPOLISTIC COMPETITION



PROTEA HOTELS
MARriott



ROAD LODGE
BY CITY LODGE HOTELS



Radisson
HOTELS & RESORTS

Unlike perfect competition, monopolistic competitive firms have products that are not perfect substitutes. Consumers have clearly defined preferences and sellers attempt to differentiate their products from those of competitors. In the short run the monopolistically competitive hotel can exploit the heterogeneity of its brand so as to reap positive economic profit.

There is a variety of hotel options available that offer various facilities from conference rooms to beauty salons, each hotel offers something unique.

[Source: hotelnewsresource.com/article3232.html. Accessed on 12 February 2023.]

- 1.1.1 Identify ONE way in which the above hotels can differentiate their products. (1)
Offer conference rooms ✓
Beauty salons ✓
Gymnasiums ✓
(Accept any other relevant response.)
- 1.1.2 What kind of profits are made by a monopolistic competitor in the long run? (1)
Normal profits ✓
- 1.1.3 Describe the concept monopolistic competition. (2)
Monopolistic competition refers to a market structure with many buyers and sellers where entry is relatively easy, but the product is differentiated. ✓✓
(Accept any other correct relevant response.)
- 1.1.4 Briefly explain product differentiation as a characteristic of a monopolistic competition. (2)
• Product differentiation refers to products that are similar but not completely identical ✓✓
• They are similar in that they satisfy the same need of the consumer ✓✓
• Differences may sometimes be completely imaginary as in case of medicines which may have different brand names but contain the same basic ingredients ✓✓
• The packaging of the product may make it different from other products, though the product is the same, e.g., salt and sugar ✓✓
(Accept any other relevant explanation)
- 1.1.5 Why monopolistic competition unable to make economic profits in the long run? (4)
• In the short run, when there are still a few firms, they manage to make economic profit. ✓✓
• The economic profits attract other businesses to enter the market and eventually lead to increased competition and all economic profits are wiped away. ✓✓
• Firms start marketing and branding their product differently, they do this to try and hold on to their normal profits to prevent themselves from exiting the market. ✓✓
(Accept any other correct relevant response.)

ACTIVITY 2

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

IMPERFECT MARKET – MONOPOLISTIC COMPETITION

Checkers has adopted door-to-door deliveries via online orders to improve their market share.



The advertisement features the 'Checkers Sixty60' logo and the text 'Groceries delivered in 60 minutes'. It shows a smartphone displaying the app interface, a delivery box with the logo, a delivery scooter, and a delivery person standing at a door. A speech bubble from the smartphone says 'CELLPHONE'.

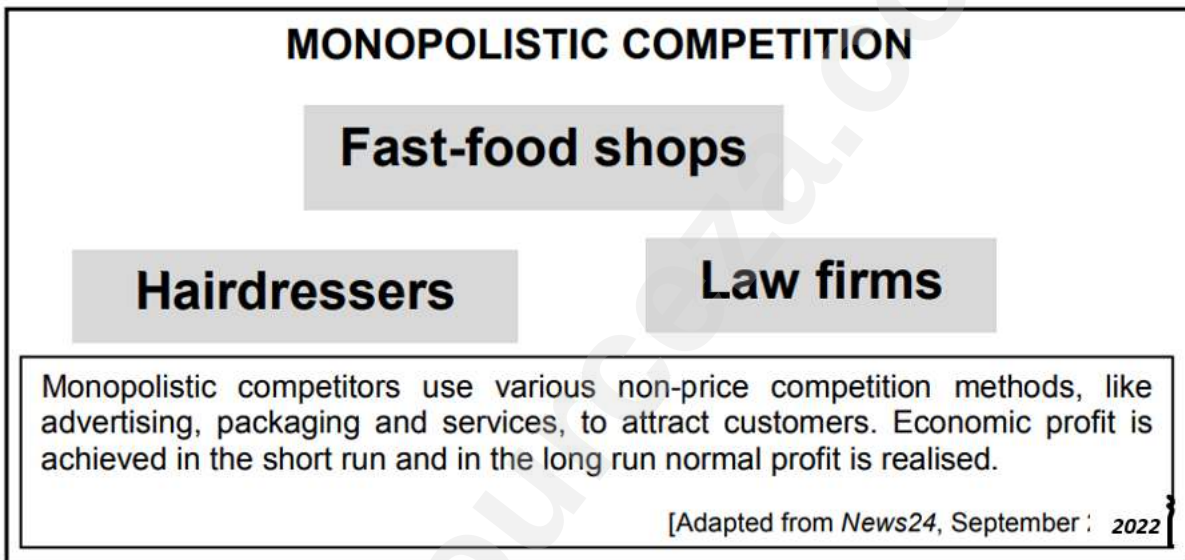
[Adapted from Google Images, 2022]

- 2.1.1 Identify a non-price strategy shown by the above information. (1)
Door-to-door delivery / online orders / packaging / branding / advertising ✓
- 2.1.2 Name ONE example of a monopolistic competitive industry. (1)
Fast Food outlets ✓
Medical Doctors ✓
Clothing shops ✓
(Accept any other relevant and correct answer)
- 2.1.3 Briefly describe the term *patent*. (2)
A legal right that allows the holder to exclusively produce/manufacture a product for a certain period. / An exclusive right granted to an inventor that protect intellectual property. ✓✓
(Accept any other correct relevant response)
- 2.1.4 Explain the benefits of product differentiation to producers of goods and services. (2)
- Producers will benefit because their products will be easily recognisable from similar products of other businesses. ✓✓
 - When consumers can identify the product, brand loyalty is developed which will benefit the producer. ✓✓
 - Producers will earn more revenue/profit from goods that show a relatively inelastic demand. ✓✓
 - Producers can easily penetrate the market and gain more market share through product differentiation. ✓✓
- (Accept any other relevant and correct response)
- 2.1.5 Why is monopolistic competition regarded as a hybrid structure? (4)

- Monopolistic competition is often regarded as a hybrid market structure because it shares characteristics of both monopoly and perfect competition, two extreme forms of market structures. ✓✓
- In monopolistic competition, there are many firms competing in the market, but each firm produces a slightly differentiated product, making it different from the standardized products in perfect competition. ✓✓

ACTIVITY 3

3.1 Study the picture below and answer the following questions.



- 3.1.1 Identify ONE example of monopolistic competition from the information. (1)
Hairdresser /Fast-food shops /Law firms. ✓
- 3.1.2 Name ONE non-price competition strategy from the information above. (1)
Advertising /Packaging /Service ✓
- 3.1.3 Briefly describe the term *monopolistic competition*. (2)
• Monopolistic competition is a market structure with many buyers and sellers where entry is relatively easy, but the product is differentiated. ✓✓
(Accept any other correct relevant responses)
- 3.1.4 Briefly explain product differentiation as a characteristic of a monopolistic competition. (2)
• Product differentiation refers to products that are similar but not completely identical. ✓✓
• They are similar in that they satisfy the same need of the consumer. ✓✓
• Differences may sometimes be completely imaginary as in case of medicines which may have different brand names but contain exactly the same basic ingredients. ✓✓
• The packaging of the product may make it different from other products, though the product is the same, e.g. salt and sugar. ✓✓
(Accept any other correct relevant responses)

- 3.1.5 How does load shedding affects small businesses? (4)
- Small businesses are faced with loss of production and productivity. ✓✓
 - Production is halted during load shedding because the machines are run using electricity. ✓✓
 - Workers are essentially not working during periods of load shedding. ✓✓
 - Small businesses are faced with loss of profits because in most cases they require electricity to function and run their businesses, ✓✓
 - Theft and burglary increase affecting the normal operation of businesses. ✓✓
- (Accept any other correct relevant responses)

ACTIVITY 4

4.1 Study the information below and answer the following questions.

MONOPOLISTIC COMPETITION

The demand curve of a monopolistic competitor is very similar to that of a monopolist, with the demand curve being more elastic than that of a monopoly. Short-run equilibrium is very similar to a monopoly and long-run equilibrium of normal profit is very similar to a perfect market. For this reason it is sometimes referred to as a hybrid market structure.



[Adapted from www.monopolisticcompetition.co.z 2022]

- 4.1.1 Identify ONE example of a monopolistic competitor from the above information. (1)
 Pizza hut ✓ / McDonalds ✓ / Burger King ✓ / KFC / Jollibee ✓
- 4.1.2 Name the long run equilibrium position of a monopolistic competitor. (1)
 Normal profit ✓
- 4.1.3 Briefly describe the term *normal profit*. (2)
 It is a profit that is sufficient to ensure the entrepreneur continues production/minimum earnings required to prevent the entrepreneur from leaving and using his/her production factors elsewhere. ✓✓
 (Accept any other correct relevant response)
- 4.1.4 Briefly explain control over prices in monopolistic competition. (2)
Control over prices
- Firms have little control over the price of a product due to the competitive nature of the market. ✓✓
 - They are price makers rather than price takers. /Price makers for their brand of products, ✓✓
 - Each seller can sell at its own price since a single price cannot be determined for differentiated products. ✓✓
 - A range of prices can be applied to different products depending on the size of business. ✓✓

- Bulk purchases by a business can result in lower prices for products. ✓✓
(Accept any other correct relevant response)

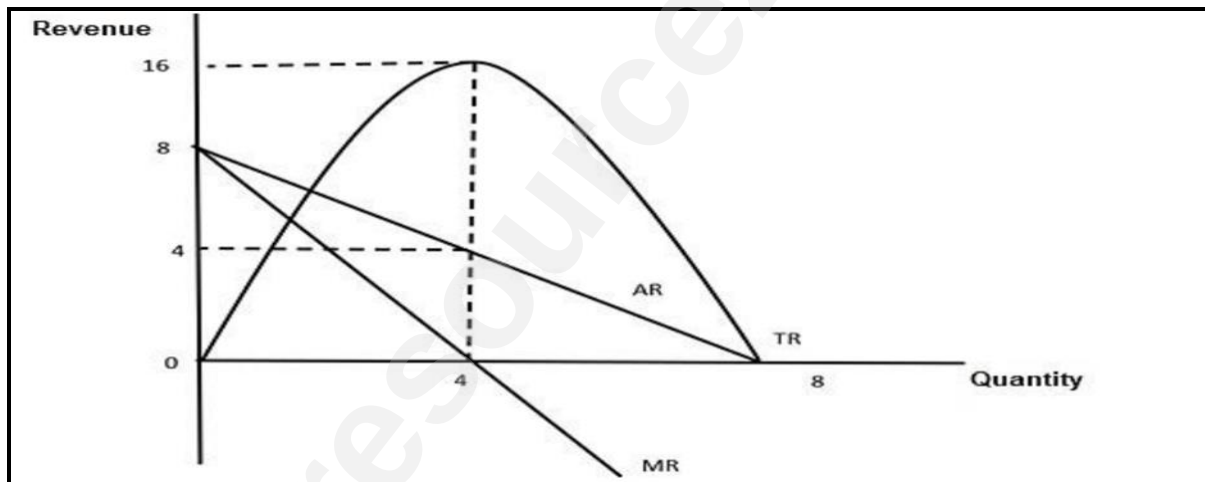
4.1.5 How is branding used in a monopolistic competition to increase market share? (4)

- A strong brand identity helps establish customer loyalty and trust, reducing the price sensitivity of consumers. ✓✓
- This enables companies to charge premium prices, even in a competitive environment, enhancing their profitability. ✓✓
- Branding creates a barrier to entry for potential competitors. Established brands have a competitive advantage, making it difficult for new entrants to gain market share. ✓✓
- Branding fosters innovation and product differentiation, driving firms to constantly improve and evolve their offerings to maintain a unique selling proposition. ✓✓
(Accept any other correct relevant response)

ACTIVITY 5

5.1 Study the graph and answer the questions.

REVENUE CURVES OF A MONOPOLISTIC COMPETITIVE FIRM



5.1.1 Identify the quantity at which total revenue is maximised. (1)

Quantity 4 ✓

5.1.2 Which revenue curve represents a demand curve in a monopolistic competitive firm? (1)

AR / Average revenue. ✓

5.1.3 Briefly describe the term *marginal revenue*. (2)

Marginal revenue is the extra revenue the seller earns when it produces and sells one more unit of product. ✓✓

(Accept any other correct relevant response.)

5.1.4 Explain the significance of economies of scale. (2)

- When more units of a good or service can be produced on a larger scale, yet with few inputs costs economies of scale are said to be achieved. ✓✓

- As a company grows and production units increase a company will have a better chance to decrease costs.
- If a ✓✓
- firm is already enjoying economies of scale, it becomes difficult for another firm with higher operating costs to compete with it. ✓✓
(Accept any other correct relevant response.)

5.1.5 Why will the economic profit made by a monopolistic competitor disappear in the long run? (4)
Economic profit will disappear in the long run because:

- profits attract new businesses easily into the market making it more competitive. ✓✓
- increased competition will lead to a decrease in prices which will reduce profits. ✓✓
- there can be an increase in the number of substitute products produced which will reduce the demand. ✓✓
- this will eventually lead to normal profit by the monopolistic competitor in the long run. ✓✓
(Accept any other correct relevant response.)

