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NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2018

ECONOMICS

EXAMINATION NUMBER

Time: 3 hours 300 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 40 pages. Please check that your question paper is complete.

2. Read the questions carefully.

3. All questions are **COMPULSORY**. Answer questions as follows:
   ONE compulsory question from SECTION A;
   FOUR compulsory questions from SECTION B; and
   ONE compulsory question from SECTION C.

4. Answer ALL the questions in the spaces provided on this question paper.

5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.

6. It is in your best interest to write legibly and to present your work neatly.

7. Non-programmable calculators may be used.

8. Please do not **write** in pencil as work in pencil will not be marked. However, any sketches or diagrams may be done in pencil.

9. If you run out of space for a question, two extra, blank pages (pages 39 and 40) have been included at the end of the paper. Please clearly indicate the question number of your answer should you use this extra space.

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SECTION A

QUESTION 1

This question is **compulsory** and should be answered by ALL candidates.

Select the correct alternative and mark the block corresponding to your answer with an "X".

1.1 In the circular flow model, households are on the:

A supply side of the factor market and the demand side of the product market. ☐

B supply side of the factor market and the product market. ☐

C demand side of the factor market and the product market. ☐

D demand side of the factor market and the supply side of the product market. ☐ (2)

1.2 In the circular flow model, GDP would most likely increase if there was:

A a decrease in exports. ☐

B a decrease in government spending. ☐

C an increase in imports. ☐

D a decrease in savings. ☐ (2)

1.3 Which ONE of the following is a likely cause of an increase in the value of an economy's multiplier?

A An increase in the marginal propensity to save. ☐

B An increase in the basic rate of income tax in the economy. ☐

C A decrease in the marginal propensity to import. ☐

D A decrease in investment in the economy. ☐ (2)

1.4 What is progressive taxation?

A Everyone pays the same proportion of his or her income in tax. ☐

B High earners pay a higher proportion of their income in tax. ☐

C Low earners pay a higher proportion of their income in tax. ☐

D Pensioners pay a higher proportion of their income in tax. ☐ (2)

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1.5 **"South Africa's Business Confidence Index rises again."**

The Business Confidence Index is an example of a/an ... indicator.

A lagging

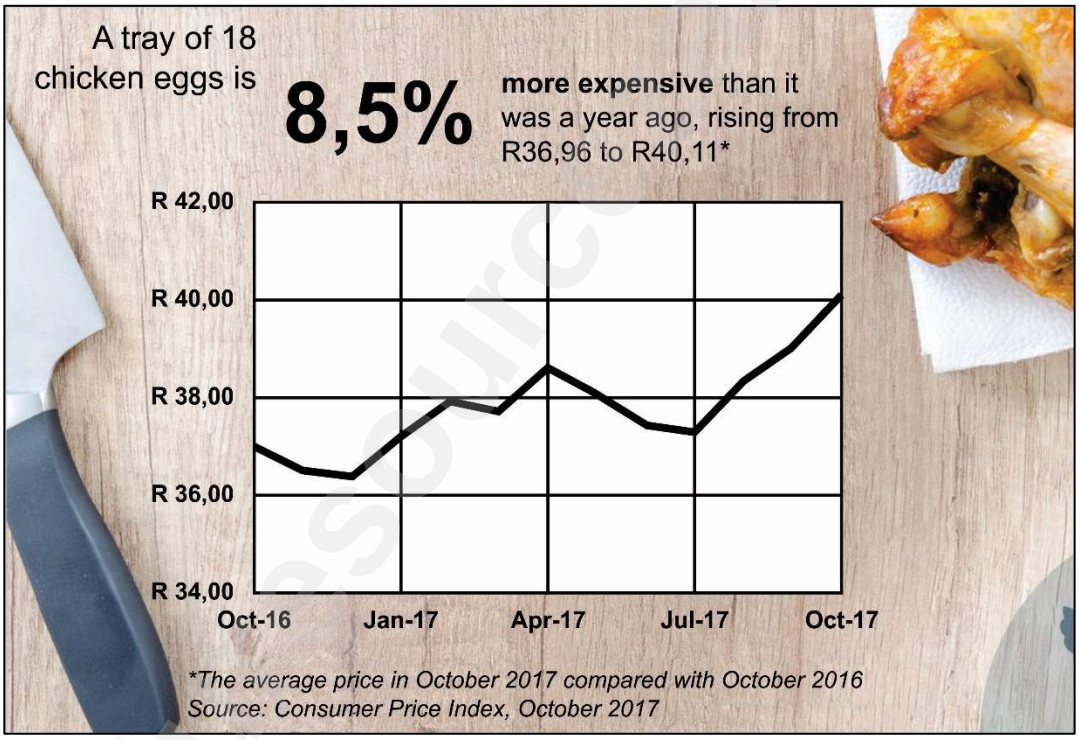
B coincidental

C leading

D asymmetric (2)

