



**higher education
& training**

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

ECONOMICS N5

8 June 2022

This marking guideline consists of 18 pages.

QUESTION 1

- 1.1 A
- 1.2 E
- 1.3 E
- 1.4 A
- 1.5 A
- 1.6 B
- 1.7 E
- 1.8 E
- 1.9 C/E
- 1.10 D

(10 × 2) (20)

QUESTION 2

- 2.1 False
- 2.2 True
- 2.3 False
- 2.4 True
- 2.5 True

Any relevant answer, only provide full 2 marks if student provides a reason for their answer

(5 × 2) (10)

QUESTION 3

- 3.1 Lesetja Kganyago
- 3.2 Households
- 3.3 Investment
- 3.4 Government purchases
- 3.5 Disposable income
- 3.6 Monetary policy
- 3.7 Finance
- 3.8 M1
- 3.9 Interest
- 3.10 SARB or South African Reserve Bank

(Any relevant answers 10 × 2) (20)
[50]

TOTAL SECTION A: 50

SECTION B**QUESTION 4**

- 4.1 4.1.1 In economics, out of work refers to unemployment or someone that has been retrenched or lost their job. (Any relevant answer 2 × 1) (2)
- 4.1.2 The economy could be bad or in a recession, and companies are not hiring people.✓ Or it could be that he does not have the required experience or skills✓ to find a job and therefore he gave up searching.✓ (Any relevant answer 3 × 1) (3)
- 4.1.3 • The man who is out of work: he does not have a job✓ or he lost his
 • job due to any of several reasons✓
 • The man who gave up looking for work: has become discouraged in looking for work.✓ He has given up because finding a job is difficult✓ (Any relevant answer 2 × 2) (4)
- 4.1.4 Frictional Unemployment ✓
 Occurs because of the normal turnover in the labour market and the time it takes for workers to find new jobs.✓ Throughout the course of the year in the labour market, some workers change jobs. When they do, it takes time to match up potential employees with new employers. Even if there are enough workers to satisfy every job opening, it takes time for workers to learn about these new job opportunities, and for them to be considered, interviewed, and hired.✓
- Example: When Cindy graduates from college, she begins looking for work. Let's say it takes her four months to land a new job. During this time, she is frictionally unemployed.✓
- Cyclical Unemployment]
 Over time, the economy experiences many ups and downs. That's what we call cyclical unemployment because it goes in cycles.]
 Cyclical unemployment occurs because of these cycles. When the economy enters a recession, many of the jobs lost are considered cyclical unemployment.
- For example, during the Great Depression, the unemployment rate was high – over 25%. That means one out of four people were willing and able to work but could not find work! Most of this unemployment was considered cyclical unemployment. Eventually, unemployment came down again.

Structural Unemployment ✓

Structural unemployment occurs when a given set of skills is no longer needed in a given economy. ✓ This happens when there is an absence of demand for certain types of workers ✓

For example, when automobiles became prevalent in the South Africa, many people who worked with horses became structurally unemployed. In the SA today, some people who worked in manufacturing are now structurally unemployed.

Seasonal Unemployment ✓

Occurs when people are not working because their jobs only exist at some times of the year. ✓ These results from regular changes in the season. ✓

Workers affected by seasonal unemployment include resort workers, ski instructors, and ice cream vendors. It could also include people who harvest crops. Construction workers are laid off in the winter, in most parts of the country. School employees can also be considered seasonal workers. ✓

Technological Unemployment ✓

Technological unemployment is the loss of jobs caused by technological change. It is a key type of structural unemployment. ✓

Technological change typically includes the introduction of labour-saving 'mechanical-muscle' machines or more efficient 'mechanical-mind' processes (automation). ✓

For example: Just as horses employed as prime movers were gradually made obsolete by the automobile, humans' jobs have also been affected throughout modern history. Historical examples include artisan weavers reduced to poverty after the introduction of mechanized looms. During World War II, Alan Turing's Bombe machine compressed and decoded thousands of man-years worth of encrypted data in a matter of hours. A contemporary example of technological unemployment is the displacement of retail cashiers by self-service tills. ✓

(5 × 4) (20)

4.2 Strikes:✓

This is damaging to the economy as lost man hours cannot be made up. It leads to a lack of productivity and a reduces GD.✓

