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INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2024

ECONOMICS

MARKING GUIDELINES

Time: 3 hours

300 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

SECTION A**QUESTION 1**

Select the most correct alternative and enter the letter of the correct answer in the block.

1.1	D
1.2	C
1.3	D
1.4	C
1.5	D
1.6	A
1.7	A
1.8	D
1.9	C
1.10	D
1.11	D
1.12	D
1.13	B
1.14	D
1.15	C
1.16	A
1.17	A
1.18	D
1.19	B
1.20	D

1.1 The percentage of Income (Y) earned that a consumer is prepared to spend on consumer goods is known as the:

- A Marginal propensity to import
- B Marginal rate of substitution
- C Marginal utility
- D Marginal propensity to consume.

- 1.2 If Gross Domestic Expenditure (GDE) is R850 billion, Gross Domestic Product (GDP) is R700 billion and imports (I) are R250 billion, then exports (X) are equal to:
- A R50 billion
 - B R150 billion
 - C R100 billion
 - D R400 billion
- 1.3 If the marginal propensity to consume (mpc) is 0,6 in a 2-sector model, the marginal propensity to save (mps) will be ...
- A 4.
 - B 6.
 - C 9,4.
 - D 0,4.
- 1.4 Long-term deposits of the domestic sector at monetary institutions are part of the ... money supply.
- A M1
 - B M2
 - C M3
 - D M4
- 1.5 Reason/s for international trade is/are ...
- A income levels.
 - B preferences and tastes.
 - C the size of the population.
 - D all of the above.
- 1.6 The interest rate that commercial banks offer to their clients is called the ... rate.
- A prime
 - B repo
 - C fixed
 - D preference
- 1.7 Which ONE of the following is classified as excise duties?
- A Tax on alcohol
 - B Gun licence
 - C Value-added tax
 - D Personal income tax
- 1.8 Transfer of ownership of entities from the private sector to the public sector is called ...
- A privatisation.
 - B commercialisation.
 - C deregulation.
 - D nationalisation.

- 1.9 The national aggregate that represents the value added at each stage of production is called the gross domestic ...
- A expenditure.
 - B income.
 - C product.
 - D consumption.
- 1.10 The percentage of the population living in poverty in a country is indicated by
- A the Gini coefficient.
 - B life expectancy.
 - C per capita gross domestic product.
 - D the headcount index.
- 1.11 An inflation rate that excludes items with highly volatile prices is called ... inflation.
- A administered
 - B headline
 - C inclusive
 - D core
- 1.12 The inverse relationship between inflation and unemployment is best illustrated by the ... curve.
- A Laffer
 - B Lorenz
 - C indifference
 - D Phillips
- 1.13 The owners of factors of production in the circular flow model is/are the ...
- A government.
 - B households.
 - C businesses.
 - D foreign sector
- 1.14 The revenue derived from the sale of one additional unit of a product is called ... revenue.
- A average
 - B extra
 - C total
 - D marginal
- 1.15 Fiscal policy is an action taken by government in respect of taxation and ... to influence economic activity.
- A exchange control
 - B money supply
 - C expenditure
 - D credit control

1.16 Production by the citizens of a country, locally and abroad, is called the ... product.

- A gross national
- B gross domestic
- C net national
- D net domestic

1.17 This will have a positive effect on the exchange rate, i.e. result in an appreciation of a currency:

- A An increase in FDI in SA.
- B The SA Reserve Bank paying back foreign loans.
- C The lowering of interest rates.
- D The relaxing of foreign currency control.

1.18 The won and the yen are the currencies of these countries:

- A China and Japan
- B Hong Kong and Thailand
- C Singapore and Brazil
- D South Korea and Japan

1.19 A perfectly competitive firm will make a normal profit when ...

- A its total revenue is greater than its total cost of production.
- B its total cost of production is equal to its total revenue.
- C it makes an economic loss.
- D its overhead costs decrease.

1.20 The Consumer Price Index (CPI) is a measure of changes in the ...

- A pattern of consumer expenditure.
- B average standard of living.
- C effective demand for consumer goods.
- D average cost of goods and services

SECTION B**QUESTION 2 MACROECONOMICS**

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

Table 1: GDP figures

Value added in \$ billion	2021
Primary sector	250
Secondary sector	375
Tertiary sector	748
Taxes on products	164
Subsidies on products	45

2.1.1 Calculate the Gross Value Added at basic prices. Show all calculations.

$$250 + 375 + 748 = 1373$$

2.1.2 Calculate the GDP at market prices. Show all calculations.

$$1373 + 164 - 45 = 1492 \text{ (If taxes are added and subsidies subtracted, mark with error from 2.1.1)}$$

2.1.3 What method of calculating GDP was used in this question?

The production method/output method/value-added method

2.2 Study **Table 2** below and answer the questions that follow.

Table 2: National Account Aggregates.

Summary of Gross Domestic product (at current prices)	\$ million
Compensation of employees	2 042 420
Net operating surplus	1 135 219
Consumption of fixed capital	633 750
Gross value added at factor cost	3 811 389
Other taxes on production	94 103
Other subsidies on production	8 834
Gross value added at basic prices	3 896 658
Taxes on products	389 069
Subsidies on products	20 550
Gross domestic product at market prices	A

2.2.1 Identify the factor of production in the table above that receives the biggest portion of the national income.

Human resources / Labour

2.2.2 Which method was used to calculate the figures above?

Income method

2.2.3 Describe the term basic prices.

Basic prices are the prices of goods and services after taxes on production have been added, e.g. payroll taxes, business licences, taxes on land and buildings to factor cost and subsidies on production have been subtracted from it, e.g. a subsidy on employment or any other relevant answer.