ACTIVITY 6

6.1. Why are prices in a monopolistically competitive market lower than the prices of a monopoly? (2)
• Monopolistically competitive market has greater competition because there are many businesses. ✓✓

- Monopoly market has higher prices because it is a single supplier of a product or service. ✓✓
- Monopoly sells a unique product with no close substitutes. ✓✓
(Accept any other correct relevant response)

6.2 How does a monopolistic competitor differ from a perfect competitor in terms of market information. (2)

- A monopolistic competitor has imperfect market information due to the differentiated nature of their products, making direct price comparisons challenging for consumers. ✓✓
- In contrast, a perfect competitor offers homogeneous products and full market information, allowing consumers to easily compare prices and make informed choices. ✓✓
- This information disparity in monopolistic competition leads to more varied pricing strategies and branding efforts to influence consumer perceptions. ✓✓
(Accept any other correct relevant responses)

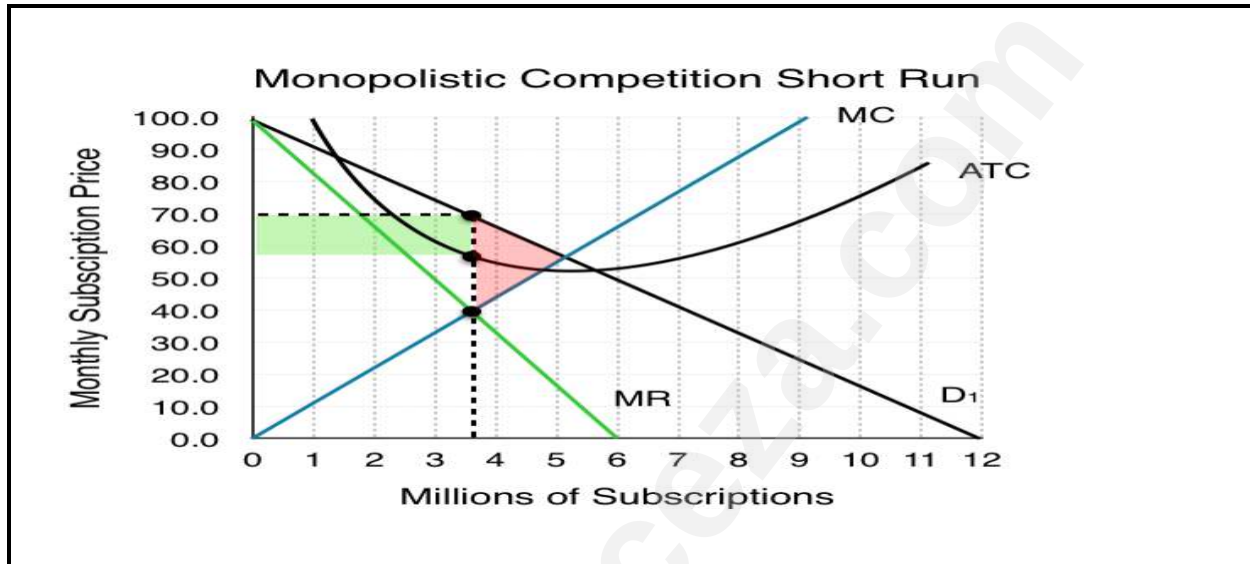
6.3 Why is the demand curve of a monopolistic competitor more elastic than that of a monopoly? (2)

- The demand curve of a monopolistic competitor is more elastic due to product differentiation, which offers consumers a range of substitutes and alternatives. ✓✓
- This variety of options makes consumers more responsive to price changes as they can easily switch between similar products. ✓✓
- In contrast, a monopoly faces less elastic demand since it lacks close substitutes, giving the monopolist

more control over price without an immediate threat of consumer defection. ✓✓
(Accept any other correct relevant response)

ACTIVITY 7

7.1 Study the graph below and answer the questions.



7.1.1 Identify the price charged by the monopolist on the graph. (1)

R70 ✓

7.1.2 Name any ONE example of a business that operate under monopolistic competition. (1)

KFC/ Nando's/ Hungry/ Lion ✓

7.1.3 Describe the term *marginal revenue*. (2)

Marginal revenue is the extra revenue gained by selling one more unit of a product or service; it can vary with market structure, influencing profit-maximizing decisions by equating it with marginal cost. ✓✓

(Accept any other correct relevant response.)

7.1.4 How does the marginal revenue curve of monopolistic competition differ from that of a perfect competition? (2)

- Firms in the monopolistic market have some control over their prices, they must lower prices to sell additional units, causing marginal revenue to fall faster than average revenue. ✓✓
 - In perfect competition, where products are homogeneous and firms are price takers, the marginal revenue curve coincides with the horizontal average revenue curve. ✓✓
- (Accept any other correct relevant response.)

7.1.5 Why perfect market is more efficient compared to monopolistic market? (4)

- A perfect market is known for its higher efficiency as it charges low prices and offer abundant quantities

due to the presence of numerous buyers and sellers. ✓✓

- In contrast, monopolistic competition often offers limited quantities at higher prices due to product differentiation and firms' market power. ✓✓
- The perfect market's competitive forces drive prices down to their marginal costs, maximizing consumer welfare through greater affordability and availability. ✓✓
- In monopolistic competition, the trade-off between product differentiation and higher prices can result in less efficient resource allocation and reduced consumer benefits. ✓✓
(Accept any other correct relevant response.)

ACTIVITY 8

8.1 Compare and contrast in detail, without graphs, monopolistic competition, and monopoly market structures.

(8)

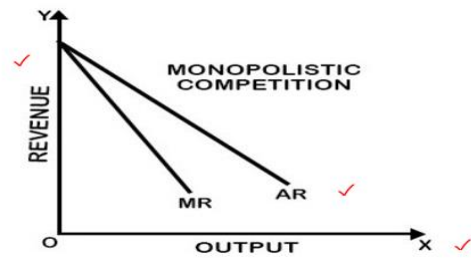
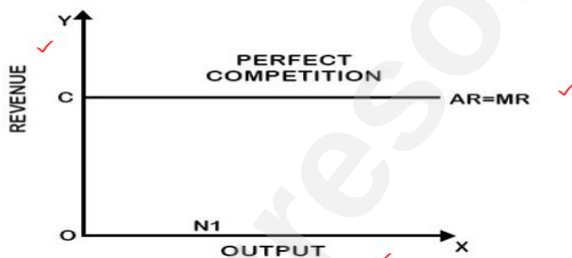
CHARACTERISTICS	MONOPOLY	MONOPOLISTIC
Number of firms in an industry ✓	A single supplier or firm ✓ e.g. Eskom. ✓ There is no competition, one business in the market controls the supply of the goods and services. ✓✓	A large number of firms or suppliers ✓ e.g. KFC, Nandos and Tagos. ✓ There is an element of competition ✓✓
Nature of the product ✓	A unique product is produced. ✓ There are no close substitutes ✓✓ The product cannot be easily replaced ✓✓ Consumers have no choice in price and quality of the product ✓✓	Differentiated products ✓ Products are similar but not identical. ✓✓ They are similar in that they satisfy the same need of the consumer. ✓✓ There may be differences in packaging but the product is the same. ✓✓
Freedom to enter and exit the market ✓	There are barriers to entry ✓ Entry into the market is completely blocked ✓✓ The barriers are caused by patents and other forms of intellectual property rights ✓✓	Easy entry into the market. ✓ There is complete freedom of entry and exit into the market ✓✓
Slope of the demand curve ✓	Downward sloping demand curve for the firm ✓ and the same curve for the industry ✓✓ it is also inelastic. ✓✓	Downward sloping demand curve for the industry, ✓ and elastic ✓✓

Control over price ✓	The firm is a price-maker ✓ The monopolist is able to influence the market through changing the quantities it supplies to the market ✓✓	Firms have little control over the price ✓ Each business sells at its own price ✓✓ since a single price cannot be determined for the differentiated product ✓✓
Relative market share ✓	Total market belongs to one firm ✓✓	Relatively small share of the total market ✓✓
Information ✓	There is perfect knowledge, information is complete ✓✓	Information is incomplete ✓✓

(Accept any other correct relevant response.)

8.2 Compare the market structure of a monopolistic competitor to that of a perfect market. (8)

- In the perfect competition market, each firm sells a homogenous product (or perfect substitute), whereas, in monopolistic competition, each firm will have a slightly different output from the other. ✓✓
- Since products are slightly different from each other in the monopolistic market, non-price competition, like advertising and promotion, exists in the monopolistic market to inform buyers about the quality of the product. ✓✓
- Since the products are slightly different in the monopolistic market, pricing power exists quickly until new players enter the market to exploit the pricing power. ✓✓
- In a perfect market, marginal revenue aligns with price, demand, and average revenue, all of which are equal due to the absence of market power. However, in monopolistic competition, marginal revenue is typically lower than price, demand, and average revenue due to the downward-sloping demand curve resulting from product differentiation. It can be illustrated graphically as follows. ✓✓



- In monopolistic competition, any firm can have pricing power for very little time as any signal of supernormal profit would attract other firms to enter the market. ✓✓
 - Therefore, if a firm in the monopolistic market wants to sell more of its product, that firm will have to decrease the price. Hence, the average revenue will decrease with the quantity sold. ✓✓
 - Also, as we all know, the demand curve is downward sloping from left to right, so the firm will have to decrease the product's price to sell an additional. That is why marginal revenue is diverging wider and lower than the monopolistic market's average revenue.
- (Accept any other correct relevant response.)

OLIGOPOLY

ACTIVITY 1

1.1.1 Options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

1.1.1 The demand curve of an oligopoly is ...

- A horizontal.
- B vertical.
- C **kinked✓✓.**
- D upward sloping.

1.1.2 A monopolist will get ... in the long term.

- A. normal loss
- B. economic loss
- C. normal profit
- D. **economic profit✓✓**

1.1.3 Product differentiation and ... play an important role in non-price competition

- A. price
- B. **advertising✓✓**
- C. government policy
- D. mutual interdependency

1.1.4 An industry with only two producers controlling the market is known as a/an ...

- A **duopoly✓✓**
- B monopoly.
- C oligopoly.
- D pure oligopoly.

1.1.5 Firms under oligopoly can use methods such as ... to increase their market share

- A increase the price
- B decrease the price
- C discounts
- D **non-price competition✓✓**

1.1.6 This is an example of an oligopoly market in South Africa.....

- A. Eskom

- B. Johannesburg Securities Exchange
- C. Cell phone industry ✓✓
- D. Flower market

1.1.7 The nature of the product traded in a pure oligopoly is

- A. differentiated.
- B. homogenous. ✓✓
- C. heterogeneous
- D. Unique

(7 X 2) 14

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 number (1.2.1 – 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B	
1.2.1 Price leadership	A Products that differ, i.e., not similar	B ✓
1.2.2 Cartel	B An example of tacit collusion in an oligopoly market about pricing	F ✓
1.2.3 Explicit costs	C The additional cost when producing an extra unit	E ✓
1.2.4 Heterogeneous	D Duration where at least one factor of production is fixed	A ✓
1.2.5 Collusion	E Actual expenditure of a business, for example wages and Interest	G ✓
1.2.6 Marginal costs	F An organisation of businesses in an oligopoly that operates like a monopoly	C ✓
1.2.7 Short run	G An arrangement between businesses with the aim of limiting competition amongst them	D ✓
1.2.8 Duopoly	H Duration where all factors of production can change	I ✓
	I Occurs when the market is dominated by two firms	

(8 x 1) 8

1.3. Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations, acronyms and examples will be accepted.

1.3.1 An industry that is dominated or controlled by two producers

- Duopoly ✓
- 1.3.2 Products that are not the same in appearance, size, and quality
- Differentiated ✓
- 1.3.3 The additional revenue earned when sales increase by one more unit
- Marginal revenue ✓
- 1.3.4 A market structure that is dominated by few large firms
- Oligopoly ✓
- 1.3.5 A situation where one firm fixes a price and other firms accept it as the market price
- Price leadership ✓
- 1.3.6 The period of time where all factors of production are variable
- Long-run ✓ (6 x 1) 6

ACTIVITY 2

2.1 Answer the following questions.

- 2.1.1 Name two examples of oligopoly industries (2)

Pure oligopoly ✓

Differentiated oligopoly ✓

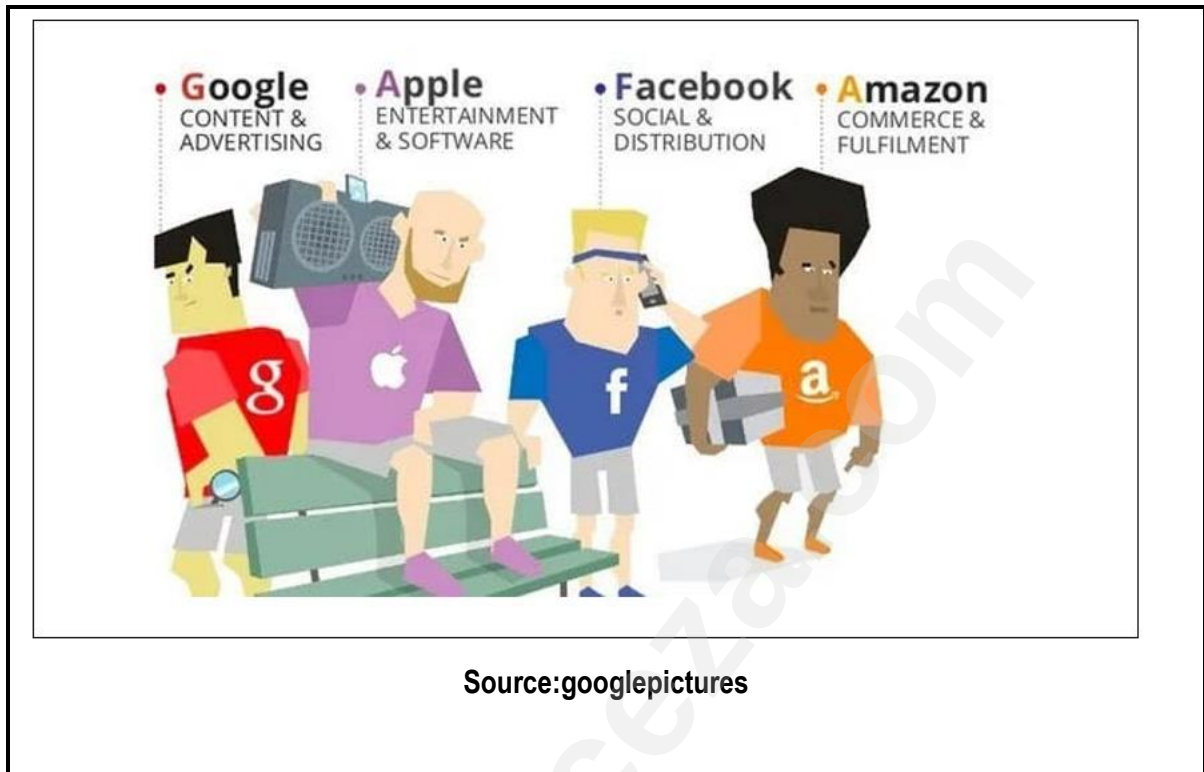
- 2.1.2 Why there are few businesses in oligopoly industry? (2)

There are few oligopoly businesses because of barriers of entry like patents that give an exclusive right to few producers ✓✓

(Accept any other correct relevant response.)