Lack of skills/training:✓

SA's shortage of skilled labour manifests in a low-tech economy where there is a shortage of capital investments and production of high value goods. This reduces export revenue potential.✓

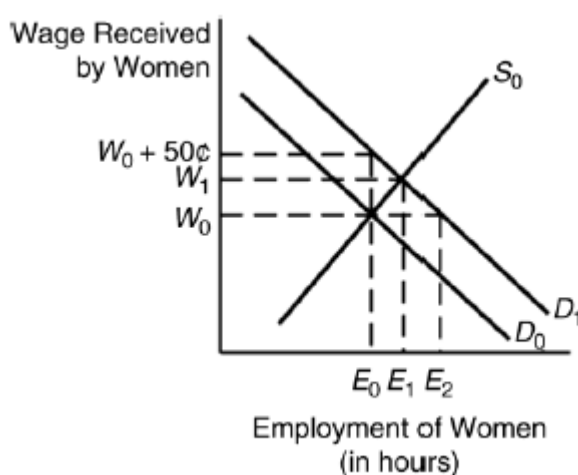
Migration✓

The process of leaving the country results in brain drain which has a negative effect on the skilled labour force.✓

(3 × 2)

(6)

4.3 4.3.1



✓✓

- Suppose the government now subsidises employers by paying them R5 for every hour women work. Viewed in terms of the wage received by women, the employers' demand curve will shift up by exactly R5 (reflecting the fact that this amount will be paid by the government).✓
- At the old market clearing wage received by women, W_0 , the number of women employers want to hire, E_2 , exceeds the number who are willing to work, E_0 .✓
- This puts upward pressure on the wage received by women, and this wage rises until the excess demand for labour is eliminated. This equilibrium occurs at the wage rate W_1 , and the employment level E_1 .✓
- It is clear from the figure that the wage received by women increases by less than R5 if the supply of labour curve is not vertical (i.e., as long as labour supply is responsive to wages).✓
- The more responsive labour supply is to the wage rate, the less the women's wage will rise.✓

(8)

- 4.3.2 The net wage would be the wage women received less R5.✓
Since the wage paid by employers now equals the wage women receive less the R5 subsidy,✓ it is also clear that the wage paid by employers declines (by R5 the increase in the wage women receive).✓
(Any relevant answer 3 × 1) (3)
- 4.3.3 Time Wage
Wage paid to the workers based on hours of work done.
- There is a certainty regarding the wage that a worker will receive at the end of the month or week.
 - In the modern industries time wage is generally given.
 - Time wage makes a worker waste time to log in more hours of work.
 - The examples of time wages are such as wages paid to workers in hotel, mining, construction sites and etc, types of company.
- Piece Wage
- Wage paid to the workers based on quantity of work done.
 - There is no certainty regarding the wage that a worker will receive, as the wages are related with the quantity of the work done.
 - These wages are usually paid in traditional industries like bead making, match box making industries, etc.
 - Piece wage makes a worker use the allowed time productively and produce more
 - The examples for piece wages are such as wages paid for tailors, and cooks preparing meals etc.
- (Any 2 × 2) (4)
[50]

QUESTION 5

- 5.1 5.1.1 4.6% (Any relevant answer 1 × 2) (2)
- 5.1.2
- When inflation is too high, it is not good for the economy or individuals.
 - Inflation will always reduce the value of money unless interest rates are higher than inflation.
 - The higher inflation gets, the less chance there is that savers will see any real return on their money.
- (Any relevant answer 3 × 1) (3)

5.1.3 HYPERINFLATION✓

In hyperinflation, the price level increases at a rapid rate. In fact, you can expect prices to increase every hour. Usually, this leads to the demonetisation of an economy.✓

Is a very rapid increase in the price level✓ – A historical example of hyperinflation occurred in Bolivia in 1985. The chart on the left illustrates the 38,000% increase in prices over a six-month period. By printing more money and creating 'trash cash,' the government exacerbated the situation and the economy reverted to barter.✓

CREEPING INFLATION✓

If the speed of upward thrust in prices is slow but small, then we have creeping inflation. What speed of annual price rise is a creeping one has not been stated by the economists. To some, a creeping or mild inflation is one when annual price rise varies between 2% and 3%.✓

