



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2016

## **ECONOMICS**

### **MARKING GUIDELINES**

Time: 3 hours

300 marks

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**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.**

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**SECTION A****QUESTION 1**

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

(10 × 2 = 20)

- 1.11 A
- 1.12 A
- 1.13 D
- 1.14 D
- 1.15 A
- 1.16 C
- 1.17 D
- 1.18 D
- 1.19 B
- 1.20 D

(10 × 3 = 30)

<b>50 marks</b>
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**SECTION B****QUESTION 2      MACRO ECONOMICS**

- 2.1    2.1.1    GDP at Current Prices is also known as Nominal GDP, i.e. includes inflation. (2)
- 2.1.2    A – Residual item/ Errors and Omissions  
           B – 3 867 719  
           C – Imports of goods and services  
           D – 3 797 067 (4)
- 2.2    2.2.1    In a free-floating exchange rate system the market forces of supply and demand will determine the exchange rate. There is no government intervention. (2)
- 2.2.2    Appreciation is the increase in the value of one **currency** in terms of another. Depreciation is the decrease in the value of one **currency** in terms of another. (2)
- 2.2.3    Imports from the United States of America – the higher the volume of imports the bigger the demand for dollars.  
           Foreign investment by South Africans into the United States of America – the more they invest the bigger the demand for dollars.  
           South Africans going on holiday to the United States of America.  
           Foreign currency/dollar speculation by local residents. If South Africans believe that the dollar will appreciate they will buy dollars.  
           CREDIT any other relevant answer that demonstrates an increase in demand for dollars. (max 6) (6)
- 2.3    2.3.1    **Explanation (4 × 2)**  
           **Both parts, i.e. inflow and outflow, of each section must be mentioned for full marks.**
- Merchandise imports and exports (visible):**  
           Export goods including minerals, agricultural and manufactured goods like cars are added.  
           Net gold exports are shown separately and consists of gold exported minus gold imported.  
           Imported goods are deducted from exported goods, the difference being the **Trade Balance**. Imported goods include oil, manufactured goods and technology. (max 2)
- Service receipts and payments (invisible):**  
           Services refer to receipts and payments for international freight costs, insurance and spending by tourists. Money spent in South Africa by overseas tourists on hotels, restaurants and curios represent an inflow of foreign currency and are classified as service receipts.  
           If South Africans travel overseas and spend money this is money leaving the currency and is service payments.

**Income receipts and payment:**

Income receipts are added and are for South Africans receiving income from foreign countries including remuneration and investment income, e.g. dividends.

Income payments are deducted for foreigners receiving remuneration and investment income from South Africa. (max 2)

**Current transfers:**

These refer to the payment from citizens to non-citizens and don't require a counteraction. In the case of transfers, money, goods or services are transferred without receiving anything tangible in return. Examples include gifts, personal, immigrant and other remittances and charitable donations.

This figure can be negative or positive. (max 2) (4 × 2 = 8)

2.3.2 Leakage, as there is a current account deficit **OR** more money is flowing out of the economy, than flowing into the economy **OR** the graph shows a negative balance. (max 4) (4)

2.4 2.4.1 South African Reserve Bank or StatsSA (max 1) (1)

2.4.2 **Explanation 2 marks, examples 1 mark.**

**Leading economic indicators** are indicators that change before the economy changes, e.g. number of new cars sold, new companies being registered, building plans approved, share prices/stock market returns, business confidence index and product exports.

**Coincident economic indicators** are indicators that move at the same time as the economy does, e.g. unemployment figures, real GDP, retail sales, utilisation of production capacity, industrial production index and product imports.