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





Source:googlepictures

- 2.2.1 Identify the market structure above. (1)
Oligopoly ✓
- 2.2.2 What type of collusion is represented by the picture above? (1)
Cartel ✓
- 2.2.3 Briefly describe the term *cartel*. (2)
Cartel refer to a group of similar companies who agree on prices between them in order to increase profits and limit competition ✓✓
(Accept any correct relevant responses)
- 2.2.4 Why oligopolies collude? (2)
Oligopolies collude in order to limit completion amongst themselves ✓✓
Oligopolies collude in order to increase their profits ✓✓
(Accept any correct relevant responses)
- 2.2.5 How can competition commission fight collusion? (4)
 - Competition commission can fight collusive behaviour by make sure that the investigate all the collusive behaviour that may be done by businesses ✓✓
 - They need to make sure that all those firms that are found colluding pay a huge fine that will

discourage other firms from doing the same ✓✓

- Circulate the information to businesses to make them aware of what would happen to those who are colluding ✓✓
- Curb the economic power to big conglomerates to arrive at a more equitable distribution of income and wealth ✓✓

(Accept any correct relevant responses)

ACTIVITY 3

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

SA COMPETITION COMMISSION PROSECUTES BANKS FOR COLLUSION

The Competition Commission of South Africa has referred a case of collusion to the Tribunal for prosecution against Bank of America, Merlyn Lynch International, Limited Invest Ltd, Standard Bank of South Africa Limited, ABSA Bank Limited and Barclays Bank. The commission has been investigating a case of price fixing and market allocation in the trading of foreign currency pairs involving the Rand since April 2015. It has now referred the case to the Tribunal for prosecution. The competition is seeking an order from the Tribunal declaring that the respondents have contravened the Act. Further the Commission is seeking an order declaring these banks must be liable for payment of administrative penalty equal to 10% of their annual turnover.

[Source: www.google.com. Accessed on 12 February 2023.]

- 3.1.1 Name any ONE type of collusion. (1)
Overt collusion ✓
Tacit collusion ✓
- 3.1.2 Which competition institution is not mentioned in the above extract? (1)
Competition Appeal Court ✓
- 3.1.3 Describe the concept *collusion*. (2)
Collusion is an agreement between businesses with the aim of limiting competition between them by fixing prices. ✓✓
(Accept any other correct relevant response.)
- 3.1.4 Explain non-price competition in an oligopoly market. (2)
Oligopolies prefer to compete based on product differentiation and efficient service because price competition can result in price wars. ✓✓
(Accept any other correct relevant response.)
- 3.1.5 Why would banks often collude although it is illegal in South Africa? (4)
 - Collusion between banks occur because it is an effort to reduce uncertainty, that is, they agree on the prices they are going to demand and the quantities they are going to produce ✓✓
 - They can enjoy the advantage of limiting competition and making it difficult for other businesses to enter the market ✓✓

- Collusion between banks occur because they want to limit supply to raise prices and maximise profits ✓✓
(Accept any other correct relevant response)

ACTIVITY 4

4.1.1 Name TWO types of collusion` (2)

Cartel ✓

Price leadership ✓

4.1.2 Why collusion exist in oligopoly? (2)

- Collusion exist because existing firms in the industry are trying to maximise their revenue and a profit ✓✓
- Firms are trying to limit the competition amongst themselves in order to have a market power or dominance ✓✓
(Accept any correct relevant responses)

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



4.2.1 Identify one characteristic that is not for oligopoly (1)

Advertising ✓

4.2.2 Name the characteristic that represent the mutual dependency. (1)

Interdependence ✓

4.2.3 Brief describe the term *pure oligopoly*. (2)

Pure oligopoly refer to an oligopoly that sell homogenous product ✓✓

(Accept any correct relevant responses)

4.2.4 Why oligopolies are preferred as a market structure? (2)

- It may be that they make supernormal profit in the long run due to their market power and ability to influence the price to some extent ✓✓
- Oligopolistic firms, while few in number, often have the resources and scale to achieve economies of scale, which can lead to lower production costs and better efficiency ✓✓
- To differentiate themselves, firms in oligopoly may focus on producing higher quality products or providing better services to attract customers ✓✓

(Accept any correct relevant responses)

4.2.5 How are other firms blocked in joining oligopoly industry? (4)

- Existing firms might collude to collectively deter new entrants by signalling their willingness to aggressively compete or engage in price wars ✓✓
- Regulatory requirements, licenses and permits can make it difficult for new entrants to navigate legal hurdles and comply with industry-specific regulations ✓✓
- Existing firms might have achieved economies of scale, allowing them to produce at lower costs due to high production volumes, new entrance would struggle to compete with these cost advantages ✓✓

(Accept any correct relevant responses)

ACTIVITY 5

5.1 Answer the Following questions.

5.1.1 Name any TWO non-price competition strategies used by oligopolies. (2)

Aggressive advertising ✓

Branding ✓

Product differentiation ✓

(Accept any correct relevant responses)

5.1.2 Why is oligopoly regarded as being inefficient market structure? (2)

It charges a price that is above the marginal cost ✓✓

Firms under oligopoly supply lower quantities at higher prices ✓✓

(Accept any correct relevant response)

5.2 Study the picture below and answer the questions that follow.



5.2.1 Identify the market structure that is depicted by the above cartoon. (1)

Oligopoly ✓

5.2.2 Name the industry represented by the above cartoon (1)

Petrol / Fuel/ Oil industry ✓

5.2.3 Briefly describe the term *duopoly* (2)

Occurs when the market is dominated by two firms ✓✓

(Accept any correct relevant responses)

5.2.4 Why oligopolies make economic profit in the long run. (2)

- High barriers to entry limits other firms to enter and compete with existing firms ✓✓
- Existence of collusion makes it hard for other firms to compete with existing firms ✓✓

(Accept any correct relevant responses)

5.2.5 How does collusion by oligopolies affect consumers? (4)

- Collusion reduces consumer welfare and social efficiency by creating a monopoly outcome ✓✓
- Collusion leads to higher prices for consumers which affect the standard of living negatively ✓✓
- Collusion discourages other firms to enter the market and consumers choices becomes limited ✓✓

(Accept any correct relevant responses)

ACTIVITY 6

6.1 Answer the following questions

6.1.1 Name any TWO industries found in an oligopoly (2)

- Cement industry ✓
- Banking industry ✓
- Cellphone industry ✓

(Accept any correct relevant responses)

6.1.2 Why firms under oligopoly are said to be inter-dependent? (2)

- Each seller is influenced by the actions of the other sellers ✓✓
- Each seller watches closely at the actions of other sellers and make a decision ✓✓

(Accept any correct relevant responses)

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



competition commission
south africa Media Statement

For immediate release
15 February 2017

Competition Commission prosecutes banks (currency traders) for collusion

The Competition Commission has today referred a collusion case to the Tribunal for prosecution against Bank of America Merrill Lynch International Limited, BNP Paribas, JP Morgan Chase & Co, JP Morgan Chase Bank N.A, Investec Ltd, Standard New York Securities Inc., HSBC Bank Plc, Standard Chartered Bank, Credit Suisse Group; Standard Bank of South Africa Ltd, Commerzbank AG; Australia and New Zealand Banking Group Limited, Nomura International Plc., Macquarie Bank Limited, ABSA Bank Limited (ABSA), Barclays Capital Inc, Barclays Bank plc (Respondents).

Source: Media statement 15/02/2017

6.2.1 Identify the institution discussed in the above extract (1)

- Competition commission ✓
- Competition tribunal ✓

6.2.2 Name the term that represent unfair practice that limits competition (1)

- Collusion ✓

6.2.3 Briefly describe the term *economic profit* (2)

- Economic profit – Is the revenue that is above the normal profit where the average revenue is greater than the average cost ✓✓

(Accept any relevant response)

6.2.4 Why it is not ideal for an oligopoly to increase the price of the product? (2)

- There is interdependency in an oligopoly if a firm increase the price others will not follow ✓✓
- When the firm increases the price it will lose customers and profit will decrease ✓✓

Accept any relevant response

- When the firm decreases the price of the product others will follow and that will cause price wars ✓✓

- When a firm decreases the price it will have little to gain since others will do the same ✓✓

(Accept any correct relevant responses)

6.2.5 How does existence of collusion influence the supply of goods and services? (4)

- Collusion limits the competition since it create a barrier to entry into the market ✓✓
- Since few firms dominates the market this will cause less goods and services to be supplied ✓✓
- Good and services may be supplied at a relatively higher price as firms will exploit consumers due to their collective agreement ✓✓

(Accept any correct relevant responses)

ACTIVITY 7

7.1 Answer the following questions:

7.1.1 Name two countries involved in OPEC (2)

Libya ✓/United Arab Emirates ✓/Algeria ✓/Nigeria ✓/Venezuela ✓/Republic of Congo ✓

7.1.2 Why firms collude tacitly? (2)

They collude tacitly because it is illegal to collude in South Africa and if they are found colluding, they will be charged a fine ✓✓

(Accept any correct relevant responses)

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



7.2.1 Identify the country that is begging for oil in the above cartoon (1)

America ✓

7.2.2 Which organisation controls the price of oil? (1)

OPEC ✓

7.2.3 Briefly describe the term *tacit collusion* (2)

Tacit collusion refers to one firm set the price that other firms will follow without any explicit agreement ✓✓

(Accept any correct relevant responses)

7.2.4 Explain the impact of collusion on countries producing oil (2)

The price of oil will increase globally ✓✓

(Accept any correct relevant responses)

7.2.5 How does a decrease in demand of oil affect OPEC countries? (4)

- OPEC countries may export less oil ✓✓
- These countries may be forced to decrease the price of oil ✓✓
- They will supply less quantity of oil and global economy may decrease ✓✓

(Accept any correct relevant responses)

ACTIVITY 8

8.1 Discuss the aims of competition commission. (8)

- Assist in investigating and prosecuting unfair competition through the competition commission ✓✓

- Regulate mergers and take over to regulate market power of mergers such as Massmart and Walmart where conditions were imposed to prevent possible unemployment that may result ✓✓
 - Implement the competition tribunal by accepting or rejecting the investigation and recommendation of the competition commission ✓✓
 - The original competition policy did not account the impact of mergers and acquisitions of SMMEs in terms of fair pricing ✓✓
 - They aim to identify and address practices like collusion, price fixing and other anti-competitive agreement among businesses ✓✓
 - Competition commission strive to protect consumers from unfair pricing and poor-quality products ✓✓
 - By fostering competition, they encourage companies to innovate in order to stay ahead, which benefits consumers through improved products and services ✓✓
- (Accept any correct relevant responses)

8.2 Discuss mutual dependency and competition as characteristics of oligopoly. (8)

Mutual dependency

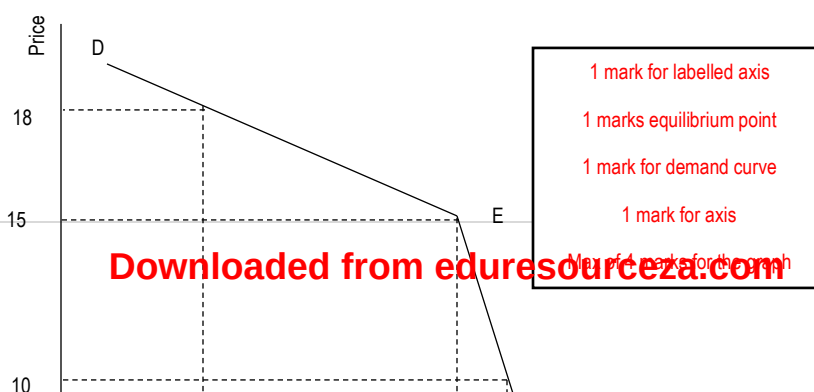
- It refers to the actions of one firm in the oligopoly that concerns other firms action ✓✓
- Firms that are mutual dependent try by all means to compete with low prices ✓✓
- They always try to satisfy their customers using different strategies ✓✓

Competition

- Oligopoly consist of only a few large firms that collectively control a significant portion of the market ✓✓
- Oligopolies often engage in non-price competition strategies such as aggressive advertising, branding, product differentiation and customer service ✓✓
- Oligopolistic markets tends to have significant barriers to entry, which can limit the entry of new competitors ✓✓

(Accept any correct relevant responses)

8.3 With the aid of a graph discuss demand curve of oligopolies (8)



- Kinked demand curve consist of two segment top one being highly elastic and bottom one being highly inelastic ✓✓
 - Oligopoly have a kinked demand curve since other firms look closely at what others are doing before taking a decision there is interdependency ✓✓
 - When a firm increases the price others do not follow and that business loses profit ✓✓
 - When a firm decreases the price others follows and that causes price wars ✓✓
- (Accept any correct relevant responses)

8.4 Use the graph below to discuss the kinked demand curve for oligopolies (8)

- The kinked demand curve contains two segments top one being highly elastic and bottom one being highly inelastic ✓✓
 - The firm produces at point E where the price is R10 and quantity is 85 to maximize their revenue ✓✓
 - When a firm increases the price from R10 to R15 and other firms do not follow the firm loses customers and profit because very few consumers will buy from them ✓✓
 - When the firm decreases the price from R10 to R8 the quantity will increase from 85 to 90 while the revenue decreases ✓✓
 - The firm must not adjust the price because they lose revenue when increasing or decrease the price ✓✓
- (Accept any correct relevant responses)