1.6 Study Source 1 and answer the question that follows.

Source 1: The price of eggs



[Source: <www.statssa.gov.za>]

As eggs are a major ingredient in baking cakes, based on the information above,

A the demand curve for cakes will shift to the left.

B both the demand and supply curves of cakes will shift to the right.

C the supply curve of cakes will shift to the right.

D the supply curve of cakes will shift to the left. (2)

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1.7 Which one of the following creates an incentive for firms to reduce pollution?

A An increase in negative externalities as firms produce more. ☐

B The failure of government to tax firms that pollute. ☐

C Government subsidies paid to firms that increase their production. ☐

D A tax levied on firms that cause pollution. ☐ (2)

1.8 The trade agreement that allows South Africa preferential access to the US market through lower tariffs or no tariffs on some products is known as …

A SACU ☐

B AGOA ☐

C EFTA ☐

D CIVETS ☐ (2)

1.9 Overall income inequality can be measured by …

A the difference between GDP and GNI. ☐

B the Gini co-efficient. ☐

C the growth rate of real GDP. ☐

D the population growth rate. ☐ (2)

1.10 Which one of the following countries is **not** a member of OPEC?

A Afghanistan ☐

B Iran ☐

C Iraq ☐

D Venezuela ☐ (2)

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1.11 An unexpected increase in South Africa's interest rates is most likely to cause the currency to appreciate because of …

A increased inflows of hot money. ☐

B increased outflows of hot money. ☐

C increased borrowing by South African consumers. ☐

D increased investment by domestic firms. ☐ (3)

1.12 A difference between a merit good and a public good is that ...

A a merit good is always provided by the private sector whilst a public good is always provided by the public sector. ☐

B a merit good has a cost attached to it whilst a public good is provided without a cost to the government. ☐

C a merit good is in limited supply whilst the supply of public goods is infinite. ☐

D consumption of a merit good reduces the amount available for others whilst an individual's consumption of pure public goods leaves the number available for others unaffected. ☐ (3)

1.13 **"When the price of a product increases from R3 to R5, the quantity demanded falls from 60 to 40".**

The **arc elasticity** method would indicate that the price elasticity is …

A (-) 0,5 and therefore the product is inelastic. ☐

B (-) 0,8 and therefore the product is inelastic. ☐

C (-) 0,8 and therefore the product is inferior. ☐

D (-) 0,5 and therefore the product is inferior. ☐ (3)

1.14 Marginal utility theory is based on which one of the following assumptions?

A No change in consumption activities can make all consumers better off without making others worse off. ☐

B The satisfaction households derive from consumption of a product declines as consumption of that product increases. ☐

C The price of a commodity will decline when the supply of that product exceeds the demand. ☐

D Households have a thorough understanding of how the economy works and learn quickly from purchasing mistakes. ☐ (3)

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1.15 Which one of the following is a likely consequence of the abuse of market power by a monopolist?

A A misallocation of resources. ☐

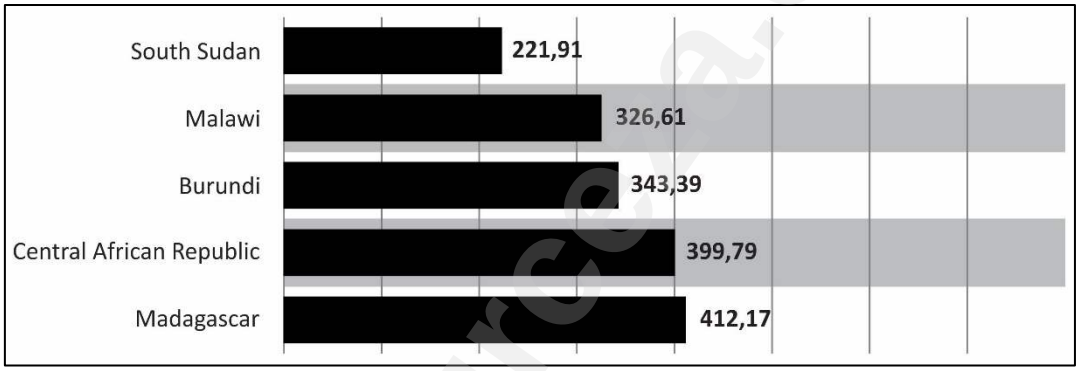
B Positive externalities in consumption. ☐