2.2.4 Calculate the gross domestic product at market prices. Show all your calculations.

$$3\,896\,658 + 389\,069 - 20\,550 = 4\,265\,177$$

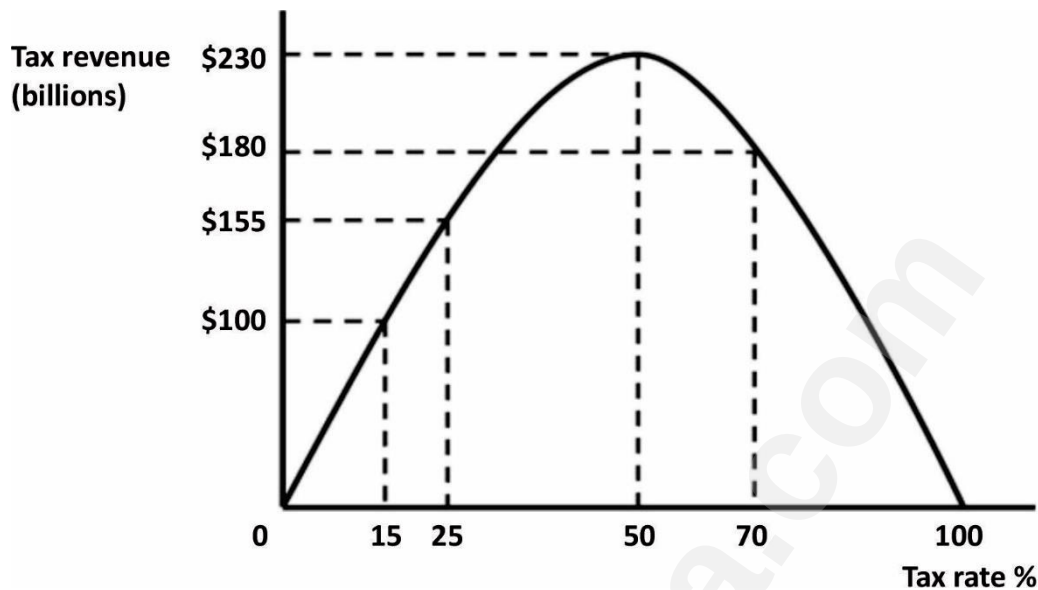
2.2.5 Calculate the change in aggregate income if there is an injection of \$20 billion into the economy with a marginal propensity to save of 0,3. Show all calculations.

Injection = \$20 billion, mps = 0.3, multiplier = $1 / mps = 3.3$. OR $1 / (1 - mpc)$. Change in national income = \$20 billion $\times 3.3 = \$66$ billion

2.2.6 Briefly discuss government actions which could enhance the multiplier effect and create more jobs.

- **Jobs created there will result in more income and more spending in the economy which will result in more jobs being created (the knock-on effect)**
- **Government can also decrease taxation, putting more money in the pockets of consumers. This will lead to more spending by consumers, creating more employment opportunities in the process.**
- **Government can also decrease company taxes which might lead to more investment spending by businesses focusing on labour intensive production methods. Max 4 marks.**
- **OR any other relevant answer. Learners who use the calculated figures (from question 2.2.5) to explain the effect should also be given credit.**

2.3 Study **Graph 1** below and answer the questions that follow.



2.3.1 Identify the curve in the graph above.

Laffer curve

2.3.2 Point out the tax rate at which government revenue will be maximised.

At 50 %

2.3.3 Determine how much revenue the government will receive if the tax rate is 100%.

Zero revenue

2.3.4 Briefly describe the effect a decrease in the tax rate from 70% to 50% will have on tax revenue.

Tax revenue will increase from \$180 to \$230 OR it will go up by \$50 billion

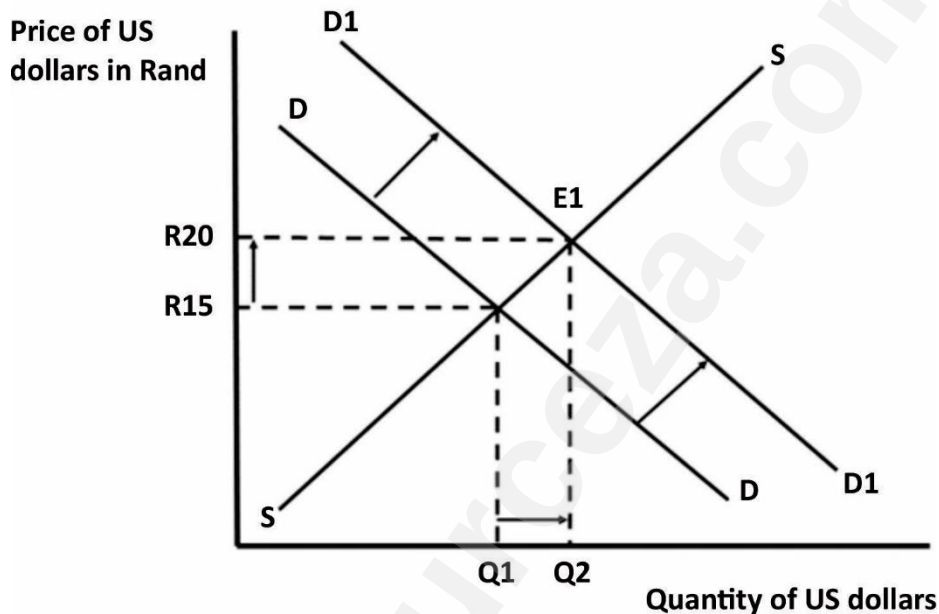
2.3.5 Briefly discuss the consequences that a 1% VAT increase could have on the different role players in a country's economy.

The increase of VAT by 1% could affect role players in the economy in the following ways:

- Increasing revenue for the government if the same or more is spent by businesses and households
- It could result in a fall in output / production because fewer consumers will be able to afford to buy the same goods and services as before
- It can lead to a reduction in the satisfaction of wants of consumers, especially poor consumers with a taste for luxury products

- It can result in an increase in tax, especially for high income earners who purchase luxury goods and are responsible for over 80% of VAT income
 - Several basic food items are zero-rated and that will benefit most lower income earners
 - It can lead to reduced sales which will lower business profits.
- OR any other relevant answer. MAX 4 marks.

2.4 Study **Graph 2** below and answer the questions that follow.



2.4.1 Identify the exchange rate system in the graph above.

Free-floating exchange rate

2.4.2 Identify the original rand/dollar exchange rate before the demand for US dollars increased.

R15,00 = \$1

2.4.3 Briefly describe the term exchange rate.

The rate at which one currency is exchanged for another / the value of one country's currency in terms of another country's currency.