If a rate of price rise is kept at this level, it is considered to be helpful for economic development. Others argue that if annual price rise goes slightly beyond 3% mark, still then it is of no danger.✓

This kind of mild inflation makes consumers expect that prices will keep going up. That boosts demand. Consumers buy now to beat higher future prices. That's how mild inflation drives economic expansion. For that reason, the USA Federal Reserve Bank sets 2% as its target.✓

GALLOPING INFLATION✓

When inflation rises to 10% or more, it wreaks absolute havoc on the economy. Money loses value so fast that business and employee income can't keep up with costs and prices. Foreign investors avoid the country, depriving it of needed capital.✓ The economy becomes unstable, and government leaders lose credibility. Galloping inflation must be prevented at all costs.✓

Inflation in the double- or triple-digit range of 20, 100 or 200% a year is labelled 'galloping inflation'.✓

STAGFLATION✓

Stagflation is when economic growth is stagnant but there still is price inflation. This seems contradictory, if not impossible.

Why would prices go up when there isn't enough demand to stoke economic growth? ✓

It happened in the 1970s when the United States abandoned the gold standard. Once the dollar's value was no longer tied to gold, it plummeted. At the same time, the price of gold skyrocketed.

Stagflation didn't end until Federal Reserve Chairman **Paul Volcker** raised the **fed funds rate** to the double-digits.

He kept it there long enough to dispel expectations of further inflation. Because it was such an unusual situation, stagflation probably won't happen again.✓

Rising prices and declining output identify stagflation. The U.S. experienced a period of stagflation during the 1970s oil supply shocks. In 1974 prices rose at a rate of 11%, while GDP fell by 0.6%.]

DEFLATION

Deflation is a general decrease in all prices across an economy. Deflation, however, is much rarer than inflation and typically occurs during periods of depression. Deflation is the opposite of inflation. It's when prices fall. It's caused when an asset bubble bursts.

That's what happened in housing in 2006. Deflation in housing prices trapped those who bought their homes in 2005. In fact, the Fed was worried about overall deflation during the recession. That's because deflation can turn a recession into a depression. During the Great Depression of 1929, prices dropped 10% a year. Once deflation starts, it is harder to stop than inflation.

REFLATION

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession. The term may also be used to describe the first phase of economic recovery after a period of contraction.

Reflation aims to stop deflation – the general decline in prices for goods and services that occurs when inflation falls below 0%. It is a long-term shift, often characterized by a prolonged reacceleration in economic prosperity that strives to reduce any excess capacity in the labour market. (Any 4 × 4)

(16)

- 5.2 5.2.1 Even before the crisis, SA's economy was in a precarious position – especially with a technical recession (two consecutive quarters of negative GDP growth) after a decline of 0.8% in the third quarter of 2019. Growth was just 0.4% in 2019 and was predicted by the IMF – before Covid-19 snowballed – to be just 0.8% this year. ✓

Now South Africa looks likely to take a severe economic hit from the virus, well beyond the price of treating the infected. How might we estimate the cost of a global disease on the local economy?

This, of course, depends on what happens with the disease and the nature of our public and private responses. ✓

Prior to the spread of Covid-19, persistent electricity shortages, revenue shortfalls, mounting debt and low consumer spending all contributed to the low South African GDP growth forecasts, all things being equal. But of course, all things are no longer equal. ✓

The Reserve Bank's decision to cut interest rates by 100 basis points is expected to help stimulate demand somewhat, although this effect is unlikely to be realised if savings to consumers will not be spent. ✓

Demand could in these circumstances decline further at a time when consumer and business confidence is already at an all-time low. Any further decline in people's willingness to spend and invest might temporarily alleviate exchange-rate pressures on the balance of payments, but local businesses will also suffer, particularly the 2.5 million or so Small and Medium-Size Enterprises, responsible for two-thirds of employment. ✓

All of this has led the SA Reserve Bank to forecast a 0.2% contraction for 2020, a figure that accounts for anticipated weaker demand for exports and domestic goods and services, and disruptions to supply chains and regular business operations. But specific – and some subsequent – objective conditions may drive this estimate lower still. ✓

And then the big one. With the current lockdown, SA stands to lose a large share of three weeks' worth of GDP, or 5.8% of R5.3-trillion, or R300-billion.