C Increased competition between firms. ☐

D Over-production of merit goods. ☐ (3)

1.16 Study Diagram 1 and answer the question that follows.

Diagram 1: Countries with the lowest GDP per capita in 2017



[Source: <https://www.statista.com>]

Among the five countries listed above …

A the Human Development Index will be close to 1. ☐

B the Consumer Price Index tends to be lower. ☐

C agriculture tends to produce a larger share of the GDP. ☐

D high-income households tend to consume a smaller share of the GDP. ☐ (3)

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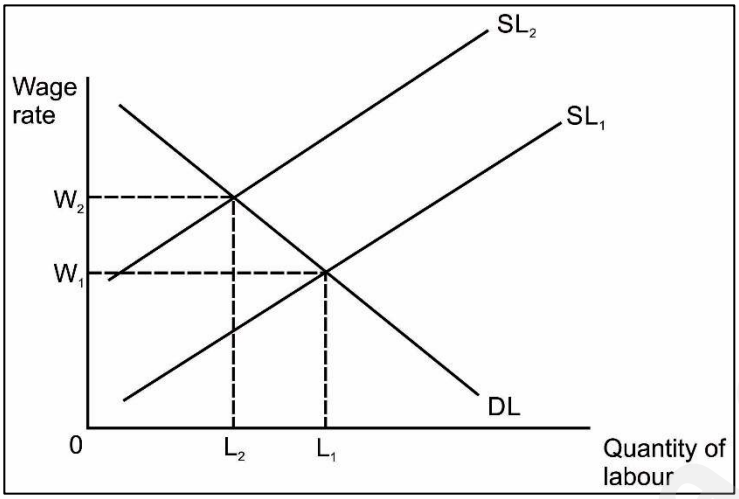
1.17 Study Graph 1 and answer the question that follows.

Graph 1: Labour market



In the labour market shown above, the shift of the supply curve from SL1 to SL2 could have been caused by:

A an increase in emigration. ☐

B a rise in labour productivity. ☐

C a fall in the price of capital. ☐

D the deregulation of the labour market. ☐ (3)

1.18 All other things being equal, which of the following, A, B, C or D, is most likely to lead to a deterioration in South Africa's current account on the balance of payments?

	SA inflation rate	Value of the rand	
A	Increase	Decrease	☐
B	Decrease	Increase	☐
C	Increase	Increase	☐
D	Decrease	Decrease	☐ (3)

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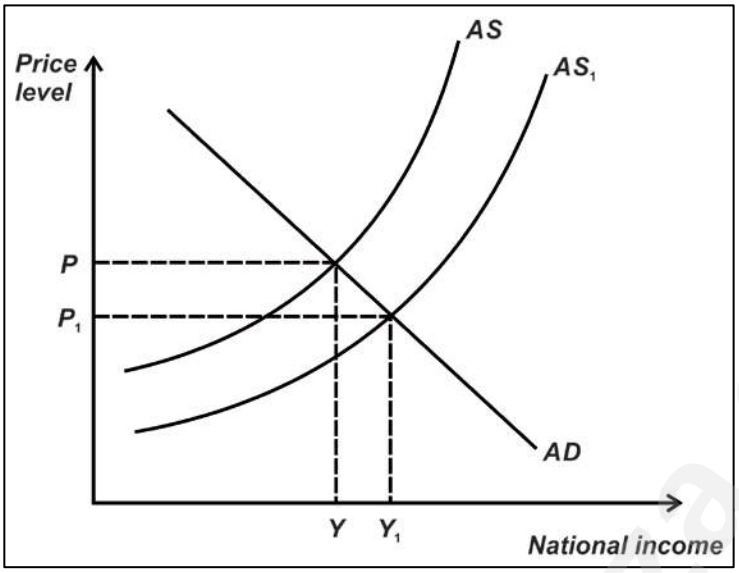
1.19 Study Graph 2 and answer the question that follows.