2.4.4 Briefly explain how the increased demand for US dollars affected the value of the rand.

The value of the rand depreciated from R15,00 to R20,00 against the dollar / it depreciated by R5,00 / the rand has weakened

2.4.5 Briefly discuss the measures that a country's Central Bank can put in place to strengthen the value of its currency against the dollar.

The Central Bank could strengthen the value of its currency against the dollar by doing the following:

- Selling US dollars in reserves in the foreign exchange market to create an oversupply
- Selling gold reserves on the international market to create an oversupply
- Obtaining assistance (financial support) from the International Monetary Fund to increase the inflow of foreign exchange (making use of Special Drawing Rights)
- Increasing the repo rate to stimulate investment by foreigners in the domestic economy OR any other relevant answer. Max 4 marks

QUESTION 3 MICROECONOMICS

3.1 Study **Source 1** below and answer the questions that follow.

Source 1: Market structures



[Source: <www.googleimages.com>]

3.1.1 The airline industry in South Africa is regarded as an example of an oligopoly. With reference to Source 1, justify how this example corresponds with **FOUR** characteristics of oligopolies.

- The market largely consists of a small number of large businesses. Each business has a lot of market power and can charge high prices. This is evident in the SA airline industry because there are only a few but large businesses.
- The businesses engage in non-price competition (instead they compete using advertising, product differentiation, loyalty schemes, customer focus and high-quality products). This is also evident in the SA airline industry where the competition focuses on customer care and quality services.
- There are often high set-up/start-up costs that are a barrier to entry for new businesses, and advertising costs create barriers to entry and exit. It is difficult for new businesses to compete without advertising to a similar degree, yet the amount spent on advertising is a sunk cost. Other barriers evident in the SA industry are technical superiority, existing competition and licensing.
- Businesses try to stay informed of what their competitors are doing. They have to adjust their strategies in response to what their competitors do. This interdependence is also evident in the SA airline industry.
- Collusion, although illegal in most countries, is a common feature of an oligopolistic market. It means the businesses work together, usually through tacit collusion (price leadership). Although the businesses might not formally communicate with each other, they still try to reduce the uncertainties in the market.
- The businesses' products can be homogenous or differentiated. In a pure oligopoly the products are homogenous and in a differentiated oligopoly the products are heterogeneous but are close substitutes. This is also evident in the SA airline industry where competitive edge comes from product differentiation in an attempt to create brand loyalty.
- Complete information is not available due to competition. While there is a lot of information available for the different airlines, it remains incomplete.

- 3.1.2 Explain why businesses in this industry will be reluctant to decrease/increase the price of their product without taking the actions of their competitors into consideration.

Businesses in this industry will be reluctant because:

- Decreasing the price might lead to a price war which will drive prices down
- Decreasing the price makes the product relatively inelastic
- A decreased price results in lower profits
- Due to the kinked nature of the demand curve, they will lose more revenue than they would gain via increased sales
- If the business raises its price above a certain point, it loses significant market share
- Demand for the product will be relatively elastic. Other producers will ignore you if you raise your price
- OR any other relevant answer.

- 3.2 Study **Table 3** below and answer the questions that follow.

Table 3: Cost data for an imperfectly competitive firm

Quantity	Fixed cost	Variable cost	Total cost	Average cost	Marginal cost
0	30	0	30	–	–
1	30	16	46	C	16
2	30	A	60	30	D
3	30	48	B	26	18
4	30	70	100	25	E

- 3.2.1 Calculate the values of A–E. You do not have to show your calculations.

A – 30, B – 78, C – 46, D – 14, E – 22

- 3.3 The sales of musical downloads have been increasing with the growth of faster internet connection and falling prices for music downloads. This has resulted in the sales of music CDs dropping sharply. The price of music downloads decreased by 15% over the last few years and as a result CD sales have dropped by 8%.

- 3.3.1 Calculate the cross-price elasticity of demand for CDs with respect to the price of music downloads. Show all calculations.

% Change in Quantity demanded of good B / % change in the price of good A

$$[-0,08] / [-0,15] = 0,53 \text{ OR } -8\% / -15\% = 0,53$$

- 3.3.2 Using your answer from 3.3.1, identify the relationship between the two products.

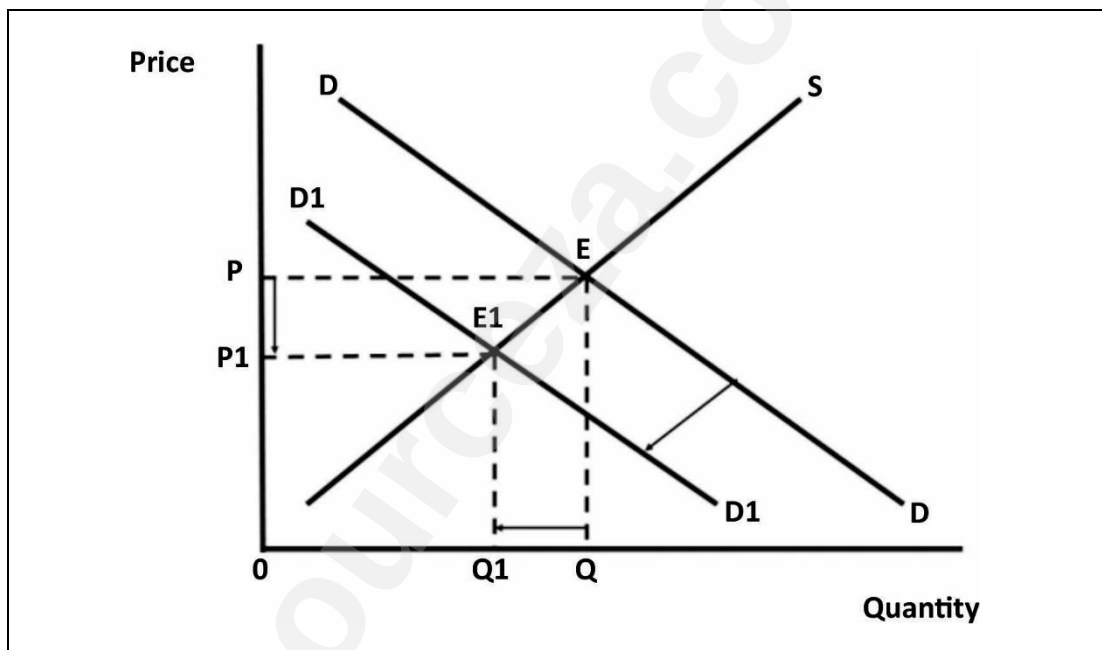
The products are substitutes. Give full marks for this question if the calculation is not correct but the interpretation is correct.