Even if only half of this 21-day chunk is lost, in a reasonable best-case scenario Covid-19 could cost SA's economy 4.2% of GDP growth – R220-billion (at 2019 prices). ✓

There are far worse and yet still reasonable scenarios.

Without the right set of actions, the already-struggling SA economy could head into recession with a catastrophic scenario of debt downgrades, manufacturing sector collapse, and sky-rocketing unemployment. ✓

This would place huge pressure on the tax base and government's already weak abilities to deliver and, above and beyond, offer a stimulus package. In this scenario, the country could have to turn to the outside world (such as to the IMF) for a bailout, which could prove as politically destabilising within the ANC as it is economically practicable, tensions which could be worsened by a steep rise in inequality as job losses bite. If such political tensions were to be countered by increasing policy radicalism and populism, a vicious and downward spiral could ensue. ✓

(Any relevant answer 10 × 1) (10)

5.2.2 5.25% (Any relevant answer) (2)

- 5.2.3 The SARB has opted for a classical cash reserve system as a framework for its monetary policy implementation.

An appropriate liquidity asset requirement✓ or structural money market shortage is created by levying a cash reserve requirement on banks.✓

Bank or Repo rate✓

The main refinancing operation is the weekly seven day repurchase auction, which is conducted with the commercial banks, at the repo (policy) rate as determined by the Monetary Policy Committee. The Bank lends funds to the banks against eligible collateral, which comprises assets that also qualify as liquid assets in terms of the prudential liquid asset requirement.✓

Offers a range of end-of-day facilities for the commercial banks to square-off the daily positions on their settlement accounts, e.g., access to their cash reserve balances held with the Bank, supplementary repos/reverse repos conducted at the repo rate and an automated standing facility whereby the end-of-day balances on the banks' settlement accounts are automatically settled at a rate of 100 basis points below or above the policy rate.✓

A range of open market operations✓

Are also conducted to manage the liquidity in the market to give effect to the Bank's monetary policy stance. The open market operations include the issuance of SARB debentures, reverse repos, the movement of public sector funds between the market and the Bank and the conducting of money market swaps in the foreign exchange market.✓

(6)

- 5.3
- the issuing of banknotes and coins
 - acting as banker to the government.
 - acting as a bank to other banks.
 - providing facilities for the clearing and settlement of claims between banks.
 - acting as custodian of the country's gold and other foreign reserves.
 - acting as 'bank of rediscount' and 'lender of last resort'.
 - engaging in public debt management and open market operations.
 - collecting, processing, and interpreting economic statistics and other information, and
 - formulating and implementing monetary policy. (Any 7 × 1) (7)
- 5.4
- The money market is used for the purpose of short-term borrowing and lending.
 - The capital market is used for the long-term assets i.e., the assets which have the maturity of more than one year. (2 × 2) (4)

[50]

QUESTION 6

- 6.1 6.1.1 • Gross Domestic Product (GDP) is the monetary value of all finished goods and services produced within a country during a specific period, regardless of if its citizens or foreigners produced it.
• GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.
• GDP can be calculated in three ways, using expenditures, production, or incomes. (Any relevant answer 3 × 1) (3)
- 6.1.2 GDP is important because it gives information about the size of the economy and how an economy is performing.✓✓ The growth rate of real GDP is often used as an indicator of the general health of the economy.✓ In broad terms, an increase in real GDP is interpreted as a sign that the economy is doing well. (3)
- 6.1.3 In 2010 GDP = 375.35 US billion✓
In 2019 GDP = 350 US billion✓
375.35-350 = -25.35. GDP declined by -25.35 US billion✓
-25.35/350 × 100 ✓= -7.24%✓
SA GDP declined by -7.24% from 2010 to 2019.✓ (6 × 1) (6)
- 6.1.4 • The SA economy contracted or declined over the 10-year period. This would have resulted in a loss of jobs (increased unemployment).
• It depends on the reason for the decline. But in general, a GDP decline impacts sentiments (consumer, business & investor) negatively.
• This decline could lead to a recession or be a sign of a recession – of declining prices or declining economic activity. (Any relevant answer 3 × 1) (3)
- 6.2 Income Approach✓

The income approach is when you add together all factor payments to calculate GDP.✓

Factor payments are all the payments that go to inputs to produce output. Typically, the main factor payments are profits, returns to labour and returns to capital. The formula for the income approach is as follows:

$$GDP = \pi + wl + rk$$

where:

π = profits that firms make

wl = wage * total labour provided - this is the returns to labour.

rk = rental rate of capital * the amount of capital provided

OR

Formula: GDI (gross domestic income, which should equate to gross domestic product) = Compensation of employees + Net interest + Rental & royalty income + Business cash flow✓✓

Expenditure Approach✓

The expenditure approach is where you add up all the various types of spending which occurs within an economy. There are 4 different types.