Graph 2: Aggregate demand and aggregate supply



[Source: <http://revisionguru.co.uk/>]

The increase in GDP (national income) is as a result of ...

A increased consumer confidence. ☐

B increased raw materials price. ☐

C increased education levels among workers. ☐

D increased standards of environmental protection. ☐ (3)

1.20 The South African Reserve Bank (SARB) requires commercial banks to hold reserve asset deposits with the central bank.

If the SARB requires commercial banks to increase these deposits, then which one of the following is likely to occur?

A Bank lending to businesses and consumers will rise. ☐

B Bank profits will increase. ☐

C Bank lending to businesses and consumers will fall. ☐

D Banks will have to borrow more from central banks. ☐ (3)

50 marks

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SECTION B

Answer all the questions in this section.

QUESTION 2 MACRO ECONOMICS

2.1 Study Table 1 below and answer the questions that follow.

Table 1: National account figures 2015 and 2016 at constant prices

Item	2015 R million	2016 R million
Final consumption expenditure by households	2 465 806	**A**
Final consumption expenditure by general government	619 183	631 791
Gross capital formation	651 781	603 024
B	–38	–5 550
Gross Domestic Expenditure	**3 117 587**	**3 096 830**
Exports of goods and services	911 366	**C**
D	965 814	930 513
Gross Domestic Product	**3 063 101**	**3 071 658**

[Source: *SARB Quarterly Bulletin*]

2.1.1 Which method of calculating the national accounts is used in Table 1?

_____

_____

_____ (2)

2.1.2 Name or calculate A to D. You do not have to show your calculations.

_____

_____

_____

_____

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_____

_____ (4)

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2.1.3 Use the figures **given** and calculate the economic growth for 2016. Show all calculations.

(4)

2.1.4 Should the South African economy be concerned that its Gross Domestic Expenditure in 2015 and 2016 is greater than its Gross Domestic Product? **Justify your answer.**

(4)

2.2 **"Some economists estimate South African consumers' marginal propensity to consume to be 0,5."**

2.2.1 Briefly explain the meaning of the statement above.

(2)

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2.2.2 Using the information above, calculate the total increase in national income if there was a R30 million increase in investment. Show all calculations.

(5)

2.3 **"South African manufacturing levels are strongly influenced by the exchange rate."**

2.3.1 Describe the economic term "exchange rate".

(2)

2.3.2 Briefly explain why the appreciation of the rand (ZAR) could be good news for some South African manufacturers and bad news for other South African manufacturers.

(4)

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2.3.3 Explain the impact the factors listed below are likely to have on the exchange rate.

Table 2

	Factor	**Demand or supply** of rands (ZAR) affected?	**Increase or decrease** in supply or demand of rands (ZAR)?	Effect on the exchange rate: **appreciation or depreciation** of the rand (ZAR)?
(a)	An increase in international tourists visiting South Africa			
(b)	A large, persistent current account deficit			
(c)	Political instability and poor economic performance in South Africa			

(9)

2.4 **"The country has emerged from a recession and South Africa's GDP has begun to see welcome improvements."**

2.4.1 Define the economic term "recession".

_____

_____

_____

_____ (2)

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2.4.2 Discuss how monetary policy and fiscal policy could be used in an economy to help stimulate economic activity.

(12)
[50]

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QUESTION 3 MICRO ECONOMICS

3.1 Differentiate between the characteristics of perfect competition and monopoly by completing Table 3.

Table 3: Market Structure

		Perfect competition	Monopoly
3.1.1	Number of producers (sellers in the market)		
3.1.2	Type/Nature of goods available for consumers		
3.1.3	Do the firms have control over their own prices?		
3.1.4	Are entry barriers zero, low or high?		
3.1.5	Type of profit in the long run		

(10)

3.2 **"The internet has made many markets closer to perfect competition."**

Give TWO reasons why this statement is true.

_____

_____

_____

_____

_____

_____

_____

_____ (4)

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3.3 Study Table 4 below and answer the questions that follow.

The table below shows cross-price elasticities between products.

Table 4: Elasticities

		Effect on the:		
		Demand for A	Demand for B	Demand for C
Change in the:	Price of A	n/a	+ 0,7	– 1,4

3.3.1 Define the economic term "cross-price elasticity of demand".

_____

_____

_____

_____ (2)

3.3.2 Use an example to briefly explain the likely cross-price elasticity relationship between good A and good B, if the price of good A changes.