8.5 Evaluate the impact of high barriers to entry in an oligopolistic market. (8)

- High barriers prevent entry of new firms into the market which will limit the supply of goods ✓✓
- High barriers limits the competition consumers end up having limited choices ✓✓
- Barriers to entry benefits incumbent firms since it protect their market share from new entry ✓✓
- Barriers of entry have a negative impact on the economy since it's impede competition ✓✓
- It has a negative impact on the production of goods and services since other firms are blocked.
- Barriers to entry have a negative impact on employment since it becomes difficult to create more jobs ✓✓
- There is limited choices for consumers since only few firms dominates the market ✓✓
- This will have a negative impact in the government revenue since government will collect low income from taxes ✓✓
- The standard of living in the country will deteriorate since consumers will pay higher prices ✓✓

(Accept any other relevant response)

8.6 How can businesses increase their market share without causing price wars? (8)

- They can use non price competition strategies to such as:
- Advertising their products in order to attract more customers ✓✓
- They can also improve service rendered to their existing customers so that they will have a good word of mouth and attract new customers ✓✓
- Extend working hours to allow those who work late to have time to buy ✓✓
- After sale service keep customers loyalty and increase sales ✓✓

(Any other relevant correct answer)

8.7 How does competition commission contribute positively to the economy of the country? (8)

- Competition commission contribute by preventing mergers that can cause low production ✓✓
- It prevent consumer exploitation that can lead to higher prices and inflation ✓✓
- Create job opportunities that lead to high revenue for the state due to VAT and PAYE ✓✓
- More businesses may be created because no collusive behaviour is done that prohibit others to join the industry ✓✓
- They ensure fairness when businesses trade of which prices may be low but with a high quality ✓✓
- These commissions encourage businesses to operate efficiently, innovate and optimize their processes to stay competitive, this leads to improved productivity and resource allocation across industries ✓✓
- Vibrant and competitive markets contribute to overall economic growth by stimulating business activity, job creation and investment ✓✓

(Accept any correct relevant responses)

8.9 How does mutual dependency by oligopoly affect the competition? (8)

- Mutual dependence affect the competition in the sense that one's action will cause other firm to follow in order to maintain customers ✓✓
- If one firm reduces the price others will follow because if they do not customers may switch to competitors ✓✓
- The revenue of the firm might decrease if firms reduce the price unplanned ✓✓

- The competition may decrease because firms will end up working together in order to avoid reducing the price ✓✓
- Mutual interdependency encourages firms to compete through means other than prices such as product differentiation, branding etc. ✓✓
- Existing firms can coordinate actions to deter new entrants and maintain their collective market power ✓✓

(Accept any correct relevant responses)

8.10 How does Organisation of the Petroleum Exporting Countries (OPEC) negatively influence supply and price? (8)

- Organisation of the petroleum exporting countries collude to increase the price and or lower the quantity supply of oil ✓✓
 - A country that has absolute advantage in producing oil will be unable to charge a low price, they will have to comply with OPEC regulations ✓✓
 - Countries without oil may be subjected to higher prices because they will not have a choice to choose from since all countries charge same price ✓✓
 - Rich countries may afford more oil and end up exploiting developing countries ✓✓
 - Price of goods and services in all countries depend on the price of oil from these countries, therefore if they increase the price of oil it will lead to high prices of goods and service all general ✓✓
 - Higher price of oil may lead to global inflation and a decrease in supply ✓✓
- (Accept any other relevant response)

MARKET FAILURE

ACTIVITY 1

1.1. Various questions are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A. – D.) next to the question number (1.1.1 -1.1.5) in the answer book, for example 1.1.6 B.

1.1.1 Reduction in economic welfare caused by a reduction in both consumer and producer surplus.

- A. dead weight loss ✓✓
- B. spill over effect
- C. allocative inefficiency
- D. productive inefficiency

1.1.2 Price set by the government above market price to benefit businesses is known as price...

- A. floors ✓✓

- B. ceiling
C. wars
D. Administration.
- 1.1.3 The cost or benefit to thirty parties which are not included in the market price are called...
A. efficiencies.
B. externalities. ✓✓
C. excludabilities.
D. Information.
- 1.1.4 Social cost consists of the sum of private and cost
A. internal
B. public
C. external ✓✓
D. variable
- 1.1.5 The effect of a minimum price will increase the.... goods
A. demand for
B. supply ✓✓
C. consumption of
D. spending on

(5x2) 10

- 1.2 Choose a description in COLUMN B that matches an item in COLUMN A. Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK, for example 1.2.9 F.

NO.	COLUMN A		COLUMN B	
1.2.1	Pareto efficiency	A	Spillover effect of an economic activity on third parties	C✓
1.2.2	Externality	B	An instruments used by the government to evaluate public projects	A✓
1.2.3	Maximum prices	C	When it is impossible to increase the welfare of one person without decreasing the welfare of another.	G✓
1.2.4	Free riders	D	These are undersupplied by the market but beneficial to the society.	F✓
1.2.5	Subsidy	E	Paid by consumers when buying goods and services.	H✓
1.2.6	Merit goods	F	Enjoy the product without paying for it	D✓
1.2.7	Feasibility study	G	Government intervenes to make goods more affordable price	J✓
1.2.8	Cost-benefit analysis	H	A form of financial grant to support an economic activity.	B✓

		J	Evaluating degree of difficulties of a private project before it starts.	
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(8x2) 8

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.8) in the ANSWER BOOK. Abbreviations, acronyms and examples will not be accepted.

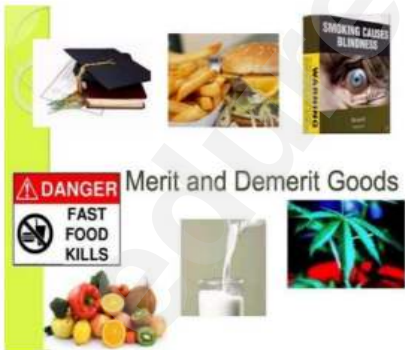
- 1.3.1 Third party effects, such as the cost of pollution, that is not included in the market price.
Negative externality✓
- 1.3.2 Reducing income inequality using progressive tax system.
Redistribution of income✓
- 1.3.3 The market in which the illegal goods are bought and sold.
Black market✓
- 1.3.4 The value of the next best alternative given up.
Opportunity cost✓
- 1.3.5 A combined cost of goods and services to producers, consumers, and society as a whole.
Social cost✓
- 1.3.6 Goods that are seen to be socially harmful.
Demerit goods✓
- 1.3.7 The lowest hourly wage that an employer is required to pay to their employees.
Minimum wage✓
- 1.3.8 A situation where the market supplies goods that matches the needs of the consumers.
Allocative efficiency✓

(8x1) 8

ACTIVITY 2

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

EXTERNALITIES



Merit and Demerit Goods

The government may attempt to reduce the consumption of demerit goods through persuasion. This is more likely to be achieved through negative advertising campaigns, which emphasise the dangers of drink and driving, drug abuse etc. The aim is the opposite of normal commercial advertising, namely to shift the demand curve of demerit goods to the left. A contraction of demand could be achieved by the imposition of tax on the demerit good. This would have the effect of shifting the supply curve to the left.

[Source: www.sanandres.esc.edu.ar. Accessed on 12 February 2023.]

2.1.1 Identify any demerit good from the above extract.

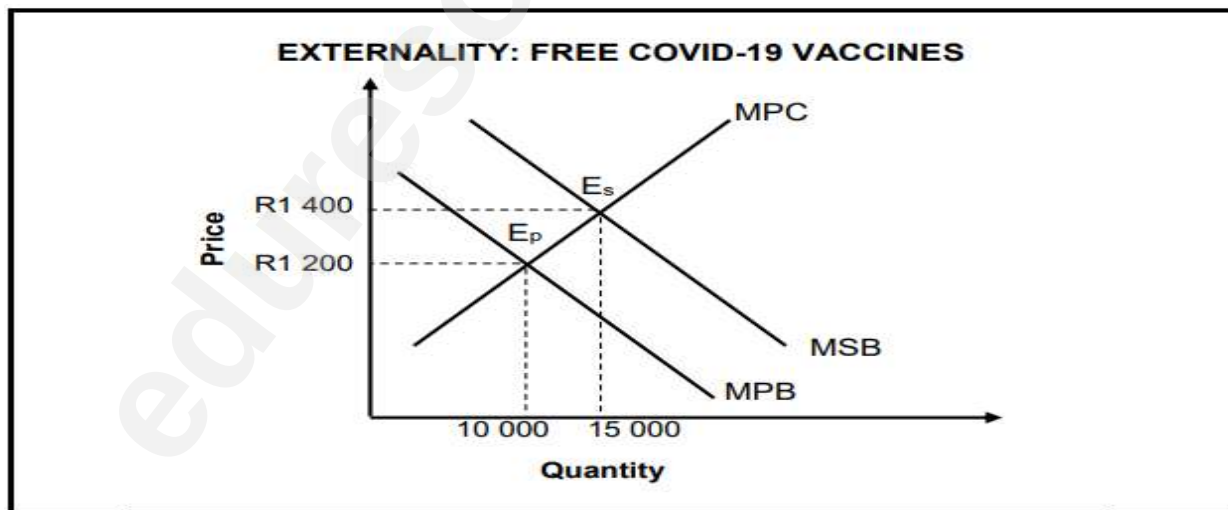
(1)

Drugs✓/**Fast food**✓

- 2.1.2 Name ONE method used by government to reduce negative externalities. (1)
 Passing laws ✓/taxes ✓
- 2.1.3 Describe the term *negative externality* (2)
 Negative externality is a cost to a third party which is not included in a market price of a good/product ✓✓
 (Accept any correct relevant responses)
- 2.1.4 Explain how demerit goods cause market failure (2)
 Demerit goods are harmful to society ✓✓
 The demerit goods are oversupplied ✓✓
 (Accept any other correct relevant response)
- 2.1.5 How does the government discourage the use of demerit goods (4)
 • Government often imposes taxes or excise duties on these goods, effectively raising their prices and making them less attractive to consumers. This approach is commonly seen with items like tobacco and alcohol. ✓✓
 • The governments may restrict advertising and marketing for demerit goods to reduce their appeal and consumption, especially among vulnerable populations. ✓✓
 • Regulations and restrictions can be imposed on the sale and distribution of these goods. For instance, governments often enforce age restrictions on purchasing alcohol and tobacco products. ✓✓
 (Accept any other correct relevant response)

ACTIVITY 3

3.1 Study the graph below and answer the question that follow.



- 3.1.1 Identify the socially efficient level of production in the graph above. (1)
 15 000 ✓
- 3.1.2 What type of externality is depicted in the graph above? (1)
 A positive externality ✓

- 3.1.3 Briefly describe the term *social benefit*. (2)
This includes the total benefit experienced by society. For example, municipalities provide clean water to society which results in fewer illnesses ✓✓
(Accept any correct relevant responses)
- 3.1.4 What are the economic benefits of a safe COVID-19 vaccine on the South African economy? (2)
- Vaccinated people may feel less anxious, and this may improve their well-being and work productivity. ✓✓
 - People who are vaccinated are less likely to get a severe infection resulting in less medical care costs ✓✓
 - More goods and services will be produced because of a healthier population ✓✓
(Accept any correct relevant responses)
- 3.1.5 Why would a free supply of the COVID-19 vaccines NOT necessarily lead to a market failure?(4)
- Government is the only buyer of the COVID-19 vaccines. ✓✓
 - It redistributes the vaccine under strict conditions to its citizens. ✓✓
 - The supply is guaranteed because governments provide grants for research, in some instances subsidising the production. ✓✓
 - The market shortage is supplied by government because it is a merit good. ✓✓
(Accept any correct relevant responses)

ACTIVITY 4

4.1 Study the pictures below and answer the question that follow.



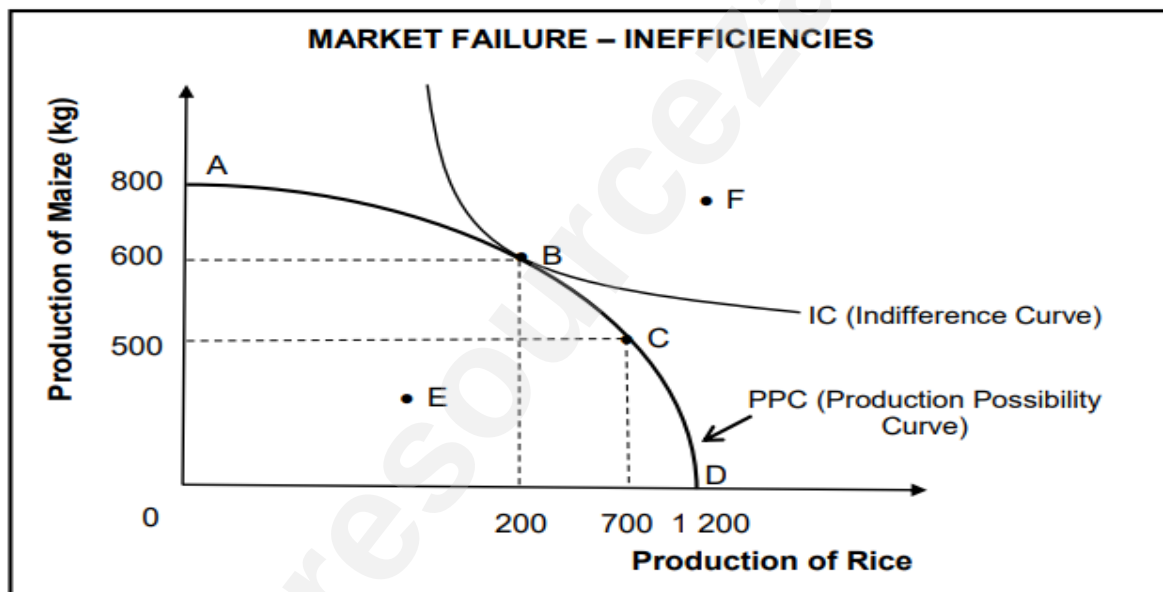
Source: www.investopedia.com

- 4.1.1 What type of inefficiency is evident in the illustrations above? (1)
Productive inefficiency ✓
- 4.1.2 What will happen when supply is less than demand? (1)
Market disequilibrium ✓ /shortage ✓ /shortfall ✓
- 4.1.3 Briefly describe the concept *productive inefficiency*. (2)
Productive inefficiency is when a business does not produce at the lowest cost. ✓✓