Consumption (C)

Consumption is all the spending that households do on goods and services. For example, the number of apples a household purchases; the amount of money spent on healthcare; the amount of money spent purchasing new cars and the money spent on pizza are all examples of consumption spending.

Investment (I)

Investment is the spending that firms do machinery and equipment to operate their businesses. Examples of investment spending would be a mining company purchases a truck to transport coal; IT companies purchasing new computers and the purchase of a new plane for an airline company.

Government Spending (G)

Government spending is the spending that the government conducts within an economy. Examples of government spending include spending on defence; spending on health care; building of roads and education spending.

Net Exports (NX)

Net exports is defined as the purchases of domestically produced goods by foreigners subtracted from the purchases of internationally produced goods by local residents. In essence, it is the value of what is sent overseas minus the value of stuff that comes here.

If an airline company operating in RSA purchases a new plane from France, this would be considered an import for RSA and an export for France. This would cause the net exports to decrease for RSA whilst causing the net exports to increase for France.

An interesting case is where a foreign student from China comes and studies at a school in the RSA. This is considered an export from RSA to China since the RSA is producing a service (education) which is essentially being 'sent' to a Chinese student who is from the Chinese economy. Thus, China is importing education from RSA.

Therefore, if we add up these 4 components we get: ✓

Formula: $GDP = C + I + G + NX$

OR

Formula: $GDP = C + I + G + (X - Z) - NX$ ✓✓

Production Approach ✓

The production method (or value added) is where we calculate the total value of all goods produced in the economy minus the value of intermediate goods. ✓

Consider an economy which produces steel and cars. Suppose the economy produces 100 units of steel which it sells for R1, and it produces 10 cars, using 5 units of steel, which it sells for R100.

As the production of steel requires no intermediate inputs, the value added from the production of steel is R100.

The production of cars produces R1000 worth of cars using R50 of steel. Therefore, the value added is R950.

The total value added/GDP of the economy is thus R1 050.

Alternatively, we could have added the total amount spent on the cars R1 000 and total spend on steel R100 giving R1 100 and then subtracted the R50 of intermediate inputs to also get R1 050. ✓

This method of compiling GDP leads to counting the production by sector of activity. Most countries using this approach extrapolate value added with tools such as the Index of Industrial Production (IIP), physical quantity indicators or sales type statistics for estimates of value added in manufacturing. ✓

(Any relevant answer 3 × 4) (12)

- | | | | | |
|-----|-------|---|---------|-----|
| 6.3 | 6.3.1 | <p>Nominal GDP is the market value of goods ✓ and services produced in an economy, unadjusted for inflation. ✓</p> <p>Real GDP is nominal GDP, adjusted for inflation ✓ to reflect changes in real output. ✓</p> | (2 × 2) | (4) |
| | 6.3.2 | <p>A recessionary gap corresponds to a positive GDP gap ✓ where actual GDP is less than potential. ✓</p> <p>While an inflationary gap corresponds to a negative GDP gap ✓ where actual GDP is greater than potential. ✓</p> | (2 × 2) | (4) |
| 6.4 | 6.4.1 | <p>The added value = R80 000 ✓ – R40 000 ✓ = R40 000 ✓✓)</p> | | (4) |
| | 6.4.2 | <ul style="list-style-type: none"> • Income generated by residents and non-residents (i.e., foreigners) within domestic territory of a country is called domestic income. • Income generated by normal residents within and outside the country is called national income. ✓✓ | (2 × 2) | (4) |