_____

_____

_____

_____

_____

_____

_____

_____ (4)

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3.3.3 Use a diagram and an explanation to discuss what will happen to the demand for good C if there is an increase in the price of good A.

(6)

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3.3.4 Using examples, discuss in detail the following factors and how they affect the price elasticity of demand:

- the range and availability of substitutes
- the time period
- habit-forming products

(12)

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3.4 **"In certain markets, the price mechanism might fail to allocate resources efficiently, causing market failure."**

Discuss TWO causes of market failure and outline what the government can do about each one.

(12)
[50]

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QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 Study the following information in Source 2 and answer the questions that follow.

Source 2

	2016	Projections 2017	Projections 2018
World Output	3,2	3,6	3,7
Advanced Economies	1,7	2,2	2,0
Emerging Market and Developing Economies	4,3	4,6	4,9

	2016	Projections 2017	Projections 2018
United States	1,5	2,2	2,3
Euro Area	1,8	2,1	1,9
Japan	1,0	1,5	0,7
United Kingdom	1,8	1,7	1,5
Brazil	–3,6	0,7	1,5
China	6,7	6,8	6,5
India	7,1	6,7	7,4
Russia	–0,2	1,8	1,6
Nigeria	–1,6	0,8	1,9
South Africa	0,3	0,7	1,1

IMF, World Economic Outlook, October 2017

www.imf.org/social
fb.com/IMF
@IMFNews

[Source: <https://www.imf.org>]

4.1.1 Identify TWO advanced economies in the information above.

_____

_____ (2)

4.1.2 Identify TWO emerging economies in the information above.

_____

_____ (2)

4.2 Briefly explain what the indicators below measure and how they can be used to measure the performance of the economy.

4.2.1 GDP per capita

_____

_____

_____

_____

_____

_____ (3)

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4.2.2 Gini co-efficient

(3)

4.2.3 HDI

(3)

4.2.4 Under-five mortality

(3)

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4.3 Your financial advisor recommends that you invest some of your money in the advanced economies rather than the emerging economies. Do you agree with this advice? Give TWO reasons for your answer.

_____

_____

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_____

_____

_____

_____ (4)

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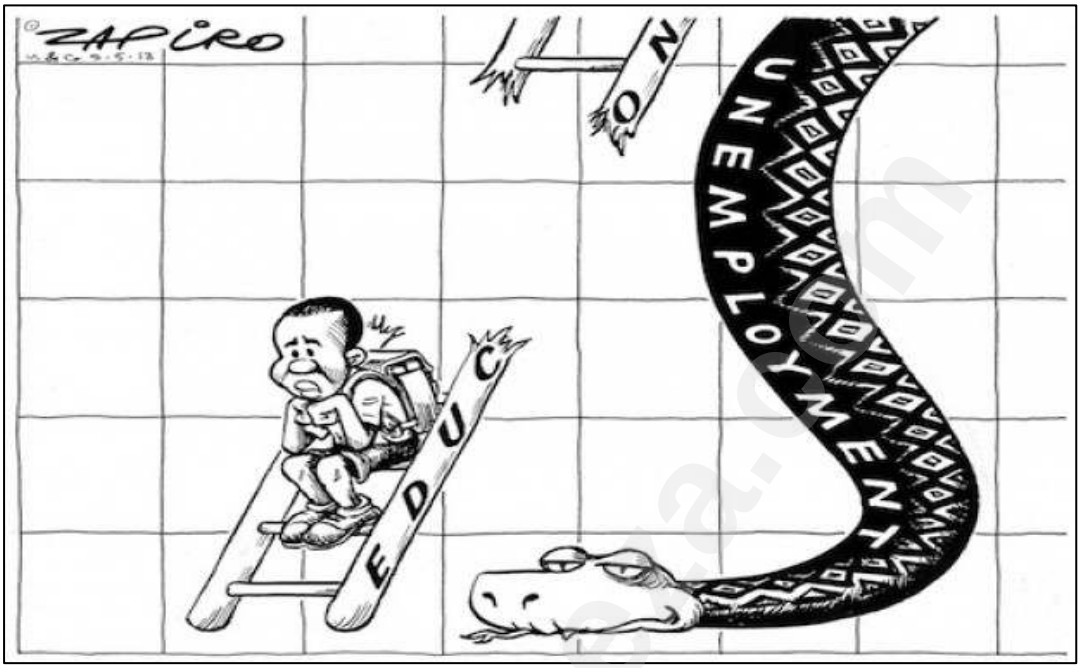
4.4 Study Cartoon 1 and answer the questions that follow.