- (Accept any correct relevant responses)
- 4.1.4 Explain the effect on price if there are shortages in the market. (2)
Prices will increase if there is a shortage on a market. ✓✓
- (Accept any correct relevant responses)
- 4.1.5 How can subsidies be used to solve the market failure? (4)
- Government can use direct subsidy such as cash grant like interest free loans to assist during inefficiency ✓✓
 - Indirect subsidy, depreciation or rent rebates on behalf of the business can be used. ✓✓
 - The business can use these forms of subsidies to increase their output, thus minimising the shortage on the market ✓✓
- (Accept any correct relevant responses)

ACTIVITY 5

5.1 Study the graph below and answer the question that follow.



- 5.1.1 Identify the curve that relates to allocative efficiency. (1)
IC/Indifference Curve ✓
- 5.1.2 What quantity of rice will be supplied if 800 units of maize are produced? (1)
0 ✓
- 5.1.3 Briefly describe the term *market failure*. (2)
Occurs when the market forces (supply and demand) fail to allocate resources efficiently /optimum output has not been achieved. ✓✓
(Accept any other correct relevant response)
- 5.1.4 How can the government discourage the consumption of demerit goods? (2)
- The government increases the excise duties levied on demerit goods such as alcohol. ✓✓
 - Provides information (education) to the public about the harmful effects of these products. ✓✓
 - Banning and regulating the consumption of demerit goods e.g., bottle stores are not allowed to sell alcohol on Sundays ✓✓

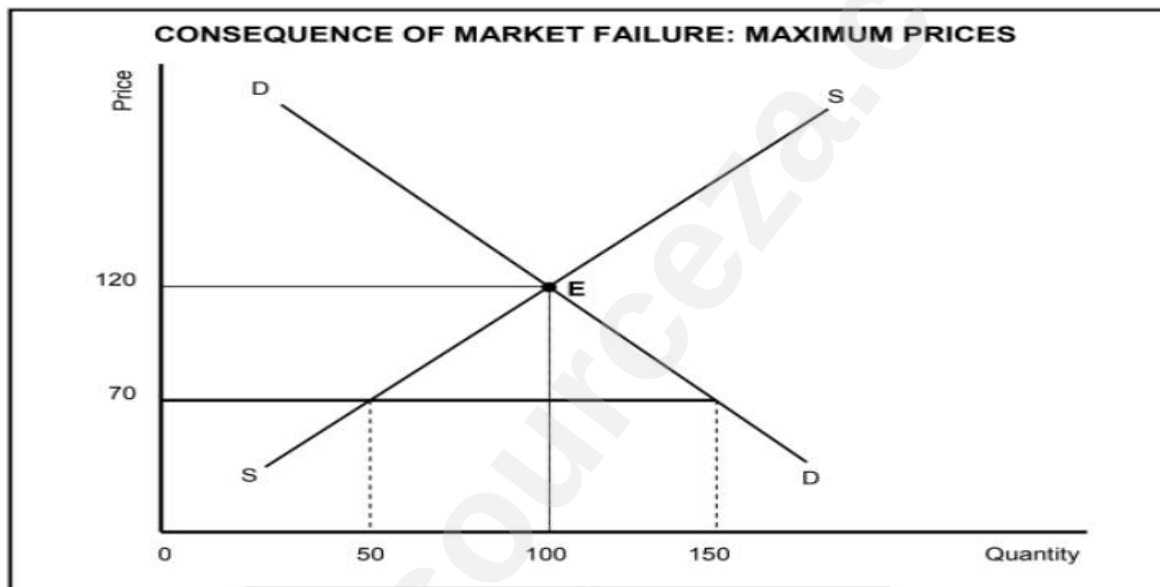
(Accept any correct relevant responses)

5.1.5 Why will production at point E be regarded as inefficient? (4)

- Few goods and services will be produced due to inefficient use of resources. ✓✓
 - Due to inefficient use of resources, cost of production will increase. ✓✓
 - Goods and services are not produced an optimum level.
 - Few job opportunities will be created resulting in lower standard of living.
- (Accept any other correct relevant response)

ACTIVITY 6

6.1 Study the Graph below and answer the question that follow.



6.1.1 What is the maximum price in the graph above? (1)

R70 ✓

6.1.2 Identify the quantity of goods which will be supplied if a maximum price of R70 is implemented. (1)

50 nits ✓

6.1.3 Briefly describe the term market failure. (2)

Market failure occurs when the best available optimal production has not been achieved when there is allocative and/or productive inefficiency ✓✓
(Accept any relevant response)

6.1.4 Why will the government implement maximum prices on certain goods? (2)

- To make goods more affordable ✓✓
 - To give the poor greater access certain goods and services ✓✓
 - To safeguard the interest of the consumer ✓✓
- (Accept any correct relevant responses)

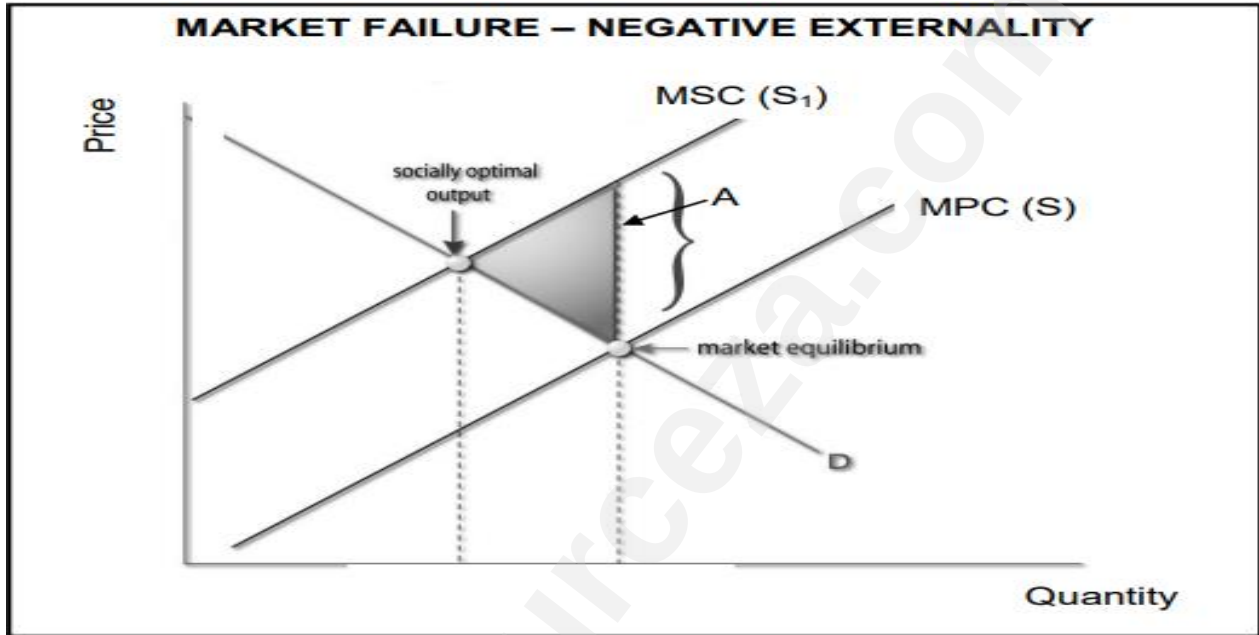
6.1.5 Explain the impact of maximum prices on the market. (4)

- At the maximum price at R70 suppliers will reduce the supply 50 while consumers will increase their demand to 150 ✓✓

- The demand will exceed the supply by 100, therefore creating a shortage on the market ✓✓
(Accept any correct relevant responses)

ACTIVITY 7

7.1 Study the Graph below and answer the question that follow.



[Adapted from Google images.com]

- 7.1.1 Give an example of a negative externality (1)
Pollution / substance abuse / traffic congestion ✓
- 7.1.2 Name the shaded area (A) in the graph above. (1)
Welfare loss / deadweight / external cost / negative externality ✓
- 7.1.3 Briefly describe the term social cost. (2)
Social cost is the cost to society which includes private cost and external cost / Combined costs of goods or services to producers and consumers and society as a whole ✓✓
(Accept any relevant response)
- 7.1.4 Explain a lack of information to entrepreneurs as a cause of market failure? (2)
- To make goods more affordable ✓✓
 - To give the poor greater access certain goods and services ✓✓
 - To safeguard the interest of the consumer ✓✓
- (Accept any correct relevant responses)
- 7.1.5 Why is the socially optimal output more beneficial to society? (4)
- At the socially optimal output companies would pay for the external cost (externality) which would benefit society.
 - Firms would reduce the production that will lower the impact of the negative externality on society which is more beneficial ✓✓
- (Accept any other correct relevant response)

ACTIVITY 8

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

MINIMUM WAGE INCREASE FROM 1 MARCH 2023

The national minimum wage (NMW), as well as minimum wages in some other sectors, will increase with effect from 1 March 2023.

R25,42 per hour

The minimum wage of R23,19 per hour will increase to R25,42 per hour (an increase of approximately 9,6%). The new minimum sets a new baseline across all sectors, with a few exceptions.

Farmworkers and domestic workers

The minimum rate for farm workers and domestic workers are both on par with the NMW at R25,42 per hour.

Source <https://www.gov.za/site/labour>

- 8.1.1 Identify the new minimum rate per hour (1)
R25,42✓
- 8.1.2 Give any workers that will benefit from minimum wage? (1)
Farmworkers✓/Domestic workers✓
- 8.1.3 Briefly describe the term minimum wage. (2)
The lowest wage permitted by government to be paid in all industries ✓✓
(Accept any correct relevant responses)
- 8.1.4 How would workers benefit from minimum wages? (2)
 - They share in the redistribution of income. ✓✓
 - They can afford more goods and services. ✓✓
 (Accept any correct relevant responses)
- 8.1.5 How successful has the government been in redistributing wealth? (4)
 - using progressive tax by taxing the rich more than the poor. ✓✓
 - Using the law to enforce redistribution, focusing on BEE, affirmative action, land redistribution and property subsidies. ✓✓
 (Accept any relevant response)

ACTIVITY 9

COSTS AND BENEFITS OF BUILDING A BRIDGE		
PARTICULARS		AMOUNT
Benefits		
A	Reduced transport costs for individuals	R210 000
B	Opportunities for new businesses	R30 000
C	Subsidies from government	R40 000
	Total benefits (A + B + C)	R280 000
Costs		
D	Labour costs	R150 000
E	Cost of building materials and equipment	R15 000
F	Destruction of plants and animals	R50 000
	Total costs (D + E + F)	R200 000
[Adapted from http:// www.wallstreetmojo]		

- 9.1.1 Identify ONE example of an external benefit in the table above. (1)
 Opportunities for new businesses /reduced transport costs for individuals✓
- 9.1.2 Name the sector in which a cost benefit analysis is applied. (1)
 Public sector✓
- 9.1.3 Briefly describe the term social costs. (2)
 The total costs incurred by the society as a whole /include private and external costs✓✓
 (Accept any other correct relevant response)
- 9.1.4 How can a lack of information among entrepreneurs lead to market failure? (2)
 • Entrepreneurs may lack information about costs, availability and productivity of some factors of production, resulting in irrational decision making and wastage of resources. ✓✓
 (Accept any other correct relevant response)
- 9.1.5 Determine whether the project is viable or not by calculating the cost benefit ratio. Show ALL calculations. (4)
 • $R280\ 000 / R200\ 000 = 1,4$ ✓ OR $R280\ 000 / R215\ 000 = 1,3$ ✓
 • The project is viable✓ because the benefits exceed the costs/the CBR is greater than 1. ✓
 (Accept any relevant response)

ACTIVITY 10

- 10.1 Briefly discuss productive inefficiency and allocative inefficiency in terms of market failure. (8)

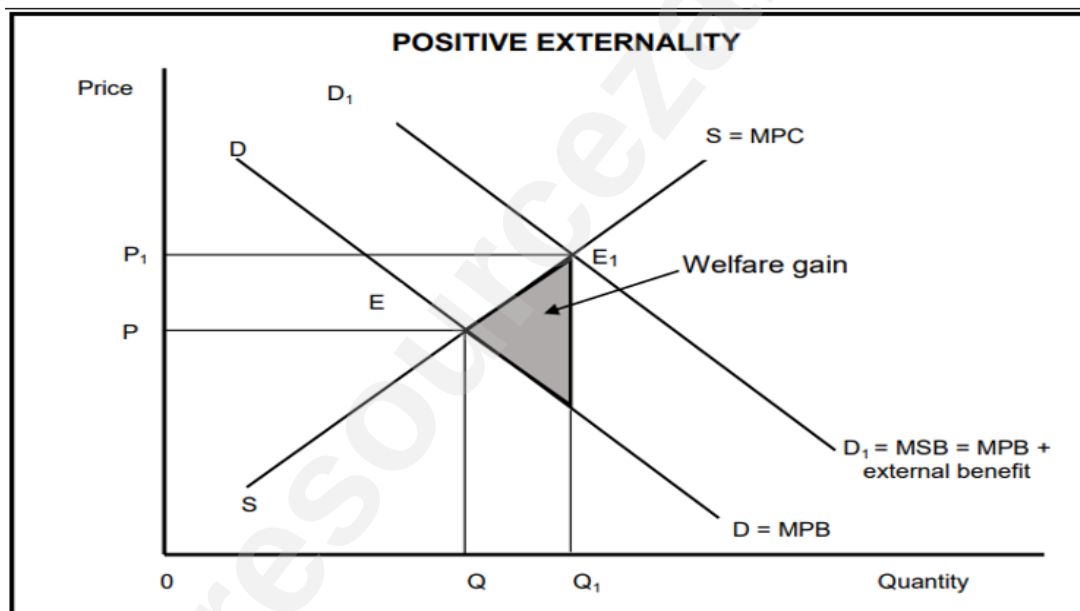
PRODUCTIVE INEFFICIENCY:

- When businesses do not maximise outputs from given inputs ✓✓
- There is room to reduce costs without producing fewer goods or without producing a lower quality good ✓✓

ALLOCATIVE INEFFICIENCY:

- The product mix does not reflect consumers' tastes ✓✓
- Businesses are allocated resources inefficiently and produce goods and services that consumers do not want. ✓✓
- The quantities required by the consumers are not available ✓✓
(Accept any correct relevant responses)

10.2 Use the graph below to explain the effects of the positive externalities in the market. (8)



- Because positive externalities are not included in the price when the market produces Q units ✓✓
- If welfare gain is included the demand will increase and market will produce at Q1 units at a higher of P1. ✓✓
- The shaded area represents a welfare gain. ✓✓
- The curve DD represent the demand from people to use the public goods ✓✓ e.g., education
- Q represents what the market provides, and Q1 represent a growing demand for education ✓✓
(Accept any correct relevant responses)

ACTIVITY 11

11.1 Evaluate the success and failures of the South African government intervention to discourage the consumption of demerit goods (8)

Successes:

- The government uses various forms of regulations (laws) to prohibit or control the use of undesirable goods. ✓✓
- An age limit is legislation to persons to whom such goods can be sold e.g., 18 years to purchase alcohol or cigarettes ✓✓
- Legislation prohibits people to smoke in public areas ✓✓

Failures

- A ban of demerit goods usually results in black markets supplying the products illegally. ✓✓
- The will to maximise profits results in some suppliers of cigarette and alcohol not to adhere to the age limit. ✓✓
- Many people are ignoring the negative publicity on demerit goods, large quantities of demerit goods are still consumed. ✓✓
(Accept any relevant high order conclusion.)