3.4 'When it comes to the income elasticity of demand, second-hand clothes are regarded as inferior goods.'

3.4.1 Define the economic term 'income elasticity of demand.'

Income elasticity of demand measures the relationship between a change in quantity demanded for a product and a change in real income

3.4.2 Use **ONLY** a supply and demand graph to show the effects that an increase in income would have on the price and quantity sold of an inferior good.



Mark allocation: Shift in demand curve and to the left. Indicating the decrease in price and decrease in quantity. Correct labelling of axes and curves

3.4.3 Explain how a firm could benefit from knowing whether the product they sell is price elastic or price inelastic.

- **Price elastic implies that demand for the product is very responsive to price changes.**
- **This means that this product is likely to have a lot of substitutes. In order to make more sales I would lower the price of the product.**
- **Price inelastic means the product is not so responsive to price changes, making it a necessity.**
- **An increase in the price of the product might result in more profit for the business.**

3.4.4 Define the economic term 'price elasticity of supply.'

Price elasticity of supply is the responsiveness of quantity supplied to a change in the price of the product.

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 Study **Source 2** and answer the questions that follow.

Source 2: Removal of Nigerian fuel subsidies

On Monday 29 May 2023, in his inaugural speech, President Bola Tinubu said Nigeria's fuel subsidies would be scrapped, citing budgetary concerns. The decision led to a steep rise in fuel prices and widespread panic-buying of fuel. Some bus companies have been unable to refuel their vehicles, leaving many people stranded.

[Source: <www.google.com>]

4.1.1 Define the economic term 'subsidy'

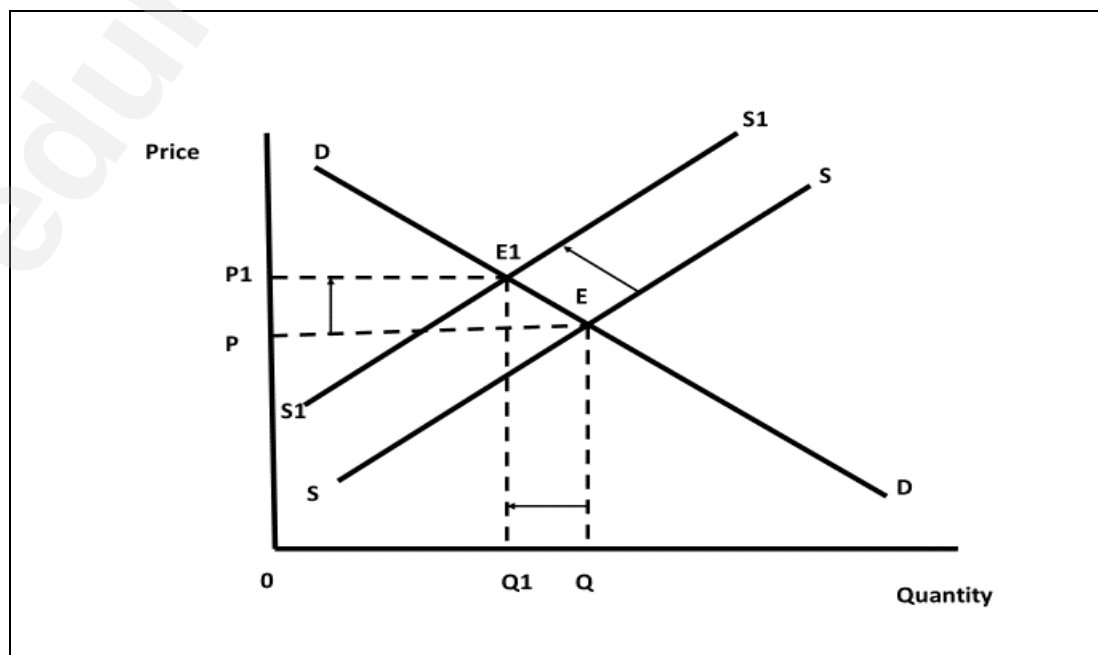
A subsidy is a payment made by the government to a producer so that the goods and services are produced at a lower cost, and sold at a lower price to consumers.

4.1.2 Briefly discuss TWO reasons why subsidies are given.

Governments subsidise certain goods and services for a number of reasons including the following:

- **To benefit poor people because subsidies enable producers to keep the prices of the products lower**
- **To benefit the producers of certain goods that are exported by allowing them to charge a lower price overseas**
- **To get businesses to operate from the domestic economy, for example, the motor industry in South Africa is a success story of a subsidised industry**
- **To increase employment and make jobs more secure, reducing poverty in the process.**

4.1.3 Use a diagram **ONLY** to show the effect of the removal of a subsidy on the supply of fuel.



Mark allocation: Shift in supply, increase in price, decrease in quantity supplied

- 4.1.4 Evaluate the impact (both good and bad) that the removal of fuel subsidies will have on the different stakeholders in the economy.

The GOOD

- One of the primary advantages of removing the fuel subsidy is that it would free up resources for other sectors of the economy.
- The government currently spends a significant portion of its budget on fuel subsidies, which could be better spent on education, healthcare, and infrastructure development
- Furthermore, removing the subsidy could incentivise domestic refineries to produce more petroleum products
- reducing Nigeria's dependence on imported fuel
- This, in turn, could boost the country's economy and
- create jobs for Nigerians.