**Lagging economic indicators** do not change direction until a few quarters after the economy does, e.g. number of hours worked in construction, number of commercial vehicles, real investment in machinery and equipment, cement sales in tons, unemployment rate. (3 × 3 = 9)

2.4.3 **Diagram 8 marks.**

Labelling of Axes 2 × 1 mark – Time/Economic activity or GDP

Long-term tendency line or long-term trend

A: Expansion/Upswing/Boom/Prosperity

B: Peak

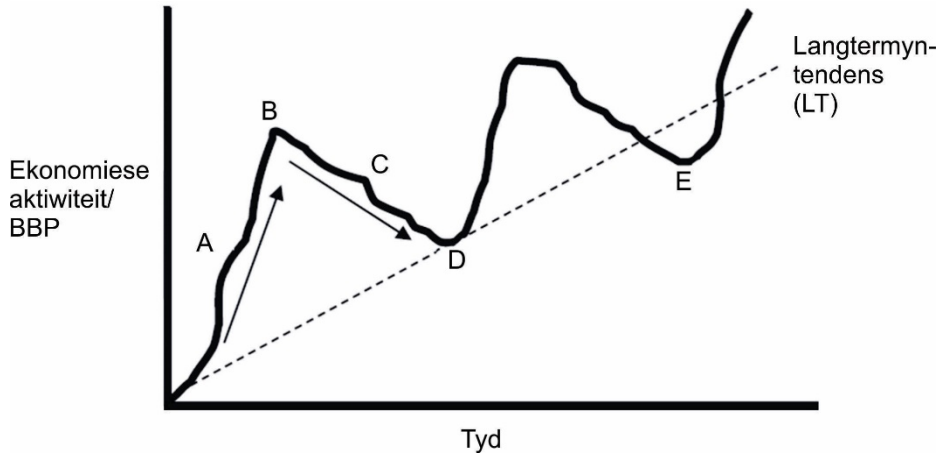
C: Contraction/Downswing/Recession/Recovery

D: Trough

E: Depression

} 5 max

REPLACE GRAPH WITH ENGLISH LABELS



**Identification – 2 marks**

**Show where Country X is on the graph:**

Downswing/Contraction/Recession

**Reasons supporting identification/decision – 2 marks**

The leading indicators change first and according to the table they are decreasing.

**OR**

The coincident indicators change with the cycle, and according to the table the coincident are also decreasing or are deteriorating, thus confirming that the economy is experiencing a downswing.

(12)  
[50]

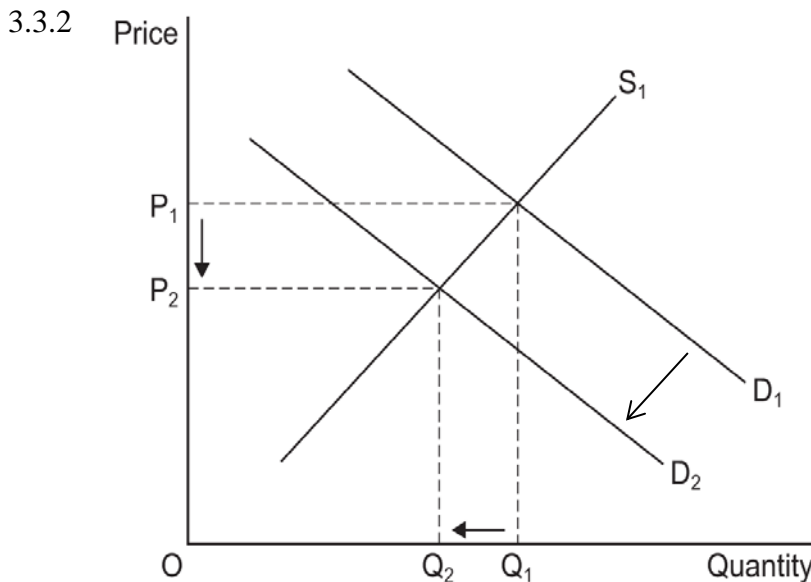
**QUESTION 3      MICRO ECONOMICS**

- 3.1    A – 30  
       B – 78  
       C – 46  
       D – 14  
       E – 22 (5)

3.2    3.2.1     $[-0,075]/[-0,10] = 0,75$  **OR**  $\frac{-7,5\%}{-10\%} = 0,75$  (3)

3.2.2    Substitutes  
           Give full marks for this question even if the calculation is incorrect but the interpretation thereof is correct. (2)

3.3    3.3.1    Income elasticity of demand measures the relationship between a change in quantity demanded for a product and a change in real income. (2)



**Mark allocation:**  
 Shift in demand curve down and to the left.  
 Indicating the decrease in price and decrease in quantity.  
 Correct labelling of axes and curves. (6)

3.4    **Explanation 3 × 2 marks, with at least 2 of these marks for government response.**

**Externalities**

Are economic side effects that affect an uninvolved third party, someone not directly involved in the production.

Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on those people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution.

*Taxes, subsidies and regulations are the most common ways in which the government chooses to deal with externalities.* (max 6 marks)

**Merit/demerit goods**

Merit goods are goods that society feels should be consumed by its citizens, e.g. education and healthcare.

Merit goods are under produced and under consumed under conditions of perfect competition.

Demerit goods are goods that society feels its citizens should not consume, e.g. South Africans are not free to own as many guns as they like.

Demerit goods are overproduced and over consumed.

Therefore under allocation of resources to merit goods and over allocation of resources to demerit goods.

*Government can provide merit goods or subsidise the production of merit goods, e.g. government subsidy for education.*

*Government uses regulations to prohibit the production and consumption of some demerit goods, e.g. gun licences. (max 6 marks)*

**Public goods**

The main characteristic is non-excludability. This means that if the good or service is produced for one consumer, no other consumer can be prevented from consuming it, e.g. street lighting, defence force. So people will wait and see if someone else pays for it and then just goes ahead and use it.

It is no wonder then that public goods are under produced by the market system.

Too few consumers are prepared to pay for the good, would rather be free-riders.

Therefore there is under allocation of resources to the production of public goods and the market fails.

*To get around this the government supplies public goods and pays for them by raising taxes. (max 6 marks)*

**Imperfect competition**

Monopolies and oligopolies restrict supply in order to maximise profits. Resources are therefore under allocated to the production of goods and services produced under conditions of imperfect competition.

*One option is for government to do nothing about this and trust that large profits will attract competitors to the market.*

*Can regulate through competition policy. (max 6 marks)*

**Imperfect Information**

Under conditions of perfect competition, consumers and producers are assumed to have access to all the information that is necessary to enable them to make the most informed decisions about production and consumption.

In the real world there is asymmetric information, e.g. seller of a used car has more information about the car than the buyer.

In some markets the producer has information about their products that they do not make available to buyers, e.g. in cigarette industry.

Under these conditions cigarettes are over produced and under consumed and allocative efficiency is generally not achieved.

*Government can force firms to disclose information about their products, e.g. danger of cigarette smoking. (max 6 marks)*

**Unequal distribution of income**

is caused by the fact that some people are born to wealthy parents and have access to a good education and others not. Therefore people vary in their skill levels and their ability to produce output. Unequal distribution of income is viewed as a market failure. The market fails to ensure that everyone gets equal access to the output of the economy. Too many of the resources are used to produce output for the rich and too few for the poor. In the South African economy, a few people are very well off while 50% of the population lives in poverty. *The South African government imposes progressive taxation, i.e. the more you earn the more tax you pay.* Also minimum wages. (max 6 marks)

**Immobility of factors of production**

Under conditions of perfect competition the factors of production are assumed to be perfectly mobile. However, in the real world factors of production are not free to move from one area to another. Capital is fixed. It is not easy to move factory and machinery. The government often has strict controls on the movement of labour between countries. As a result of immobility of factors of production the economy's capacity to produce output is reduced. *Government can introduce training schemes to ensure the unskilled acquire skills. Government can subsidise transport so workers can go from rural areas to the towns to work.* (max 6 marks)

***Accept any other relevant cause of market failure and the recommended government action.***

(12)

3.5 3.5.1 **Relevant example discussed (2) Demonstrating an understanding of non-price competition and how it makes firms more price inelastic (2).**

In order for products or services to become more price inelastic, customers must feel that there is perceived or actual benefit of choosing one bank over another.