- 6.5
- Double Counting Problem✓ – Including the price of intermediate goods individually and with final product.✓
 - Self-doing activities✓ – Unrecorded economy in personal activities like the duties performed by oneself, housewives etc are not included in the GDP.✓
 - Illegal Economy✓ – which can be shown incorrectly due to corruption, bribery, and drugs business✓
 - Statistical errors✓ – People measuring the economy not performing their duties with honesty or the standard they are using are not current to measure the accurate value of GDP.✓
 - Pollution Factor✓ – can't be included in GDP.✓
 - Facilities and living standards✓ –improvement can't be indicated by GDP, to show whether the people of the country are worst off or well off.✓
 - Quality Improvement✓ – As the time passes quality improve with speed as compared to the price, GDP can only measure the price as value but not quality.✓
 - Transfer Payments✓ – Barter System✓ (Any relevant answer 3×2) (6)
- 6.6 0.8% (1)
[50]

QUESTION 7

- 7.1 7.1.1 Money is any good that is widely used and accepted in transactions involving the transfer of goods and services from one person to another.✓ Economists differentiate among three different types of money: commodity money, fiat money, and bank money.✓ A medium that can be exchanged for goods and services and is used as a measure of their values on the market, including among its forms a commodity such as gold, an officially issued coin or note, or a deposit in a checking account or other readily liquefiable account.✓ (2 × 2) (4)
- 7.1.2 $(101\,401 + 220 - 103\,278)✓✓✓ = -1\,657✓$ (4)
- 7.1.3 $-350 + 605 - 1\,657✓✓✓ = -1\,402✓$ (4)
- 7.2 Doubling the exports would have a positive effect on the balance of trade and therefore improve the country's balance of payments. (2)
- 7.3 7.3.1 An exchange rate is the rate at which one currency will be exchanged for another.✓ It is also regarded as the value of one country's currency in relation to another currency.✓ Exchange rates can be either fixed or floating. ✓✓ (4 × 1) (4)
- 7.3.2 British Pound = R21.94 (2)

7.3.3 The business environment:✓ Positive indications (in terms of govt. policy, competitive advantages, market size etc) increase the demand of the currency, as more and more entities want to invest there. This investment is for two basic motives -purely business motive, and for risk diversification purposes. Foreign direct investment is for taking advantage of the comparative advantages and the economies of scale. Portfolio investment is mainly done for risk diversification purposes.✓

Stock market:✓ The major stock indices also have a correlation with the currency rates. The Dow is the most influential index on the dollar.✓

Political Factors:✓ All exchange rates are susceptible to political instability and anticipations about the new ruling party. A threat to coalition governments in France, India, Germany, or Italy will certainly affect the exchange rate. For eg. Political or financial instability in Russia is also a red flag for EUR/USD, because of the substantial amount of Germany investment directed to Russia.✓

Economic Data:✓ Economic data items like labor report (payrolls, unemployment rate and average hourly earnings), CPI, PPI, GDP, international trade, productivity, industrial production, consumer confidence etc. also affect the exchange rate fluctuations.✓

Confidence✓ in a currency is the greatest determinant of the exchange rates. Decisions are made keeping in mind the future developments that may affect the currency. And any adverse sentiments have a contagion effect.✓

Government influence:✓ A country's government may reduce the growth in the money supply, raising interest rates, and encouraging demand for its currency. Or a government may simply buy or sell forex to maintain stability or to support either exporters or importers. Productivity of an economy: An increase in productivity of an economy tends to impact exchange rates. Its effects are more prominent if the increase is in the traded sector.✓

Current Account or Balance of Payments represents the demand for and supply of foreign exchange which ultimately determine the value of the currency. Exports, both visible and invisible, represent the supply side for foreign exchange. Imports, visible and invisible, create demand for foreign exchange. Put differently, export from the country creates demand for the currency of the country in the foreign exchange market. The exporters would offer to the market the foreign currencies they have acquired and demand in exchange the local currency. Conversely, imports into the country will increase the supply of the currency of the country in the foreign exchange market.

Political stability induced confidence in the investors and encourages capital inflow into the country. This has the effect of strengthening the currency of the country. On the other hand, where the political situation in the country is unstable, it makes the investors withdraw their investments.