Cartoon 1



[Source: <https://www.zapiro.com/130509mg>]

4.4.1 Briefly explain the link between the TWO issues identified in the cartoon and evaluate how they limit the economic growth of the South African economy.

(6)

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4.4.2 Discuss TWO ways in which trade barriers can be used to reduce domestic unemployment.

(8)

4.5 **"With a domestic demand-led recovery, Japan is making steady progress towards emerging from 20 years of deflation."**

4.5.1 Define the economic term "deflation".

(2)

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4.5.2 Briefly explain THREE reasons why deflation may be damaging for an economy.

(6)

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4.5.3 Use a diagram and an explanation to illustrate how a "domestic demand-led recovery" can influence aggregate demand (AD), and how this will influence the equilibrium level of output and prices.

(8)
[50]

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QUESTION 5 MIXED QUESTIONS

5.1 Briefly describe the following concepts:

5.1.1 Open economy

_____

_____

_____

_____ (2)

5.1.2 Leading economic indicators

_____

_____

_____

_____ (2)

5.1.3 Free-floating exchange rate system

_____

_____

_____

_____ (2)

5.1.4 Trade unions

_____

_____

_____

_____ (2)

5.1.5 Hyperinflation

_____

_____

_____

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5.2 **"School uniform price investigation reveals collusion, non-competitive behaviour and price-fixing."**

5.2.1 Briefly explain the economic term "collusion".

_____

_____

_____

_____ (2)

5.2.2 In which market structure does collusion take place?

_____

_____

_____

_____ (2)

5.2.3 Which organisation in South Africa investigates non-competitive behaviour?

_____

_____

_____

_____ (2)

5.2.4 Briefly analyse TWO reasons why price-fixing is negative for the economy.

_____

_____

_____

_____

_____

_____

_____

(4)

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5.3 **"VAT is a regressive tax that hurts the poor and stifles demand and economic growth. COSATU will fight any VAT increase."**

5.3.1 What does the acronym COSATU stand for?

(2)

5.3.2 With reference to the statement above, discuss TWO advantages and TWO disadvantages of increasing the VAT rate.

(8)

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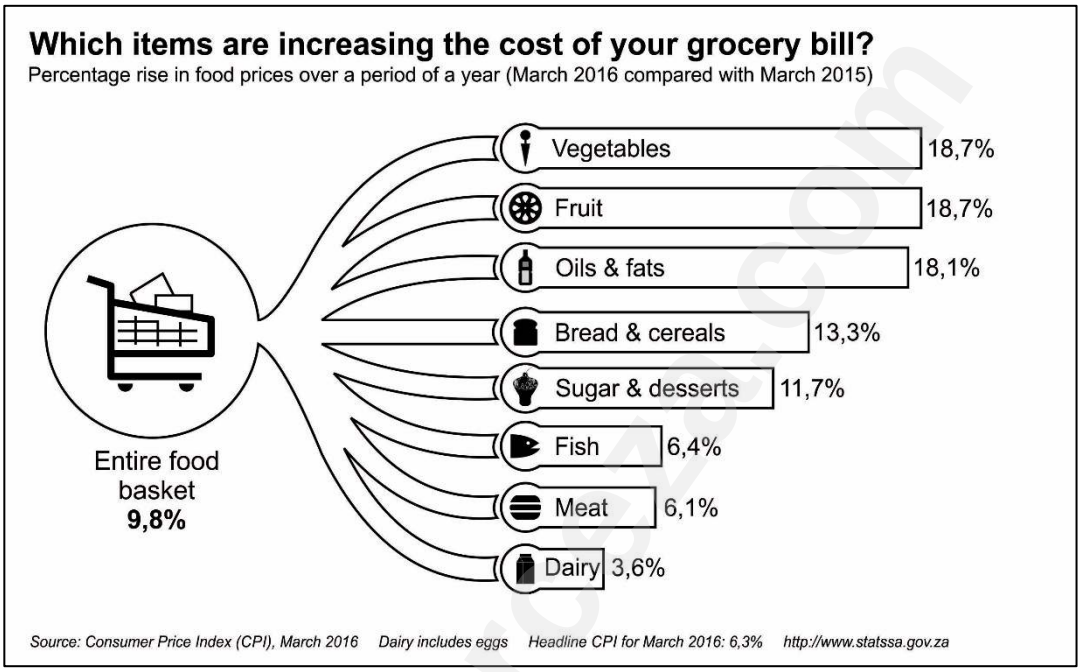
5.4 Study Source 3 and the statement below to answer the questions that follow.