One way of doing this is to create, through marketing and advertising, a very attractive brand image.

Banks have also introduced loyalty and reward programmes, e.g. eBucks, where customers are rewarded for spending at certain shops.

Some banks have value-added services such as cheaper insurance or cell-phone contracts to attract new customers and/or retain old customers.

Banks try to differentiate their service in order to attract more customers than their competitors. (max 4)

(4)



3.5.2 **Maximum 4 marks per characteristic and explanation.**

**In an oligopoly, a few large firms dominate the market.**

There are only a few firms in the South African banking sector and the market/market share is dominated by only a few.

**The product may be homogeneous known as a pure oligopoly, but it is mostly heterogeneous, also known as a differentiated oligopoly.**

A bank account, as a product, may be regarded as homogeneous, but the quality of service, access to banks and different banking packages makes it more likely to be heterogeneous.

**Entry to the market is possible but becomes more difficult as barriers to entry exist.**

There are significant barriers to starting a bank, e.g. banks need substantial amounts of capital and require licences to operate.

**Complete information is not available due to competition.**

While there is a lot of information available for the different banks, it remains incomplete.

Oligopolists often collude by entering into an agreement, arrangement or understanding to limit competition in the industry and maintain high levels of profitability in the long run. In practice, however, governments often prohibit collusion between firms and is more difficult in the highly regulated banking sector. (max 16)

(16)  
[50]

**QUESTION 4 ECONOMIC PURSUITS**

- 4.1 4.1.1 Economic growth takes place when a country's production of goods and services increase/increase in real GDP.

Economic development is a broader concept than economic growth. It is concerned with human development and deals with issues such as education and health. Economic development is an increase in the general standard of living of the majority of the population. (4)

- 4.1.2 Economic growth is a necessary condition for economic development to take place, but there is no guarantee that economic growth will ultimately lead to economic development.

In order for economic development to take place, the fruits of economic progress must lead to an improvement in the living standards of the majority of people.

In order for development to take place in resource-rich countries, it must benefit the people of a country and improve their quality of life.

If the income generated from resources remains in the hands of the wealthy or foreign based firms, then development will be minimal. (max 6)  
*Accept any other relevant explanation.* (6)

- 4.2 4.2.1 Africa Growth and Opportunity Act (2)

- 4.2.2 Dumping occurs when goods are sold on the foreign market at a price either below the price charged in its home market or below its cost of production. (2)

- 4.2.3 **Explanation** 2 × (2 × 2)

**Protection of specific industries:**

Newly established industries find it very difficult to compete with the cheaper costs of production of long-established firms in developed countries. They are also sometimes exposed to dumping when other countries sell goods at below cost.

Older industries that struggle to compete can also be protected.

Industries that are of national strategic importance may need protection from foreign competition. (max 4)

*Accept any other reasonable explanation.* (4)

**Employment:**

The protection of local industries is an important mechanism to protect job opportunities in a country.

It is reasoned that if local industries are not protected, they would not be able to compete, with the subsequent loss of vital jobs. (max 4)

*Accept any other reasonable explanation.* (4)

4.3 4.3.1 South Africa

4.3.2 Russian Federation

4.3.3 Russian Federation

4.3.4 Russian Federation

(8)