11.2 Explain why governments sometimes proceed with a project even if the private costs exceed the private benefits in a cost-benefit analysis (8)

- the primary objective is to provide public goods and services. ✓✓
- social costs and social benefits are also considered when deciding on a project.
- A service is vital to the existence of the community. ✓✓
- When a need for infrastructure is necessary but might not have any benefits in terms of profit, e.g., the building of a community centre or a bridge ✓✓
- restructure adds to the welfare of the community at large and is non-excludable to anyone using it. ✓✓
(Accept any other correct relevant response)

ACTIVITY 12

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

- Discuss in detail, without the graphs, causes of market failure (26 marks)
- Evaluate the use of indirect taxation to solve market failure (10 marks)

INTRODUCTION

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓
 (Accept any other relevant low-order introduction.) (2)

Externalities ✓

- These are known as spill-over effects to third party which is not directly involved in the production process. ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

Negative externalities ✓

- Negative externalities are costs to third parties that are not included in the market price ✓✓ e.g. pollution. ✓✓
- The costs of negative externalities such as ill health are not paid by the producers. ✓✓
- Harmful, these goods are often over produced in the economy which is not socially desirable. ✓✓

Positive Externalities

- A positive externality occurs when there is a benefit to a third party from the action or decision of another party. ✓✓ e.g., education ✓

- These goods are often under-produced by the market and government steps in to provide for the short-fall. ✓✓

Public goods/Missing markets

- Can only form under certain conditions and when these conditions are absent markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price. ✓✓
- Markets measuring how much a person consumes, there is no basis for establishing a market price for lightning, flood control, storm water drainage and lighthouses. ✓✓
- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓
- **Community goods:** these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

Merit goods and demerit goods:

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol and non-prescriptive drugs are examples of demerit goods. ✓✓
- In a free market economy, these goods are over-consumed. ✓✓
- Government can ban their consumption or reduce it by means of taxation such as excise duties and by providing information about their harmful side effects. ✓✓

Imperfect competition

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, increase prices and produce where price exceeds marginal cost. ✓✓

Lack of information

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions.
- Consumers: Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- Workers: They may be unaware of job opportunities outside their current employment. ✓✓
- Entrepreneurs: They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

Immobility of the factors of production

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓

- Labour: may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- This capital last for many years but cannot be moved to fit change in demand. ✓✓
- Technological applications change production methods: Technology used in the production may change such as the use of robots rather than labour in mines. ✓✓
- It takes time for most industries to adapt – with greater technological changes ✓✓
- Workers need to be flexible, upskilled and be able to change employment, as well as work patterns. ✓✓

Imperfect distribution of income and wealth:

- The most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too. ✓✓
- For this reason, it is often argued that the market fails.

(Accept any other correct relevant response.)

(Max. 26) (26)

ADDITIONAL PART

Indirect taxation is the imposition of a tax on goods and services rather than on income or profits (i.e., direct taxation). Indirect taxes are associated with market failure to 'internalise the externalities' of consumption or production.

Positive

- They are used to raise revenue for government to provide public and merit goods and to redistribute income. ✓✓
- Governments use indirect taxes to reduce sales of goods that are harmful and have consumption externalities such as tobacco and alcohol, that is demerit goods. ✓✓
- Revenue raised can be used to redistribute income through the welfare state, or provide infrastructure ✓✓

Negative

- Indirect taxes can also lead to unintended consequences that produce more inefficient outcomes, ✓✓ for example, a tax on cigarettes may see consumers switch to smoking illegal and more harmful substitute ✓✓
- Consumers may also try to avoid a tax, which results in a rise in black markets that require extra policing ✓✓
- (e.g., cigarette smuggling). ✓

(Accept any other correct relevant response)

(10)

CONCLUSION

The government is trying to safeguard the interests of the community and improve the efficiency in markets but there is still more to be done ✓✓

(Accept any relevant high order conclusion.)

ACTIVITY 13

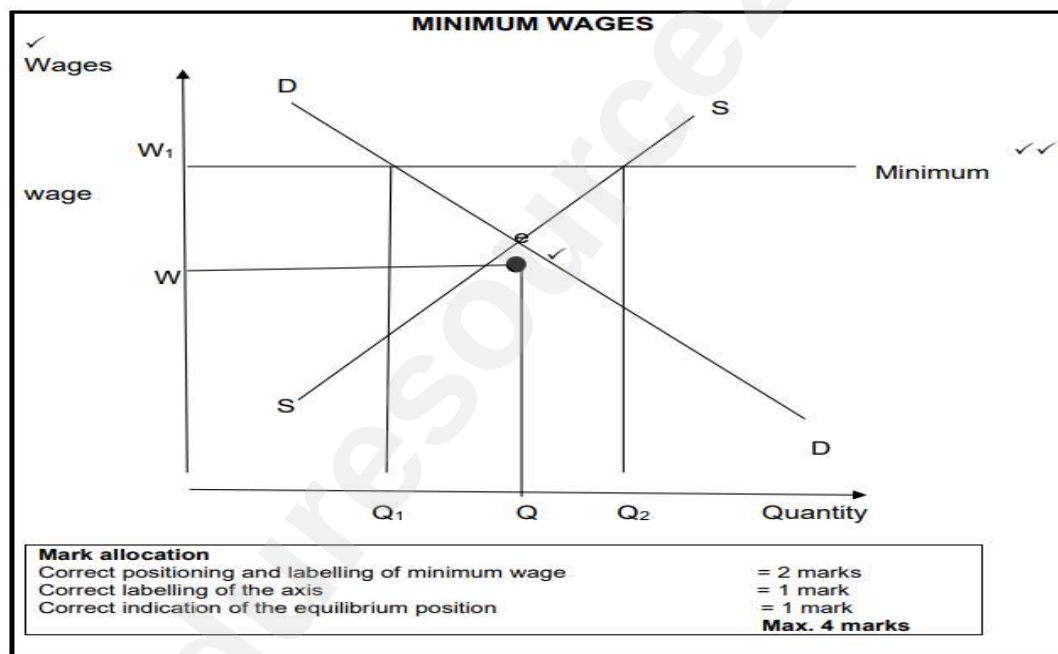
- With the aid of graphs discuss in detail state intervention as a consequence of market failure under the following subheadings:
 - Minimum wages (26 marks)
 - Maximum prices
 - Producer subsidy (10 marks)
- What can the government do to reduce the negative effects of minimum wages? (10 marks)

INTRODUCTION

When an economy is not functioning and living up to expectations of society, it is imperative for governments to intervene for the benefit of the economy and the welfare of society ✓✓
(Accept any other correct relevant conclusion.)

BODY – MAIN PART

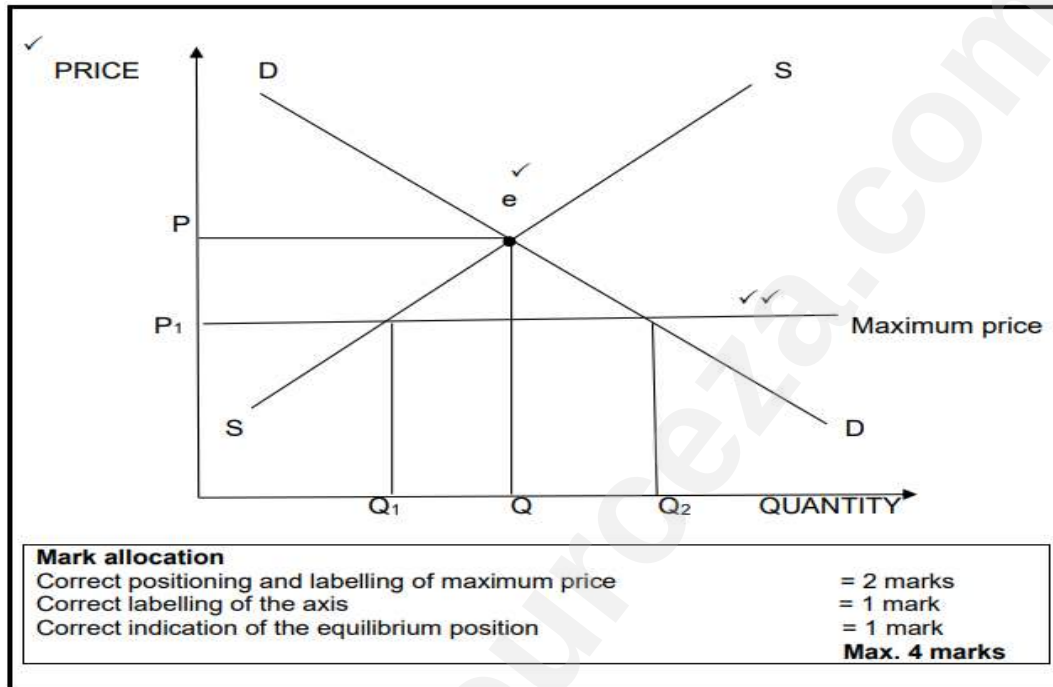
When the government enforces a minimum wage, it means workers should be paid a certain minimum remuneration that will lead to a higher standard of living. ✓✓



- The graph shows that if the wage rate is set at W , the corresponding demand and supply of labour will be Q ✓✓
- If a minimum wage is set W_1 , the demand for labour will decrease from Q to Q_1 , some people may be unemployed ✓✓
- However, the supply of labour will increase from Q to Q_2 , as more people will offer their labour services because of a higher income ✓✓
- Minimum wages will lead to more bargaining power of workers ✓✓
(Accept any other correct relevant response)

Maximum prices

- The government may set the price of a good or service at a maximum price that is below the market price ✓✓
- The government intervenes and passes a law that suppliers may not charge more than the maximum price ✓✓
- Maximum prices are usually on basic goods such as food and transport, so that citizens have access to certain goods and services and achieve a certain minimum standard of living. ✓✓

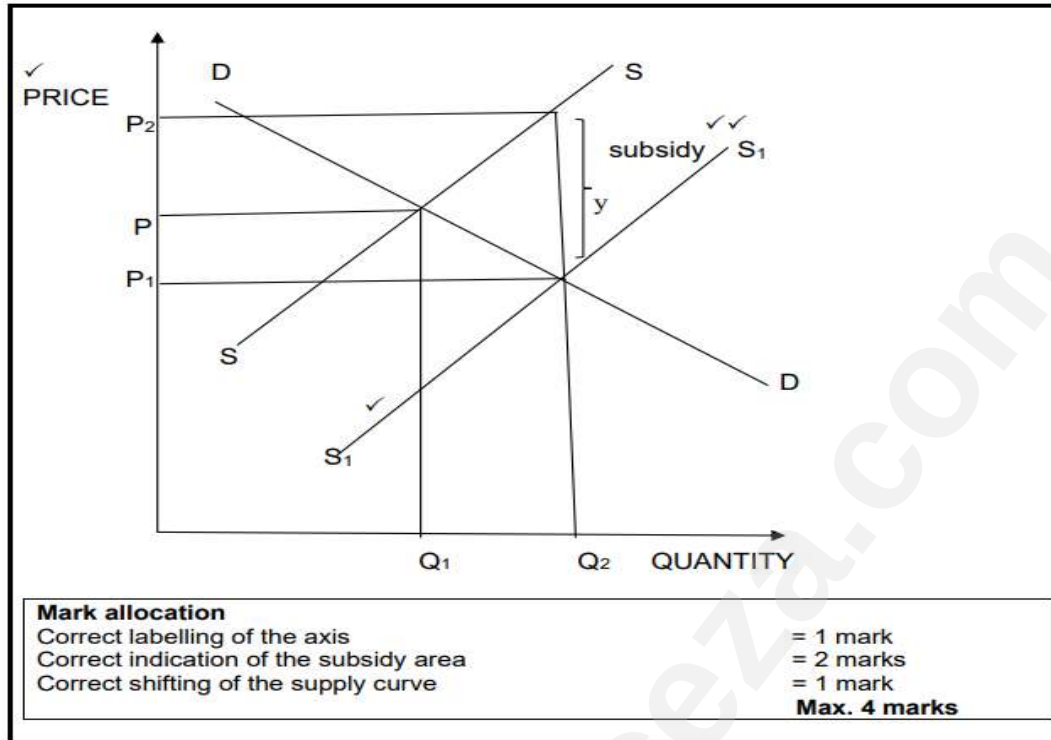


- In the above diagram, price is set at P , while maximum price is set at P_1 ✓✓
- The immediate effect would be that the quantity supplied would drop from Q to Q_1 ✓✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand will exceed supply ✓✓
- Black markets will develop where illegal goods will be bought and sold ✓✓

(Accept any other correct relevant response)

Producer subsidies

- A subsidy is a form of financial grant from the government to support the production of a good or a service thereby lowering the cost of production ✓✓
- Subsidies can be direct e.g. cash grants or indirect e.g. depreciation write offs ✓



- The market price decreases from P to P_1 and the quantity consumed will increase from Q_1 to Q_2 due to the subsidy/producers profit increases ✓✓
- The producer benefits from a subsidy, profits increase because of the increase in prices from P and P_2 ✓✓
- The consumer benefits from a subsidy by paying less, price decreases from P to P_1 ✓✓

(Accept any other correct relevant response.)

max 26

ADDITIONAL PART

- Government should monitor the increase in prices so that producers do not try to increase prices to absorb the cost of labour ✓✓
- Strengthen the tourism sector which is labour intensive, so that those who lost their jobs because of set minimum wage may be absorbed ✓✓
- Invest in training programmes for the youth doing technology for them to be productive and create employment in the process ✓✓
- Government should make social welfare payments to people who were retrenched due to setting of minimum wage ✓✓
- Increased earned Income Tax Credits may be given to low-income wage earners – government refunds tax to incentivise work ✓✓
- Inspection of the work sites on a regular basis to ensure minimum wages are implemented by businesses and punish those who violate the implementation of the minimum wage ✓✓

(Accept any other correct relevant response.)