The BAD

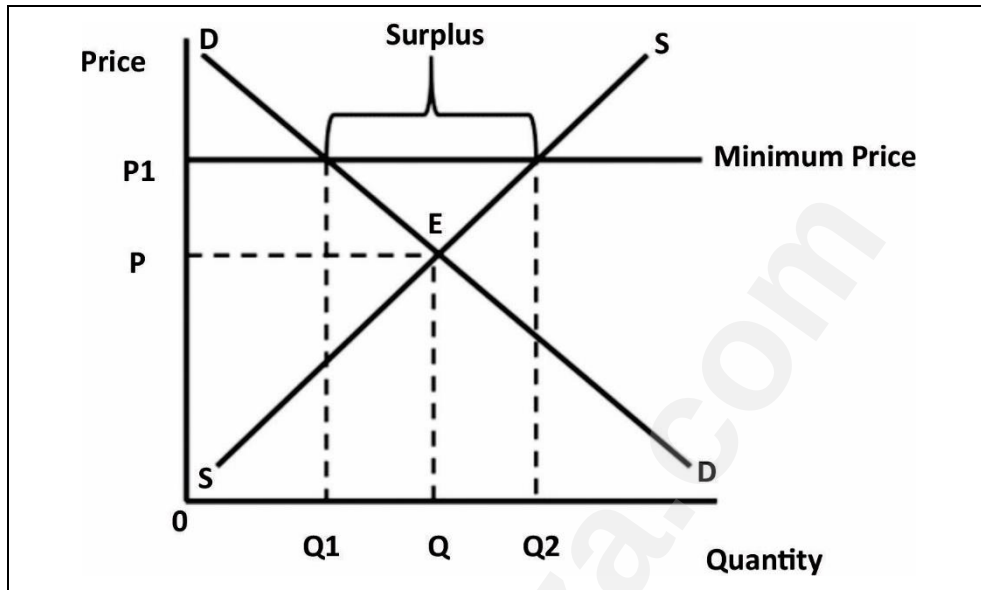
- On the other hand, removing the fuel subsidy could lead to an increase in the prices of petroleum products.
- This, in turn, could lead to inflation and reduced purchasing power for consumers.
- This could have a ripple effect across the economy, affecting the cost of goods and services.
- Additionally, removing the subsidy could lead to social unrest and protests, as people may perceive the government as insensitive to their needs.
- There is also a risk that the removal of the subsidy could lead to a rise in fuel smuggling and other illegal activities. (Also give credit to issues highlighted in Source 2)

4.2 'Price floors provide farmers with stable and fair Incomes'

- 4.2.1 Define the economic term 'price floor/minimum price.'

The price floor is the minimum price for which a good or service can be sold, OR this is a controlled price for a product or service that is set by the government and cannot be changed by the markets

- 4.2.2 Use a clearly labelled diagram and evaluate the impact (both good and bad) price floors have on producers and consumers in the economy.



Mark allocation for diagram: Price, Quantity, Minimum price, demand, supply.

- The price floor will be above the equilibrium price.
- Governments do this mostly in the agricultural sector to protect farmers and keep them on the land by guaranteeing that they will cover their costs.
- However, the increase in the price causes the demand to fall to Q_1 .
- The quantity supplied rises to Q_2 as it is more profitable to produce at a higher price.
- A binding price floor creates a surplus which the government will have to buy off, store away, export, destroy or hand out to vulnerable communities.

- 4.3 Study **Source 3** and answer the questions that follow.

Source 3: Inflation in Zimbabwe

Zimbabwean dollar nosedives after government liberalises exchange rate against major currencies.

Steve Hanke, a professor of applied economics at the Johns Hopkins University in Maryland, US, warned that 'if this keeps up, Zimbabwe is on track to reach hyperinflation in five days'. A loaf of bread on Thursday cost ZW\$9 999 or \$1, up from ZW\$2 800. According to the World Bank, Zimbabwe has, for the past few months, had the fourth-highest food inflation rate in the world (102%), behind Venezuela's 466%, Lebanon's 352% and Argentina's 115%.

[Source: <www.newzimbabwe.com>]

- 4.3.1 Name the three different types of exchange rate systems.

Free-floating, Managed floating and Fixed exchange rates

4.3.2 Define the economic term 'hyperinflation'.

Often referred to as runaway inflation, it is when the inflation rate is very high (above 50% per month). During these extreme conditions, the national currency is worth almost nothing. People turn to exchanging goods for goods as they do not have confidence in their own currency.

4.3.3 Briefly explain why stagflation is regarded as the most dangerous form of inflation.

Stagflation is when there is persistently high inflation, high unemployment and low economic growth. This is when the economy is unable to create new jobs. It is dangerous to deal with because the low economy growth could be due to strong monetary and fiscal policies to curb the high inflation rate.

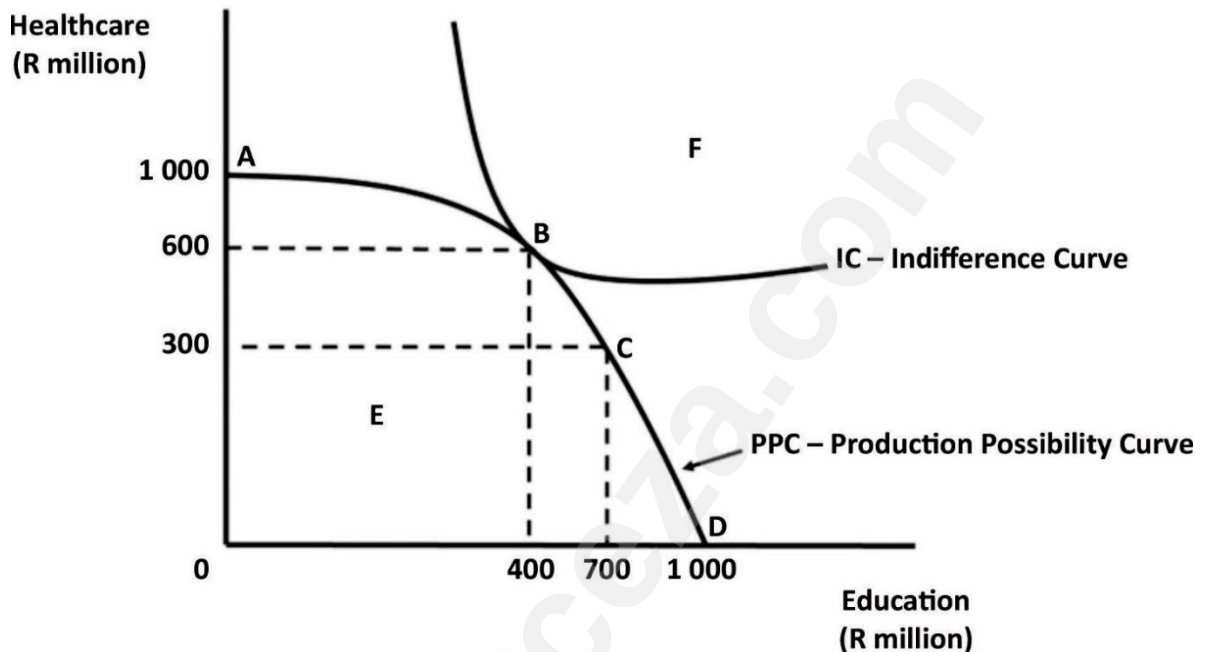
4.3.4 Discuss **THREE** consequences of inflation. Provide a heading and a discussion for each.