Source 3

"The CPI does not reflect the poor's pain."



[Source: <www.statssa.gov.za>]

5.4.1 Briefly explain whether the information in Source 3 is good news or bad news for South African consumers.

_____

_____

_____

_____ (2)

5.4.2 What is the inflation target percentage in South Africa?

_____

_____

_____

_____ (2)

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5.4.3 Briefly explain how the CPI is calculated and why this calculation "does not reflect the poor's pain."

_____

_____

_____

_____

_____

_____

_____

_____ (4)

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5.4.4 Discuss the TWO main causes of inflation.

(12)
[50]

200 marks

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SECTION C

QUESTION 6 DATA RESPONSE

Study the following information and answer the questions that follow.

Question 6.1 is based on Cartoon 2 and Source 4.

Cartoon 2

[Source: http://www.zapiro.com>]

Source 4

Radical economic transformation

Media announced that radical economic transformation means changing the constitution to allow the government to expropriate land without compensation. This, with a resolution calling for the nationalisation of the South African Reserve Bank, and one urging the government to speedily implement that children of poor families would receive free higher education, were widely quoted as evidence that the ANC had embraced economic radicalism.

[Adapted from: <https://www.biznews.com/thought-leaders/2018/01/10/decoding-anc-radical-resolutions/>]

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6.1 6.1.1 Describe the economic term "junk status".

(2)

6.1.2 With reference to Source 4, identify the THREE main areas that are the focus of radical economic transformation.

(3)

6.1.3 Explain TWO economic challenges facing a country that has junk status.

(6)

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6.1.4 With reference to Source 4, evaluate the economic benefits and drawbacks of TWO of the main areas of the proposed radical economic transformation.

(12)

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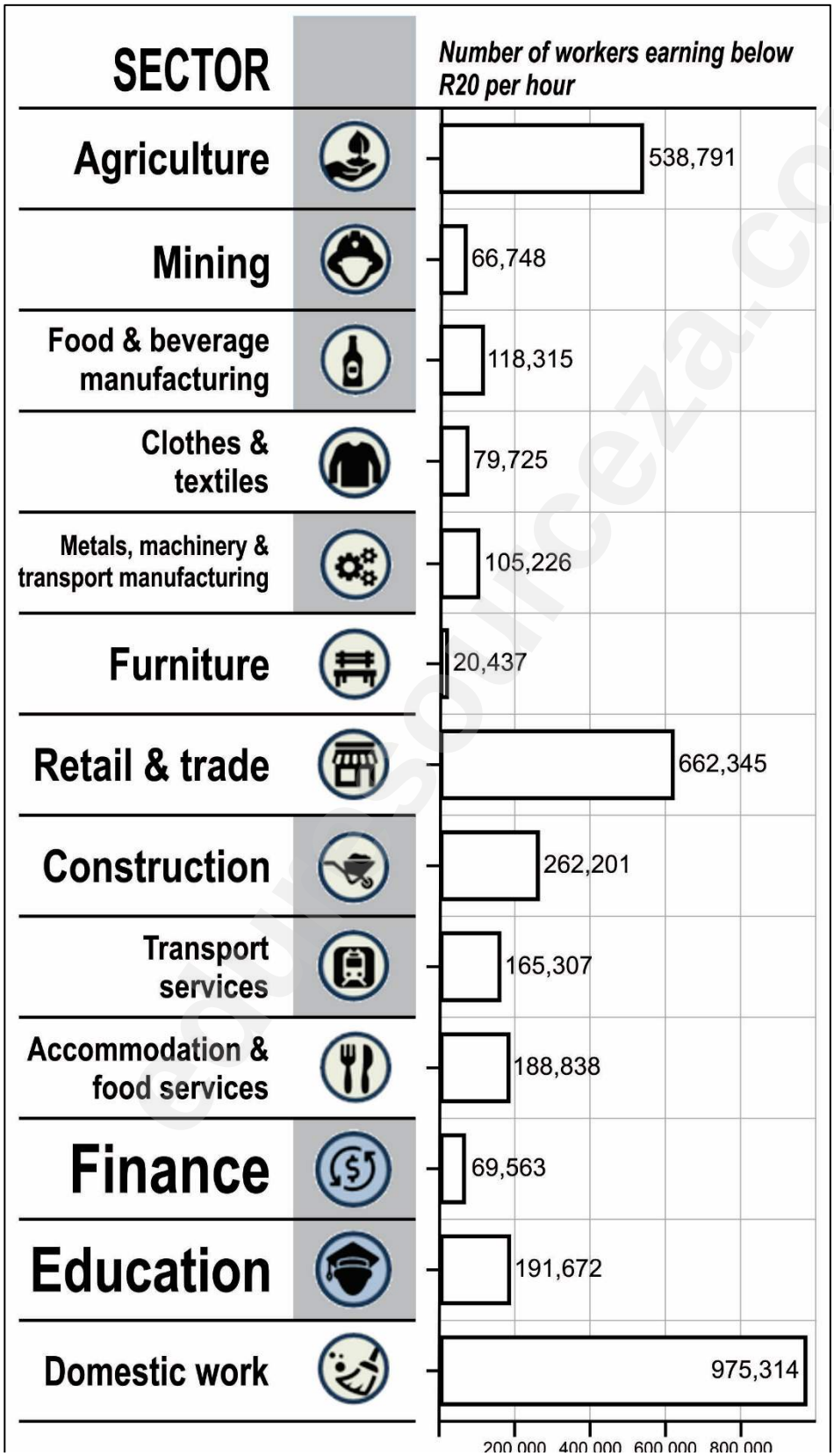
Question 6.2 is based on Source 5 and Source 6.