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

(10)

CONCLUSION

- Government should always be of service to the people whenever the economy is in turmoil, because it is always the poor that suffers.

(Accept any other correct relevant higher order conclusion.)

(2)

TOPIC 12: INFLATION

INFLATION

ACTIVITY 1

1.1 Options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

1.1.1 The index that measures inflation using the cost of producing goods and services in the country

- A. administered prices.
- B. consumer price index.
- C. **producer price index. ✓✓**
- D. price discrimination.

1.1.2 The inflation rate of more than 50% is called ...inflation

- A. stagflation
- B. headline
- C. **hyper ✓✓**
- D. all-inclusive

1.1.3 The indicator that measures the cost of living excluding mortgage bond is ...

- A. GDP Deflector.
- B. **CPIX. ✓✓**
- C. producer price index.
- D. consumer price index.

1.1.4 The inflation that occurs when total demand exceeds total supply is called.....iflation

- A. cost -push
- B. core
- C. hyper
- D. **demand pull ✓✓**

1.1.5 The rate at which the reserve bank charges interest to commercial banks is ...

- A. interest rate.
- B. **repo rate. ✓✓**
- C. prime rate.
- D. inflation rate.

(5X2)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 1.2.5) in the ANSWER BOOK.

	COLUMN A	Answers		COLUMN B
--	----------	---------	--	----------

1.2.1.	Constant prices	C✓	A.	Sustainable decline in general prices over the specific period
1.2.2.	Deflation	A✓	B.	Step taken by minister of finance to control inflation through taxation and government spending.
1.2.3.	All-inclusive inflation	E✓	C.	Takes into account the effects of inflation on gross domestic product.
1.2.4.	Stagflation	F✓	D.	Measures used by SARB to combat inflation
1.2.5.	Fiscal policy	B✓	E.	Measures the inflation rate for the economy as a whole
			F.	Low economic growth, high unemployment and high inflation

(5x1) = 5

1.3 Give ONE term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1. to 1.3.4.)

1.3.1 Prices of goods and services that are set by government.

Administered price✓

1.3.2 Excludes items from the CPI basket that are highly volatile or prices affected by government policy

Core inflation✓

1.3.3 A sustainable and significant increase in general price level over time.

inflation✓

1.3.4 A general increase in price level caused by an increase in the cost of living

Cost push inflation

(5x1) (5)

ACTIVITY 2

2.1 Answer the following questions

2.1.1 Name two examples of goods that are excluded in core inflation

(2)

Fresh and frozen meat ✓

Nuts ✓

(accepts any other relevant response)

2.1.2 Explain the effect of a decrease in the interest rate on inflation?

(2)

Credit will become cheaper, which will lead to an increase in aggregate demand leading to an increase in inflation

(Accepts any other relevant response)

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

INFLATION SLOWDOWN



Steady interest rates likely as inflation surprises, falling below 5% for the first time in two years
Economists have been pleasantly surprised as inflation fell faster than expected to a two –year low of 4,7% in July, from 5,4% in June.

(source: <http://businessmaverick.o>)

- 2.2.1 Identify the monetary policy instrument used to measure inflation in the above extract. (1)
Interest rate✓
- 2.2.2 Name ONE method used to measure inflation. (1)
Price indices PPI/CPI ✓/Weighting✓ /inflation rate ✓
- 2.2.3 Briefly describe the term *open market transaction*. (2)
Open transaction is a monetary policy instrument that deals with buying or selling securities or government bond ✓✓
(Accept any other correct relevant response)
- 2.2.3 Explain the impact of high inflation rate on the balance of payment. (2)
The inflation makes it difficult to export goods as they become more expensive, when exports decline, there will be a deficit on the balance of payment. ✓✓
(Accept any other correct relevant response)
- 2.2.4 How will an increase in inflation rate influence economic growth? (4)
- **High price level will decrease aggregate demand for goods and services, less goods will be produced then the economy will decline ✓✓**
 - **Consumers will not afford to buy the goods and services and the producers will be forced to cut out production resulting the decrease in the economy ✓✓**
(Accept any other relevant answer)

ACTIVITY 3

3.1 Answer the following questions

- 3.1.1 Name any two examples of product or services with administered prices. (2)
Fuel prices✓/ Paraffin✓/Sanitation levies✓/ Postal stamps✓

3.1.2 What could be the cause of higher rates of inflation in South Africa? (2)

Continuous increase in price of crude oil ✓✓

Huge costs caused by the mismanagement of public sector monopolies. ✓✓

High cost of electricity in the economy. ✓✓

(Accept any other correct and relevant answer)

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



3.2.1 Identify the cause of cost push inflation in the above diagram. (1)

Higher wage demands ✓

3.2.2 Name the type of inflation that is associated with high unemployment, low economic growth and high inflation. (1)

Stagflation ✓

3.2.3 Briefly describe the term *inflation*. (2)

Inflation is a sustained and significant increase in general price level which results in a decrease in the buying power of money ✓✓

(Accept other correct relevant responses)

3.2.4 How can wage increase affect the cost push inflation? (2)

- Increases in wages lead to an increase in cost of production which lead to an increase in prices, therefore wage increases are source of cost push inflation. ✓✓

(Accept other correct relevant responses)

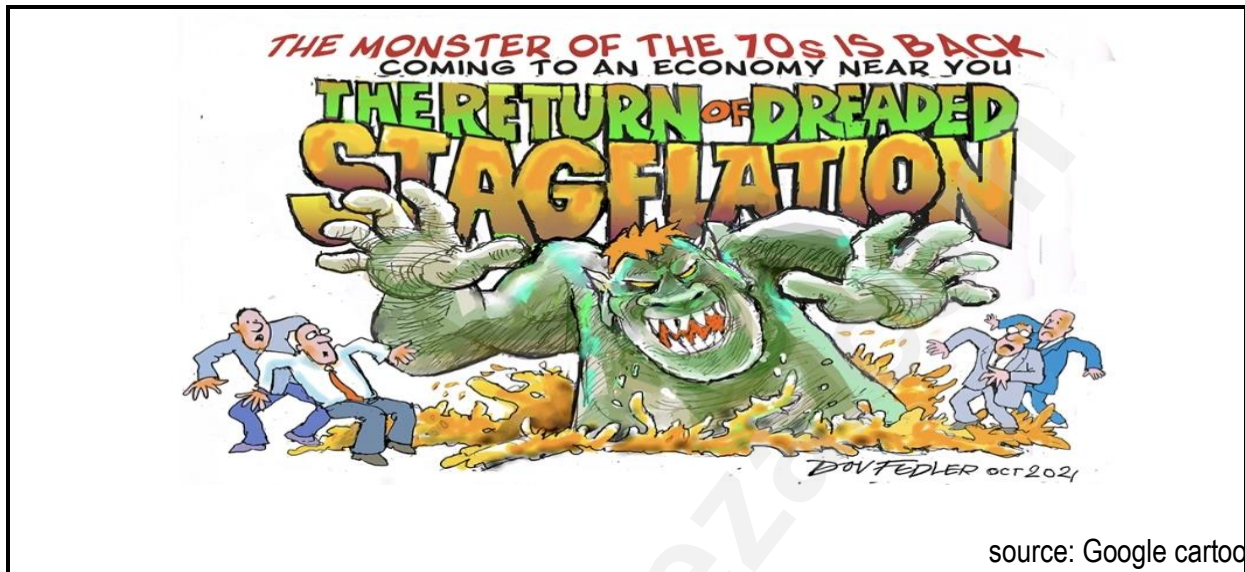
3.2.5 Examine the role of price expectation on inflation in South Africa. (4)

- Consumers and firms usually act on their expectations thereby causing high inflation. ✓✓
- If workers expect future inflation they bargain for higher wages to compensate for an expected increased cost of living. ✓✓
- Success of a higher wage bargain contributed towards inflation. ✓✓

(Accept other correct relevant responses)

ACTIVITY 4

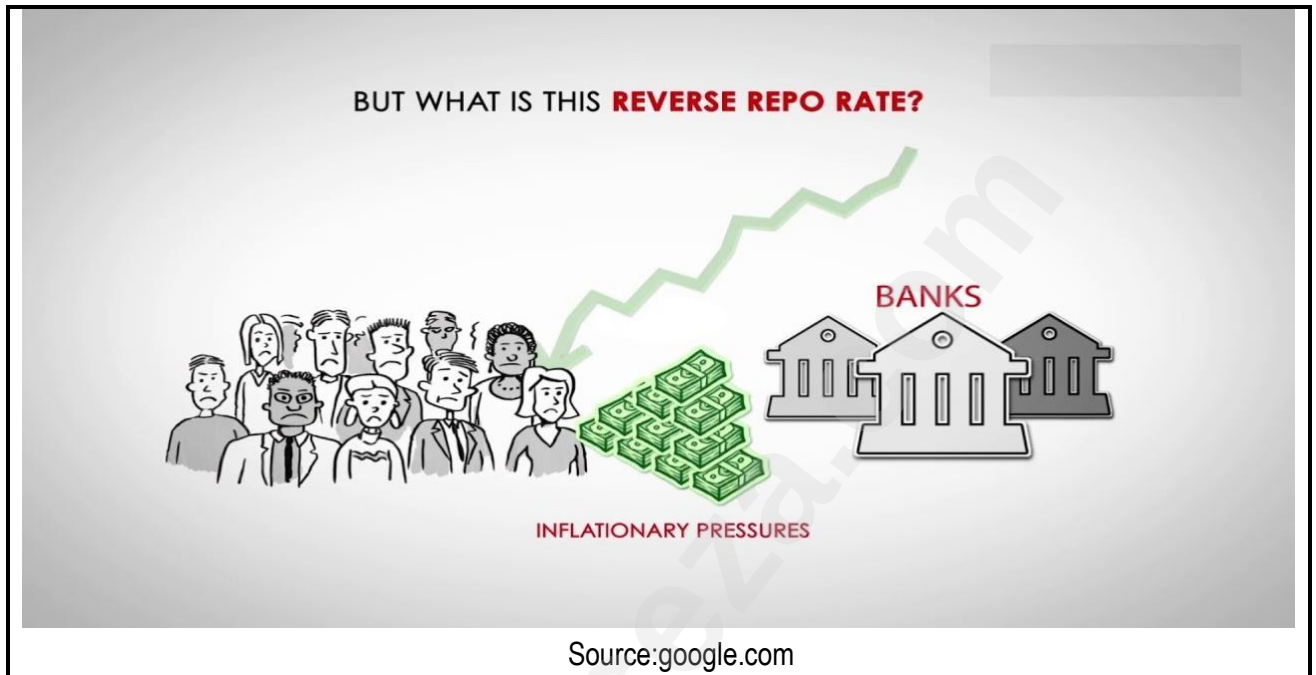
4.1 Study the cartoon below and answer the question that follow.