- **A decrease in the purchasing power of money**
This is regarded as the most important consequence of inflation. It means the consumer can buy less than before with the same amount of money.
- **An increased poverty level**
More people will be unable to satisfy their basic needs. Living standards will drop and poverty levels will increase
- **Balance of payments problems**
If inflation in Eswatini is higher than in the countries Eswatini trades with, the country's products will become less productive internationally. This results in a decrease in exports because our goods are more expensive and at the same time, imports will increase because foreign goods are now relatively cheaper than local goods. This may cause a deficit on the balance of payments. It will also cause the currency of Eswatini to depreciate against foreign currencies.
Max 3 marks
- **Social and Industrial unrest**
Continually rising prices can make people very unhappy. Increases in the price of basic necessities such as bread and transport costs can lead to social unrest and political dissatisfaction
- **Redistribution of income and wealth**
Inflation causes a redistribution of income and wealth, depending on people's positions. There are winners and losers in an inflationary environment OR any other relevant answer.

QUESTION 5 MIXED QUESTIONS

5.1 Study **Graph 3** below and answer the following questions.

Graph 3: Market failure – Inefficiencies



5.1.1 Identify the curve that relates to productive efficiency.

PPC – Production Possibility Curve

5.1.2 How much money will be allocated to education if R1 million is spent on healthcare?

Zero / No money at all

5.1.3 Briefly describe the term 'market failure'.

Market failure occurs when the market is not efficient, e.g., when the required production levels are not achieved or resources are not efficiently allocated. OR it occurs when demand is greater than supply OR when there is an overproduction or underproduction of goods and services OR any other relevant answer.

5.1.4 Briefly discuss productive inefficiency and allocative inefficiency in terms of market failure.

Productive inefficiency:

- When businesses do not maximise outputs from given inputs
- A business does not produce goods at the lowest possible cost
- There is room to reduce costs without producing fewer goods or without producing a lower quality good OR any other relevant answer.

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 consumers are not available OR any other relevant answer.**

5.2 Using Graph 3 as a reference, briefly describe the following economic concepts. **Make use of appropriate examples from Graph 3.**

5.2.1 Choice

Choice for producers is indicated by optimum production shown by the PPC. It is how to use factors of production and which combination of goods and services to produce (as shown by A, B, C, and D) OR Choice for consumers is about how to spend their income and what to spend it on. Choice for consumers is indicated by optimum consumption shown by the indifference curve.

5.2.2 Scarcity

Production scarcity for the producer means producers are limited to the quantity of factors of production available. From Graph 3, (F) represents scarcity since it is unattainable. Consumers also face scarcity since they are limited to their income. They can only buy the goods and services they can afford.

5.2.3 Opportunity cost

This is the value of the next best thing that is given up or sacrificed so that something else is achieved OR the cost of making choices. From Graph 3, The real cost of putting R700 into education is the fact that we are only left with R300 to invest in healthcare. We have forgone R700 worth of investment in education.

5.2.4 Briefly explain why a negative externality results in the overproduction of goods and services.

The external or third-party cost is not included in the market price, thus lowering the cost which allows producers to produce more than they should OR any other relevant answer.

5.2.5 Briefly describe the term 'merit goods.'

These are goods that are beneficial to society where every individual should consume them irrespective of their income OR any other relevant answer.

5.2.6 List **TWO** redress policies that the South African government uses to redistribute income and wealth for the economy.

- **BEE / BBBEE**
 - **Land restitution**
 - **Affirmative Action**
 - **Land redistribution**
 - **Minimum wages**
 - **Progressive taxes**
 - **Price ceilings**
 - **RDP**
 - **Employment Equity**
 - **Education**
- OR any other relevant answer.**

5.2.7 Evaluate the impact of imperfect competition on consumers.

Negative impact

- **Most businesses operating in imperfect markets maximise profits by supplying less than the optimal quantity of goods or services produced, which means that some consumers' needs may not be met**
- **Reduced quantities lead to higher prices which may exclude lower income groups**
- **New businesses are sometimes prevented from entering the industry, thereby limiting competition, which prevents consumers from enjoying lower prices and a variety of goods**
- **Collusion which is rife in markets with an oligopolistic nature results in higher prices which at times prevent some consumers to afford the product**
- **Consumers pay higher prices in the imperfect markets due to the fact that production does not take place at the lowest point of the LAC-curve.**

Positive impact

- **Imperfect markets can stabilise supply or output of certain goods and services, that requires a vast amount of input capital, ensuring a variety of goods available to consumers**
 - **Imperfect markets can also provide a better-quality product to the consumer; large corporations have Research and Development units that constantly develop new technology and improved production methods**
 - **Patent rights give the patent holder exclusive rights to produce a product; this stimulate innovations and inventions (new products) that could be**
 - **beneficial to consumers**
- Or any other relevant answer.**

5.3 Study **Source 4** below and answer the questions that follow.

Source 4: South African unemployment challenges

South Africa's unemployment rate remains highest in world.