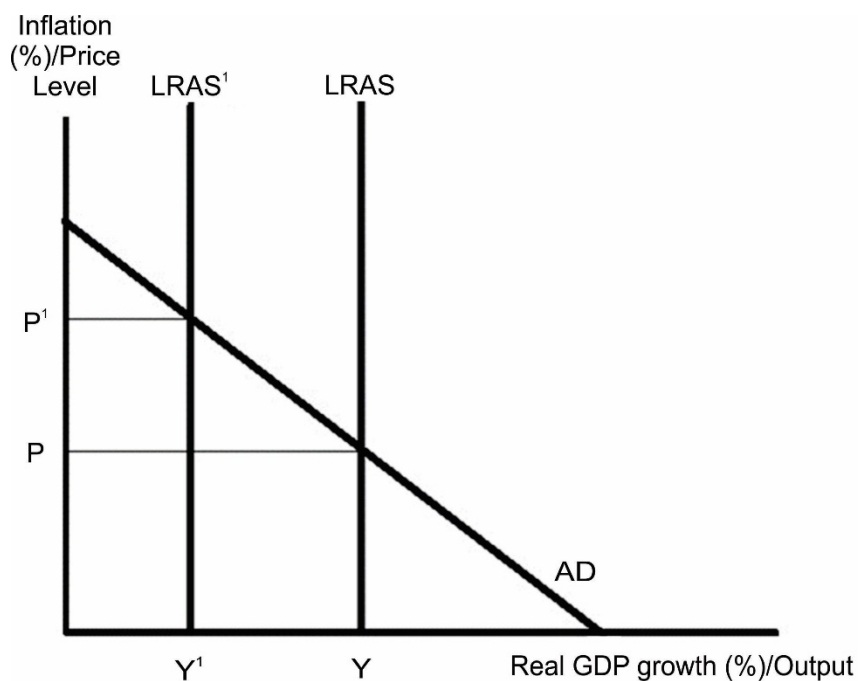
4.4 4.4.1 Eliminate poverty. The drought will result in a decrease in production, which will lead to an increase in unemployment and, particularly for unskilled workers, an increase in poverty. Increased unemployment can help reduce poverty and increase the overall standard of living.

Reduce inequality. Increases in the cost of basic foodstuffs will lead to a decrease in affordability and a decrease in the standard of living, widening the level of inequality.

(Max 8) *Accept any other relevant explanation.*

(8)

4.4.2



**Mark allocation: Graph 6 marks, analysis 6 marks.**

Shift in aggregate supply curve to the left.  
 Indicating the increase in price and decrease in output.  
 Correct labelling of axes and curves.

A drought, also regarded as a supply-side shock, will lead to national output decreasing.

This will lead to the AS curve shifting to the left, as potential GDP has been reduced.

This will result in price levels/inflation in the economy increasing.

***Credit other relevant analysis.***

(12)  
**[50]**

## QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

- 5.1 5.1.1 Deflation – the prices of a wide range of goods and services decrease continuously over a long period of time. A decrease in the general level of prices. (2)
- 5.1.2 Hyperinflation – a very high or excessive rate of inflation. (2)
- 5.1.3 A trade union is an organisation with members who are usually workers or employees. Trade unions bargain on behalf of the workers. (2)
- 5.2 5.2.1 Consumer Price Index. (2)
- 5.2.2 The CPI is calculated by constructing a basket of goods and services that represent the average consumer in South Africa **OR** the correct formula for inflation.  $(\text{CPI Current year} - \text{CPI previous year}) / \text{CPI previous year}$ . Poor people spend most of their money on basic necessities and these only account for a small percentage in 'the basket', so any significant increase in these items, will not have as big an impact on the inflation rate, but it will have a significant impact on the poor peoples' purchasing power. The standard of living for poor people decreases significantly with any increase in the inflation rate, as the goods and services they consume, are highly sensitive to price changes. (max 4) (4)
- 5.3 5.3.1 3–6% (2)
- 5.3.2 In order for monetary policy to have a negative impact, it will be as a result of an increase in interest rates, i.e. restrictive or contractionary monetary policy. **OR** increase in reserve requirements **OR** increase in money supply.

### **Economic Growth**

Increasing interest rates will reduce disposal income and therefore reduce household consumption, which has been the main driver of economic growth in recent times.

### **OR**

An increase in borrowing costs could result in less firms spending on capital goods. (max 2)

### **Unemployment**

When interest rates increase, firms are less likely to borrow funds and this increases unemployment or they are forced to cut back on production and therefore labour.

### **OR**

Higher interest rates reduce demand for goods and services which could result in employees being retrenched and increasing unemployment. (max 2) (6)

- 5.3.3 *Name: 2 × 1 mark, explanation 2 × (2 × 2)*

### **Demand pull inflation**

This occurs when the demand in the economy increases quicker than supply, leading to price increases.