(Any 5 × 2)

(10)

7.4 7.4.1

Economic order ✓

The basic economic infrastructure of human connectivity falls into this category: the means of physical travel, such as roads, bridges and ports of all kinds, and increasingly the means of virtual travel, such as broadband. All of this infrastructure can be, and typically initially is, provided by private entrepreneurs who see an opportunity to build a road, say, and charge users a toll, but the capital necessary is so great and the public benefit so obvious that ultimately the government takes over. ✓

Protection function ✓

The idea of government as protector requires taxes to fund, train and equip an army and a police force; to build courts and jails; and to elect or appoint the officials to pass and implement the laws citizens must not break. Regarding foreign threats, government as protector requires the ability to meet and treat with other governments as well as to fight them. ✓

Social welfare ✓

A more expansive concept of government as provider is the social welfare state: government can cushion the inability of citizens to provide for themselves, particularly in the vulnerable conditions of youth, old age, sickness, disability, and unemployment due to economic forces beyond their control. As the welfare state has evolved, its critics have come to see it more as a protector from the harsh results of capitalism, or perhaps as a means of protecting the wealthy from the political rage of the dispossessed. ✓

Economic welfare

The concept of government as provider comes next: government as provider of goods and services that individuals cannot provide individually for themselves. Government in this conception is the solution to collective action problems, the medium through which citizens create public goods that benefit everyone, but that are also subject to free-rider problems without some collective compulsion.

At its best, however, it is providing an infrastructure of care to enable citizens to flourish socially and economically in the same way that an infrastructure of competition does. It provides a social security that enables citizens to create their own economic security.

(Any 3 × 2)

(6)

- 7.4.2 The first type of tax and income for the government is Value-added tax (VAT).✓ VAT is a tax on goods and services collected in stages by enterprises, but which is ultimately charged in full to the final purchaser. VAT is usually charged at 14% on consumers final goods and is included in the price you pay for most items such as food items, petrol, etc. the second type of tax collected by the government is excises tax.✓

Excises✓ are taxes levied on particular products and may be imposed at any stage of production or distribution. Excise duties are imposed mostly on high-volume daily consumable products (e.g., alcohol and tobacco products) as well as certain non-essential or luxury items (e.g., electronic equipment and cosmetics).✓

Administrative fees✓ are also another income for government. Administration fees are like user charges but differ in the sense that the service (or benefit) received in return for the fee is defined rather broadly and imprecisely.

Such fees include business licences, television licences, diamond export rights, fishing licences, and motor vehicle licences. The dreaded parking ticket and speeding fine can also be added to the list. Administrative fees and fines are insignificant sources of revenue.✓

South Africa's major source of income is borrowing and taking loans✓ from other countries to sustain the economy and the needs of the citizens Government can borrow from its own citizens and from abroad. Borrowing is often used to finance capital expenditure. Borrowed funds must be repaid at some point and therefore amount to deferred taxes.✓

Because lenders must be adequately compensated for current consumption forgone, it is imperative that borrowed money should be spent on productive activities. Sometimes government uses borrowed funds to finance current consumption, a practice that cannot always be defended on economic grounds.

Surplus of the public sector units:

The government acts like a business- person and the public acts like its customers. The government may either sell goods or render services like train, city bus, electricity, transport, posts and telegraphs, water supply, etc. The government also earns revenue from the production of commodities like steel, oil, life-saving drugs, etc.

Fine and penalties:

They are the charges imposed on persons as a punishment for contravention of a law. The main purpose of these is not to raise revenue from the public but to force them to follow law and order of the country.

Gifts and grants:

Gifts are voluntary contribution from private individuals or non-government donors to the government fund for specific purposes such as relief fund, defence fund during war or an emergency. However, this source provides a small portion of government revenue.

(Any 4 × 2)

(8)

- 7.4.3 Privatisation means transferring something into private sector, while nationalization means moving it under control of government (or, euphemistically, into public sector).✓

Nationalisation = owned by government, privatisation = owned by private individual.✓

Privatisation is usually done as voluntary trade, where interested private investors can purchase the privatised good from the government.✓

Nationalisation means the permanent takeover of private property by government, this take over can be done voluntarily, with payment to the previous owners of business or forced take over with no payment, or payment with bonds with no value.✓

Privatization is the transfer of ownership of property or business from a government to private entity.

Consider privatisation of certain industries that are no longer efficient e.g., ESKOM and Metrorail.✓

We need to take a turn in our economy we can't allow most of our wealth and capital to go to foreign countries at the same we cannot tolerate inefficient service and poor quality.

(Any relevant answer 3 × 2)

(6)

[50]

TOTAL SECTION B: 150
GRAND TOTAL: 200