South Africa's unemployment rate has remained the highest in the world in the three months to March, as the country battled a number of economic headwinds. Statistics South Africa (Stats SA) today said the rate of unemployment inched up slightly by 0.2 of a percentage point from 32.7% in the fourth quarter of 2022 to 32.9% in the first quarter of 2023. This comes as the economy likely entered a technical recession due to intensified rolling power cuts with Eskom implementing Stage 6 load shedding, crippling growth and investment prospects.

[Source: <www.news24.com>]

5.3.1 Describe the difference between the broad and the narrow definitions of unemployment.

The narrow definition of unemployment is that it is the situation of those people within the EAP (economically active population) who do not have a job but have been actively looking for work in the past four weeks and are available to begin work within a month. The broad definition of unemployment is that it is the situation of those people within the EAP who do not have a job and have given up looking for one.

5.3.2 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:

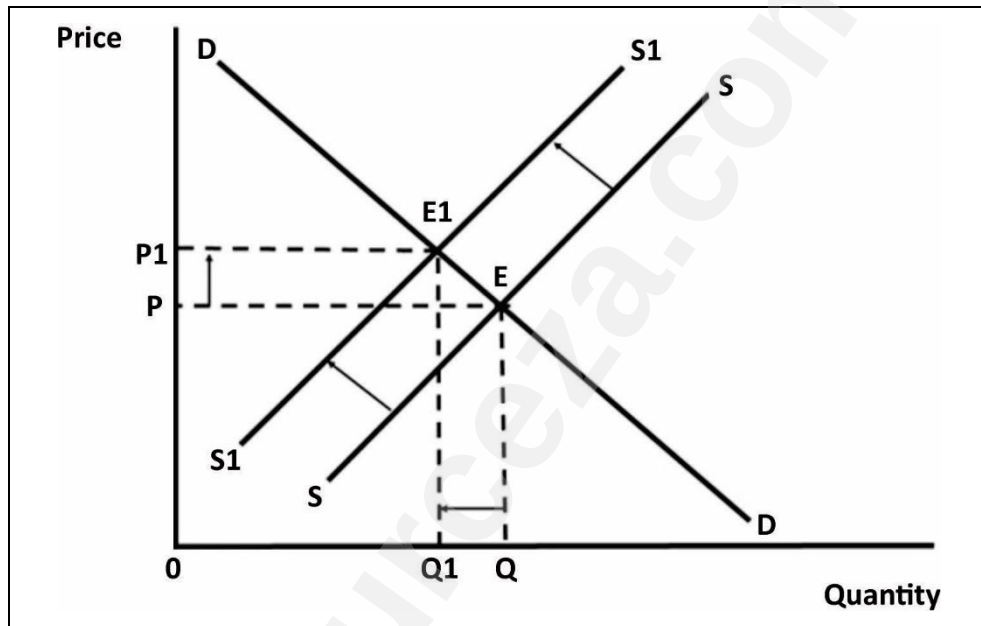
- **Corruption among state-owned enterprises creates a negative sentiment among potential investors**
- **Lack of skills among the South African youth reduces the employability of many people**
- **Lack of information among some of the youth reduces accessibility of employment opportunities**
- **Covid-19 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 OR any other relevant answer (Also give credit to issues highlighted in Source 4)**

5.4 'OPEC+ meets to discuss whether fresh oil-output cuts needed'

5.4.1 Explain, in detail, what the acronym OPEC+ stands for?

Organisation of the Petroleum Exporting Countries (13 members) + other oil-producing countries

5.4.2 Use a diagram **ONLY** to show the effect of a cut in the output of oil on the market.



Mark allocation: Increase in price, Decrease in quantity, Shift of the supply curve to the left

SECTION C**QUESTION 6 DATA RESPONSE**

6.1 Study **Source 5** below and answer the questions that follow.

Source 5: Backlash against weaponised dollar is growing across the world



- Brazil and China recently struck a deal to settle trade in their local currencies to bypass the US dollar. India and Malaysia have signed an accord to ramp up the usage of the rupee in cross-border business, and even France is starting to complete transactions in yuan.
- Many global leaders argue that the US dollar is being used to push America's foreign-policy priorities, and punish those that oppose them.

[Source: <www.news24.com>]

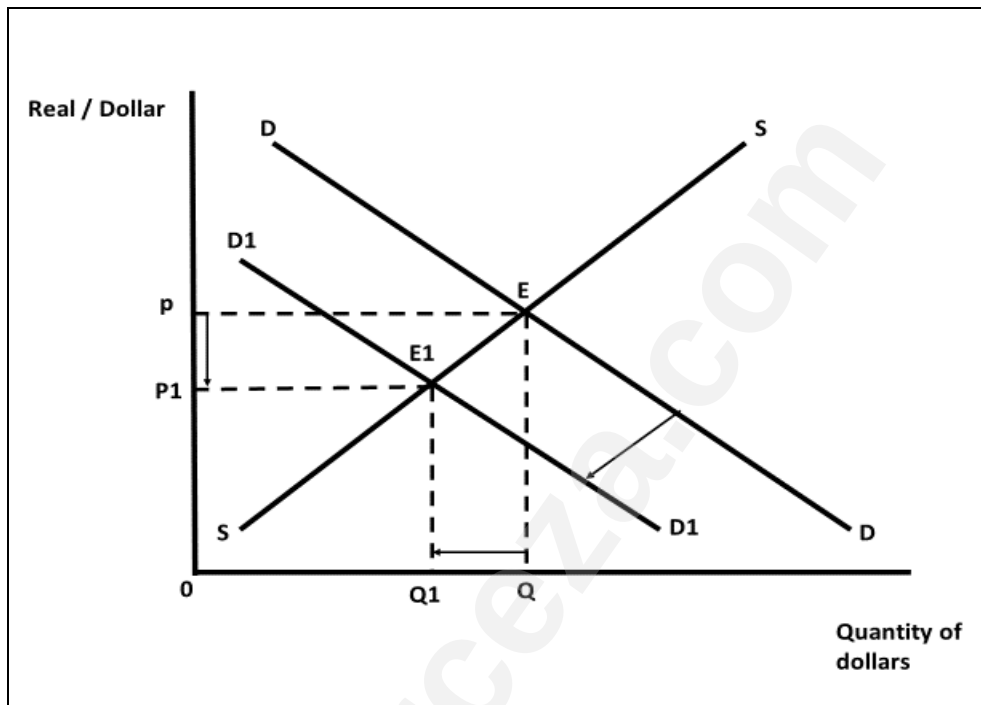
6.1.1 Name the currencies of Brazil and France.