Source 5

"It is official: national minimum wage set at R20 per hour which translates to R3 500 per month, from May 2018."



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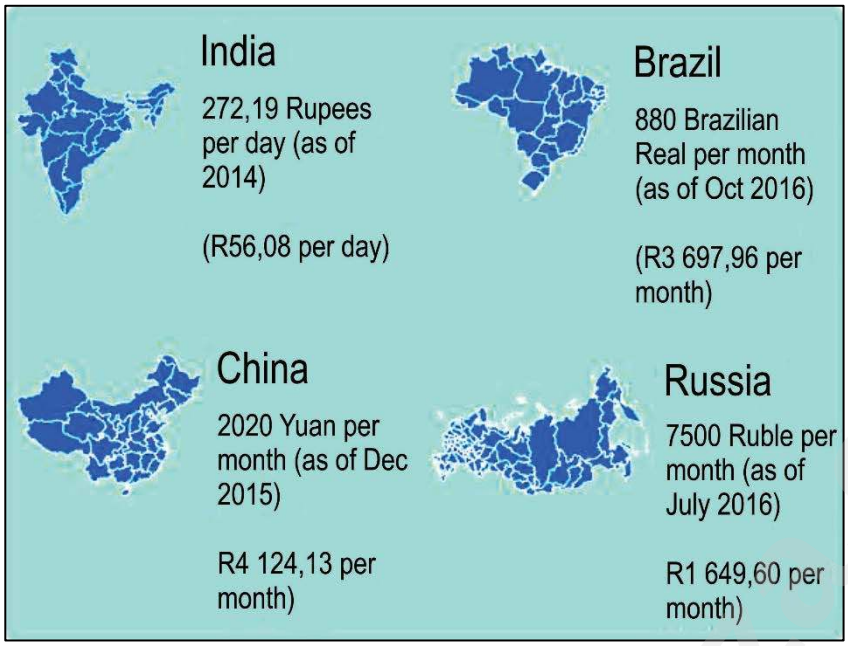
Source 6: Minimum wages of other BRICS countries



[Source: <www.fin24.com/Economy/Labour/infographic-how-sa-minimum-wage-stacks-up>]

6.2 6.2.1 Define the economic term "minimum wage".

_____

_____

_____

_____ (2)

6.2.2 With reference to Source 5, identify the THREE sectors that have the highest number of workers earning below R20 per hour.

_____

_____

_____

_____

_____

_____ (3)

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6.2.3 With reference to Source 5, briefly explain why there is such a difference in the number of workers earning below the minimum wage in some sectors, compared to others.

(4)

6.2.4 Evaluate the extent to which an increase in the minimum wage in South Africa will lead to a worsening of South Africa's balance of payments position.

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6.3 Explain, with the aid of a diagram, the macro-economic conflict between inflation and unemployment.

(10)

50 marks

Total: 300 marks

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