- 4.1.1 Identify the type of inflation shown in the above cartoon. (1)
Stagflation ✓
- 4.1.2 Name one example of supply shock as a cause of cost push. (1)
Oil Prices✓/Drought that destroys crops✓/Higher union pressure✓/Tsunami ✓
- 4.1.3 Briefly describe the term *hyperinflation*. (2)
Hyperinflation is an extremely rapid and out-of-control increase in the general price level of goods and services within an economy, typically exceeding 50%. This phenomenon erodes the real value of a country's currency and can lead to severe economic instability. ✓✓
(Accept other correct relevant responses)
- 4.1.4 Explain the effect of inflation on debtors. (2)
Debtors benefit because they receive money with a high purchasing power and repay their debt with money with low purchasing power ✓✓
(Accept other correct relevant responses)
- 4.1.5 How is moral suasion used by the South African Reserve Bank to curb demand -pull inflation? (4)
- The South African Reserve Bank employs moral suasion by publicly urging businesses and consumers to exercise restraint in their spending and pricing decisions to combat demand-pull inflation. ✓✓
 - SARB also engages in direct communication with commercial banks, encouraging them to tighten lending standards and increase interest rates. ✓✓
 - SARB collaborates with the government to align fiscal policies with their inflation-fighting goals, ensuring a coordinated approach to curbing excessive demand. ✓✓
(Accept other correct relevant responses)

ACTIVITY 5

5.1 Study the picture below and answer the questions that follow.



- 5.1.1 Identify one monetary instrument in the above picture. (1)
Repo Rate✓
- 5.1.2 Give ONE reason for an increase in the inflation rate? (1)
High aggregate demand ✓
Increased production cost✓
(Accept other correct relevant responses)
- 5.1.3 Briefly describe the term *inflation*. (2)
Inflation is a sustained and significant increase in general price level over period of time. ✓✓
(Accept other correct relevant responses)
- 5.1.4 Explain the effect of an increase in interest rates on inflation. (2)
 - An increase in interest rates makes buying on credit more expensive. This often results in a decrease in aggregate demand which will lead to low inflation. ✓✓****(Accept other correct relevant responses)**
- 5.1.5 How does foreign direct investment influence inflation in the economy? (4)
 - FDI can lead to increased economic activity and higher demand for goods and services, potentially causing demand-pull inflation if supply cannot keep up. ✓✓**
 - FDI can introduce new technologies and efficiencies, which can lower production costs and mitigate inflationary pressures. ✓✓**
 - FDI can also impact exchange rates; if it leads to a stronger domestic currency, it can make imported goods cheaper, contributing to disinflationary effects. ✓✓**

(Accept other correct relevant responses)

ACTIVITY 6

6.1 How would the cost of key inputs contribute to a higher inflation rate? (8)

- If a country relies heavily on imports for essential raw materials or intermediate goods used in production, a rise in the prices of these inputs can raise production costs for domestic industries. ✓✓
- When businesses face higher input costs, they may pass those costs onto consumers in the form of higher prices for finished goods and services. ✓✓
- Exchange rate fluctuations can affect the cost of imports; a weaker domestic currency relative to the currencies of trading partners can make imports more expensive, further driving up production costs. ✓✓
- If these price increases become persistent, they can lead to wage demands from workers, creating a wage-price spiral that contributes to sustained inflationary pressures in the economy. ✓✓

(Accept other correct relevant responses)

6.2 Why is a monetary policy effective in reducing demand-pull inflation? (8)

- Monetary policy decreases aggregate spending by increasing interest rates ✓✓
- An increase in the cash reserve requirements limits the amount available to consumers, which reduces demand ✓✓
- Sale of government bonds (open market transactions) reduces the money supply where banks have less money to supply ✓✓
- Banks can be persuaded by the central bank to limit the amount of credit ✓✓
- Helps to raise the cost of credit in the various sectors of the economy ✓✓

(Accept other correct relevant responses)

6.3 Discuss the Fiscal measure to combat inflation. (8)

- Fiscal measure are measures taken by the MINISTER OF FINCANCE regarding taxation and expenditure. ✓✓
- An increase in direct taxation (Personal income tax) which will help to decrease demand.
- An increase in indirect taxation (VAT) courses spending decrease because goods become more expensive.
- A loan levy reduces the disposable income of consumers. ✓✓
- The state cuts back on expenditure by cancelling government projects like ROADS, HOSPITALS and SCHOOLS. The county's finance bug ✓✓
- The country finance budget deficit is non-inflationary (the government uses loans from the non-banking sector to limit inflation). ✓✓
- The state imposes surcharges on imported goods. ✓✓

(Accept other correct relevant responses)

6.4 Differentiate between the consumer price index (CPI) and the producer price (PPI). (8)

CPI	PPI
The CPI measures the cost of living. ✓	PPI measures the cost of production. ✓
The CPI basket consists of consumer goods and services. ✓	PPI, capital and intermediate goods only. ✓
CPI figures capital and intermediate goods are excluded. ✓	the PPI, capital and intermediate goods are included
CPI does not show prices of imported goods explicitly. ✓	in PPI prices are shown explicitly ✓
CPI includes interest rate. ✓	PPI excludes interest rates ✓✓

(Accept other correct relevant responses)

6.5 Evaluate the impact of inflation targeting in South Africa. (8)

- The SARB monetary policy sets the inflation target between 3% to 6%. ✓✓
- The SARB have been successful in maintaining the level of inflation between the above range in few years ago. ✓✓
- If the inflation target range is exceeded the monetary authorities (SARB) acts to reduce the demand for money, such as increasing interest rates. ✓✓
- If inflation levels increase beyond the inflation target it leads to wage-push inflation and possible strike action. ✓✓
- Wage demands are often accompanied by violent strikes. ✓✓
- If the targets are exceeded the country's credit rating can be negatively affected. ✓

(Accept other correct relevant responses)

CONTEMPORARY ECONOMIC ISSUES: ENVIRONMENTAL SUSTAINABILITY

ACTIVITY 1

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 (1.1.1-1.1.4) in the ANSWER BOOK, for example 1.1.5. D.

1.1.1 This summit took place in 1992 with the aim to conserve and preserve Eco-systems are...

- A. Johannesburg summit ✓✓
- B. Kyoto Protocol
- C. UNFCC
- D. Millennium Development goals

1.1.2 The long-term increase in Earth's average surface temperature due to the build-up of greenhouse gases in the atmosphere is called....

- A. Property rights taxes.
- B. Global warming. ✓✓
- C. Positive externalities.
- D. Government subsidies.

1.1.3 The granting of a license to businesses that allow them to pollute up to a certain degree is referred to as...

A. Marketable permits ✓✓

B. Legislation

C. Taxable permits

D. Licensing

1.1.4 Cutting down of trees to open a construction company

A Dumping

B Quantity Control

C Ozone Layer

D Deforestation ✓✓

(2x4) (8)

1.2. Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-H) next to the question numbers (1.2.1. to 1.2.5) in the ANSWER BOOK.

COLUMN A	Answers	COLUMN B
1.2.1 Preservation	C✓	A. Introduction of harmful or undesirable substances into the environment.
1.2.2 Externalities	E✓	B. The natural process by which soil and rocks are removed from the Earth's surface.
1.2.3 Conservation	F✓	C. The act or process of protecting and maintaining environment in its existing state.
1.2.4 Pollution	A✓	D. Managing important resources to promote future planning.
1.2.5 Erosion	B✓	E. Cost and benefits incurred by a third party not directly involved in production process.
		F. The careful and sustainable management of natural resources.

(5x1) 5

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers.

1.3.1 A tax charged on goods that harm the environment.

Green tax ✓

1.3.2 Taking care of the environment to ensure that the needs of the present and future generations are met.

Conservation ✓

1.3.3 Resources that can be replaced or regenerated back to their natural state.

Renewable resources. ✓

1.3.4 The release of harmful gases into the atmosphere.

Air pollution ✓

(1x4) (4)

ACTIVITY 2

2.1.1 Name TWO types of pollution.

(2)

Air pollution, Water pollution, Land pollution ✓✓

(Accept any other relevant and correct answer)

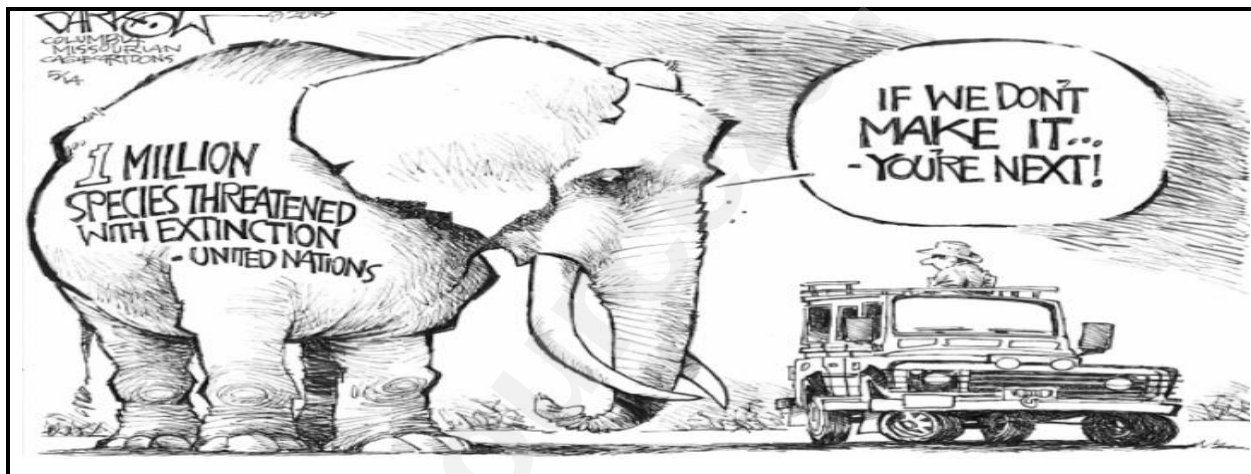
2.1.2 Why do municipalities charge levies on rubbish collection?

(2)

To reduce the impact of waste material in nature and to cover external costs. ✓✓

(Accept any other relevant and correct answer)

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



2.2.1 What environmental problem is depicted by the cartoon above?

(1)

Rhino poaching ✓

2.2.2 Give a term that is used to describe species extinction.

(1)

Biodiversity loss. ✓

2.2.3 Briefly describe the term *biodiversity*.

(2)

Biodiversity refers to the variety of plant and animal life in a particular area. ✓✓

(Accept any other relevant and correct answer)

2.2.4 What negative impact will the extinction of species have in the economy?

(2)

The economy will be affected negatively because this will cause imbalance in the food chain, endangering of ecosystem and loss of natural resources. ✓✓

This may cause scarcity of resources which will drive prices up. ✓✓

(Accept any other relevant and correct answer)

2.2.5 How will the conservation benefit the people living near the rhino habitat?

(4)

Local people will benefit from all from all developments meant for rhino habitat such as:

- Improvement in infrastructure such as roads, water and transport ✓✓
- Improving entrepreneurial abilities through handcraft and other products to attract tourist who are visiting rhino habitat. ✓✓

(Accept any other relevant and correct answer)

ACTIVITY 3

3.1 Study the picture below and answer the questions that follow.



Source:www.businessmaverick.org

- 3.1.1 Identify the type of pollution depicted in the above picture? (1)
Air pollution ✓
- 3.1.2 Name ONE non-renewable resource. (1)
Coal ✓
natural gas. ✓
(Accept any other relevant and correct answer)
- 3.1.3 Briefly describe the term *environmental sustainability*. (2)
Environmental sustainability is the ability of the environment to survive its use for economic activities. ✓✓
(Accept any other relevant and correct answer)
- 3.1.4 What effects will overexploitation of land have on agricultural output in South Africa? (2)
Agricultural output will be affected negatively because land available for agricultural purposes will be limited due to overexploitation. ✓✓
(Accept any other correct relevant responses)
- 3.1.5 How can environmental subsidies be used to ensure sustainable development? (4)
• Subsidies can be granted to businesses to reduce environmental damage. ✓✓
• The government can subsidize new technology that save energy such as energy saving light bulbs. ✓✓
(Accept any other correct relevant responses)

ACTIVITY 4

4.1 Study the extract below and answer the questions that follows.

Plastic waste, the biggest issues facing the planet today.

Plastic waste thrown on the rivers and oceans is one of the biggest issues facing the planet today, with its impacts stretching far and wide. It can be found polluting the tallest mountains to the deepest ocean trenches, and can affect human health, destroy ecosystems, and harm wildlife especially marine species. Plastics can take up to 500 years to decompose, depending on their composition and disposal.

Source:www.newsun.org

- 4.1.1 Name the type of pollution depicted by the extract above. (1)
Water pollution ✓
- 4.1.2 What effect can be caused by the human activity above? (1)
Harm wildlife ✓ and/ affect human health ✓
(accept any other relevant and correct answer)
- 4.1.3 Briefly describe the term *marketable permits*. (2)
The granting of licenses to businesses that allows them to pollute up to a certain degree. ✓ ✓
(Accept any other relevant and correct answer)
- 4.1.4 What is the main purpose of preservation? (2)
To prevent the extinction of plant and animal species/ to ensure that non-renewable resources are not lost. ✓ ✓
(Accept any other relevant and correct answer)
- 4.1.5 How does human activities negatively affect environmental sustainability? (4)
- Human activities causes environmental degradation, which causes the depletion of resources. ✓ ✓
 - Actions taken by humans such as burning and destruction of forests damage the environment. ✓ ✓
- (Accept any other relevant correct answer)

ACTIVITY 5

5.1 Study the table below and answer the questions that follows.

The loss of biodiversity over the last few centuries			
Centuries	Population	Land converted for human use	Loss of species in ecosystems
1800	0,9 billion	7,6 %	-1,8%
2100	12 million	49,1%	-17%

- 5.1.1 Identify the term that refers to the variety of plant and animal life in ecosystem. (1)
Biodiversity loss ✓
- 5.1.2 Name ONE animal that is threatened by extinction in South Africa. (1)
Rhino ✓ / Tiger ✓ / Cheetah ✓
(Accept any other relevant correct answer)
- 5.1.3 Briefly describe the term global warming (2)
Refers to the gradual overall increase in temperature of the earth's atmosphere due to the increase of pollution into the atmosphere. ✓ ✓
(Accept any other relevant correct answer)
- 5.1.4 Explain the contribution of producers to environmental sustainability? (2)
The producers can contribute to environmental sustainability by:
- Developing new technology and equipment that are using environmentally energy ✓ ✓

- Producing environmentally friendly substitutes such as unleaded petrol ✓✓
(Accept any other relevant correct answer)

5.1.5 How can the South African government conserve the resources to ensure a sustainable environment? (4)

South African government can ensure a sustainable environment by:

- Bringing a balance in the ecosystem as animals and plant interacts and depends on one another for continued survival. ✓✓
- Protecting forests, as they are important for producing oxygen and absorbing greenhouse gases. ✓✓
- Reducing the amount of greenhouse gases that reach the atmosphere thereby decreasing global warming ✓✓
- Using water wisely, as it is basic to plant and animal existence. ✓✓

(Accept any other relevant correct answer)