The Brazilian Real and the Euro

6.1.2 What does the acronym **BRICS** stand for?

Brazil, Russia, India, China and South Africa

- 6.1.3 Draw a **diagram** and provide a **brief explanation**, using the direct method, to show what will happen to the **Real/Dollar** exchange rate if the above-mentioned countries are successful in settling trade in their local currencies.



Mark allocation: Decrease in price of dollars, Decrease in the quantity of dollars demanded, Shift of the demand curve inwards and to the left

Explanation: If the countries settle trade in their own currencies, demand for dollars will decrease, weakening the dollar in the process (depreciation)

- 6.2 Study **Source 6** below and answer the following questions.

Source 6: Nigerian currency

Nigeria allows currency to drop third of value on official market.

Traders told the Reuters news agency the central bank had removed trading restrictions on the official market, which drove the naira to a record low of 750 to the dollar on the official market, down from Tuesday's low of 477 naira to the dollar. Charlie Robertson, head of macro strategy at FIM Partners, said, 'A much-needed devaluation which takes the currency from 50 percent overvalued to about 5-10 percent [cheaper]. This should improve the current account and improve the long-term investment climate.'

[Source: <www.news24.com>]

6.2.1 Briefly explain the difference between an **appreciation/depreciation** and a **revaluation/devaluation** of a currency.

- **Appreciation/depreciation** are terms that are associated with a **free-floating exchange rate system** where the country's currency is allowed to fluctuate in value according to the demand for and supply of this currency.
- **Revaluation and devaluation** are associated with a **fixed exchange rate system** where the country's currency can be set against the currency of another country or the price of gold. It can then be set at a new or higher level (revaluated) or new and lower level (devaluated).

6.2.2 Analyse the impact (both good and bad) of a depreciation of the rand on the South African economy.

It will affect the economy positively because:

- **exports are cheaper** which allows the country to be more competitive
- **there will be an increase in production** which will lead to job creation
- **an increase in exports will lead to an improvement in the Balance of Payments** (reduced deficit)
- **an increase in aggregate demand** will lead to economic growth
- **it allows central banks to cut interest rates** which will stimulate the economy

It will affect the economy negatively because:

- **it causes inflation** which will make imports more expensive
- **it reduces the purchasing power** (reduced real wages) of South Africans travelling abroad
- **it can scare off potential investors** because their assets will decrease in value which can result in capital flight (disinvestment)
- **debts in foreign currency will impact negatively** on the cost of repayments **OR** any other relevant answer.

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

BUSINESS CYCLES		
A	B	C
Climatic conditions resulting in droughts and floods	Demand and supply side policies	Consumers' changing spending patterns.

6.3.1 Identify the exogenous reason for business cycles from the information above.

(A) Climatic conditions resulting in droughts and floods

6.3.2 Briefly describe the term 'business cycle'.

Successive periods of increasing or decreasing economic activity OR any other relevant answer.

6.3.3 Briefly explain why the endogenous school of thought encourages government intervention in the economy.

- **Markets are inherently unstable; therefore, government should intervene in the economic processes to stabilise the economy (to smooth out peaks and troughs) and minimise the suffering that is associated with economic downswings**
- **The price mechanism fails to coordinate supply and demand in the product and factor market.**

6.3.4 Describe how the Reserve Bank can use a demand-side policy to dampen (contract) the economy.

- **The Reserve Bank will use a contractionary monetary policy to reduce economic activity or to reduce inflation**
- **Use the monetary policy to increase the interest rate to decrease the money supply**
- **Increasing the cash reserve requirement which results in banks having less money to lend**
- **Selling government bonds to banks to reduce liquidity (open market transactions)**
- **Pursue banks to limit the amount of credit given to consumers (moral suasion)**
- **SARB could temporarily intervene by buying or selling foreign currency to stabilise the value of the rand.**

6.4 Study **Cartoon 1** and answer the questions that follow.

Cartoon 1: Free Trade



6.4.1 Interpret the message of the cartoon.

The cartoon suggests that there are so many obstacles in the path of free trade and the many benefits that are associated with free trade. These hurdles are in the form of trade wars (between China and the USA for example), Pandemic (Covid 19 and the global lockdown), The many wars / conflicts across the globe in countries such as Sudan, Russia / Ukraine, Syria, Palestine / Israel etc and the associated sanctions that come with the conflicts. OR any other relevant answer.

6.4.2 Which international organisation encourages free trade?

World Trade Organisation

6.4.3 Explain how consumers would benefit from a policy of free trade.

The consumers would benefit in the following ways:

- enjoy freedom of choice to buy anywhere in the world / they are not limited to buy locally produced goods
- purchases products for less when other countries produce some items cheaper (reduced prices)
- welfare is increased because some prefer to buy foreign goods rather than domestic goods OR any other relevant answer.

6.4.4 Name any TWO methods that are used to restrict trade.

- Tariffs (ad-valorem tariff, specific tariff)
 - Diverting trade / import deposits / quality standards
 - Quotas
 - Subsidies
 - Exchange control
 - Physical control / Embargo
- OR any other relevant answer

6.4.5 Explain **ONE** reason for Eswatini consumers to import products that are available on domestic markets.

- Imported products may be of better quality than local products.
- Imported products may be available at lower prices.
- Some local consumers enjoy shopping exclusively because of brand loyalty, increase in income and due to different tastes.

6.4.6 Explain why economists would prefer constant prices to current prices when measuring economic growth.

- Constant prices are adjusted to exclude the effects of inflation, whereas current prices are not adjusted
- Constant prices provide a true reflection on actual changes in production of goods and services, while current prices give a distorted reflection
- Current prices give a distorted indication of the actual growth of the economy
- Measuring economic growth using constant prices provides accurate data to policy makers to make informed decisions
- Constant prices help to make accurate comparison of economic performance from year to year.

Total: 300 marks