Expansionary/stimulating monetary and fiscal policy leads to consumers spending more. These policies include lower interest rates and lower taxes. Credit being more easily available will also cause demand to increase. Excessive government spending can also lead to demand inflation. (max 5)

### **Cost push inflation**

This is when production costs increase, leading to higher prices.

Increase in costs is caused by higher wages and salaries, decrease in productivity, depreciation of the exchange rate and natural disasters increasing food prices.

Increased input costs, supply shocks such as an increase in the price of oil or electricity has a knock-on effect on the price of other goods. (max 5) (10)

- 5.4 5.4.1 The Phillips curve demonstrates an inverse relationship between inflation and unemployment, i.e. if unemployment decreases then inflation will increase.

An increase in aggregate demand will lead to an increase in production and a higher economic growth rate. This will lead to firms employing more people and unemployment decreasing. This increase in demand will lead an increase in inflation. (max 4) (4)

### 5.4.2 **Link to theory and explanation 2 marks each.**

Singapore does support this view, i.e. the country is experiencing a high inflation rate and low unemployment.

Switzerland does not support this view, i.e. the country is experiencing a low inflation and low unemployment.

Brazil does not support this view, i.e. high inflation and high unemployment. Australia and/or the USA's relationships are ambiguous. (max 6) (6)

- 5.5 5.5.1 Better trained/more skilled labour force leads to improvements in labour productivity and a decrease in overall costs, increasing competitiveness. More efficient work practices/better management of labour and other resources can also increase competitiveness.

It can, however, depend on other factors, e.g. higher investment/application of new technology that can influence overall competitiveness. (max 4) (4)

- 5.5.2 Labour strikes in a number of areas in the economy, for example the mining sector, have reduced production.

High unemployment can lead to social and economic instability, and in increase in crime.

High unemployment can lead to an increase in welfare payments and this can add pressure on government finances.

Labour unrest can lead to an outflow of money/limit on future investment. South Africa needs FDI/injections for economic stability and economic growth.

Likely negative impact on SA's credit ratings and the repercussions on the economy. (max 6)

*Accept any other reasonable explanation.* (6)

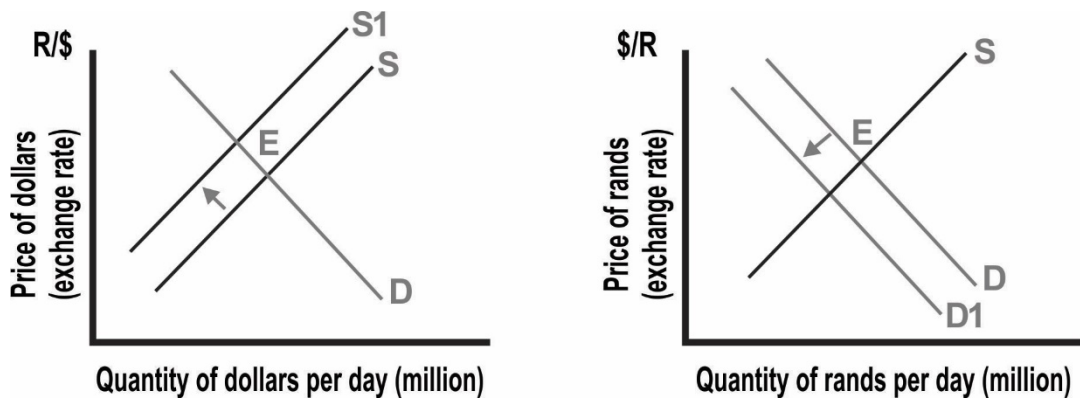
**[50]**

**200 marks**

**SECTION C****QUESTION 6 DATA RESPONSE**

- 6.1 6.1.1 An emerging market is a country that has some characteristics of a developed market, but does not meet standards to be a developed market. (2)
- 6.1.2 Brazil (2)
- 6.1.3 **Argument for Developed Economies:**  
 The graph indicates that developed economies contribution to real global GDP growth is increasing and is higher than the emerging markets contribution.  
 Developed economies on the whole have greater stability and pose less risk than emerging economies.  
 Two emerging economies, Russia and Brazil are set to have a negative growth rate in 2016. (max 4)
- OR**
- Argument for Emerging Economies:**  
 Emerging economies, on the whole, have much higher growth rates, therefore increasing the chance of higher investment returns.  
 China and in particular India, have very high growth rates and this leads to a significant increase in the overall size of their GDP.  
 Developed Economies are not offering much higher than 2% growth, which is not a very good return on investment. (max 4) (4)
- 6.2 6.2.1 A diversified economy is one that depends on more than one economic sector. (2)
- 6.2.2 South African goods become cheaper for foreign countries to buy and this causes a greater demand for South African exports.  
 A weak rand will make it easier for exporters to compete internationally.  
 A weak rand makes South Africa an attractive tourist destination.  
 An increase in price of imports may mean that demand for local products increases. (max 4)  
*Accept any other reasonable answer.* (4)

6.2.3 Direct or indirect method acceptable



**Mark allocation: Graph 8 marks**

Correct shift of demand (indirect method) or supply (direct method).

Indicating the depreciation.

Correct labelling of axes.

Correct labelling of curves.

(8)

6.2.4 Name 2 marks, explanation 2 marks.

**Natural resources are not evenly distributed:**

E.g. SA's mineral riches enable us to produce more cheaply to export and at the same time we have to import other resources, e.g. oil.

**Labour resources:**

Quality, quantity and cost differ between countries, e.g. labour supply in China is high and cost is low. Other countries have high levels of sophistication of labour – more productive.

**Technology and Specialisation:**

Some countries have access to technological resources to produce at low cost. Japan specialises in electronic equipment, produce in mass and sell at lower prices.

**Levels of income differ from country to country:**

Higher income results in a change in needs, especially for luxury goods.

**Consumer preferences and tastes change:**

People are exposed to more and more products every day.

**Development of communications and transport:**

Role of television, Internet, etc. exposes people to new products and services. Countries and products are within easy reach of one another. (max 12)

Accept any other reasonable reason and explanation.

(12)

- 6.2.5 **Maximum 4 marks per macro-economic objective explanation.**  
**Name 1 mark, Impact on objective 1 mark, 2 marks for explanation**  
**(4 × 4 = 16)**

**Positive economic growth: Growth low/negative**

- Trade with China makes a significant contribution to our GDP and a lower demand for South African commodities and other exports, will negatively affect growth.
- Our economy is already growing at a slow rate and if a key sector loses/ reduces output it could mean that the economy starts to contract.  
 (max 4)

**Balance of Payments Equilibrium/Exchange rate stability: Deficit will increase/worsen**

- Deficit will increase as exports are decreasing.
- Investors' confidence will decrease further reducing the inflow of money negatively affecting the financial account.

**OR**

- Discussion around the impact of the rand depreciating i.e. exports could increase to other parts of the world thereby improving the trade balance.  
 (max 4)

**Low unemployment or full employment: Unemployment will increase**

- Less production is taking place therefore less income is being generated and direct and indirect unemployment will increase.
- Lower growth will discourage future investment into our economy, further hampering the unemployment problem. (max 4)

**Fair distribution of income: The gap will widen/Very difficult to achieve in these circumstances**

- With an increase in unemployment, standard of living drops, especially for the unskilled workers.
- The government will be receiving less tax revenue and this will influence their ability to pay welfare grants, which at the moment is supporting a large part of our population. (max 4)

**Low inflation or price stability: Should increase due to cost-push pressures.**

- The biggest factor that would influence inflation is the impact on the exchange rate.
- Negative foreign sentiment will lead to outflows of money and the impact of this would be that the rand weakens and places cost push pressures on imported goods. (max 4)

*Accept any other reasonable explanation related to any four of the five macro-economic objectives.*

(16)

[50]

<b>50 marks</b>
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**Total: 300 marks**