NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2011

ECONOMICS

MARKING GUIDELINES

Time: 3 hours 300 marks

These marking guidelines were used as the basis for the official IEB marking session. They were prepared for use by examiners and sub-examiners, all of whom were required to attend a rigorous standardisation meeting to ensure that the guidelines were consistently and fairly interpreted and applied in the marking of candidates' scripts.

At standardisation meetings, decisions are taken regarding the allocation of marks in the interests of fairness to all candidates in the context of an entirely summative assessment.

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SECTION A

QUESTION 1

1.1 D

1.2 B

1.3 C

1.4 D

1.5 B

1.6 A

1.7 A

1.8 B

1.9 C

1.10 A

1.11 D

1.12 B

1.13 A

1.14 C

1.15 C

1.16 A

1.17 D

Max 50 marks

SECTION B

Answer all the questions in this section.

QUESTION 2 MACRO-ECONOMICS

2.1 Economics is the study of how the government, businesses and individuals use scarce resources to meet unlimited needs of people in a fair and equitable way. (4)

2.2 **Monetary** or money flow between the different markets and participants – income, spending and taxation.
Real flow of goods and services, and production factors, between markets and participants. (4)

2.3 2.3.1 Upswing (early phase of upswing

Any 5 × 2

- Business confidence has improved – businesses think the economy will do better.
- New car sales show that consumers are more positive and starting to spend.
- Inflation is still low and within the 3 – 6% target set by the Reserve Bank.
- Growth in M3 is increasing, but is still low, indicating that consumers have not started to spend on credit.
- JSE All Share Index is increasing, indicating that investors believe that companies will do better as the economy and consumer spending starts to recover. (12)

2.3.2 Monetary policies: Inflation and the growth in M3 money supply is still low, so there is no real need to change interest rates at this stage. The government could help the upswing by increasing money supply, encouraging banks to loan more money to consumers and help spending and demand in the economy.

Fiscal policies could also be used to stimulate spending, by decreasing tax rates on individuals, putting more money in their pockets, leading to higher spending. It is important for government to manage the upward trend in the economy. Government spending on infrastructure could also increase.

OR (8)

2.3.3 leading (2)

2.4 2.4.1 Negative externalities are the cost of certain goods and services for people not directly involved in the use of or consumption of that good, for **example**: pollution, smoking, environmental damage, etc. (4)

2.4.2 Merit goods and services have more public than private benefits, for **example**: education and health services. They should be available to all members of the community and thus government should provide it. They are goods that society feels should be consumed by its citizens. Merit goods are often under-produced and under-consumed. (4)

2.5

- Imports – the higher the volume of imports the bigger the demand for dollars. Political unrests and uncertainty will lead to withdrawal of FDI's
- Foreign investments by local residents – the more they invest the bigger the demand for dollars. Political unrest and uncertainty will lead to withdrawal of FDIs.
- Local residents going on holidays in the United States. The more South Africans go on holidays overseas, the bigger the demand for dollars.
- Foreign currency/dollar speculation by local residents. If South Africans believe that the dollar will appreciate they will buy dollars. (Any 3 × 4 = 12)

[50]

QUESTION 3 MICRO-ECONOMICS

3.1 A Few big firms dominate the market.
B Differentiated products due to marketing.
C Easy entry and exit.
D Could have significant control if they co-operate/collude.
E All market information is available to all participants. (5 × 2 = 10)

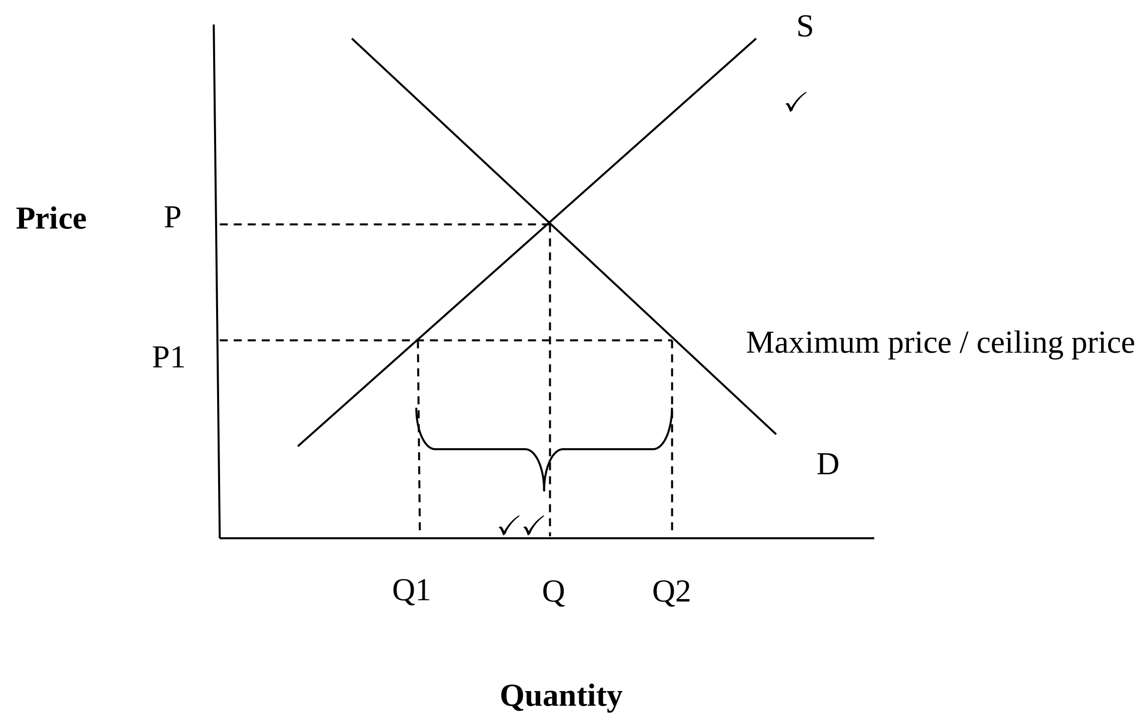
3.2 Barriers to market entry:

- This is when rules and regulations prevent a person from entering a specific market.
- E.g. Licenses – radio, television, communication
- A regulator (state) controls the provision of a product or service – e.g. Eskom (power).
- This may cause a monopoly or oligopoly to form, which could be to the detriment of the consumer.
- Barriers thus result in the ineffective working of the market and the eventual failure of the market. Any 3 × 2 = (6)

Immobility of Factors of Production:

- Most markets cannot adjust to changes in demand and supply.
- Difficult for labour to move between careers and geographic areas.
- Faster technological changes require workers to adapt faster to skills changes.
- It is difficult for capital (infrastructure) to quickly adapt to changes, thus state planning is vital. Any 3 × 2 = (6)

3.3



(6)

If government sets a maximum price of P1, below the market price, supply will decrease to Q1 and demand will increase to Q2.
This will lead to a shortage on the market, which could cause black market activities and higher prices on the streets. (4)

3.4 3.4.1 Microsoft is a monopoly, as its Windows software is used in most PCs in the world, thus giving it a dominating position. It has being forced by law suits to relook at its operating processes. The cartoon shows that Bill Gates does not want to give up his world dominating position. (2)

3.4.2 Imperfect markets: when prices of goods and services are not just determined by demand and supply, but by collusion or dominance by a few big firms. (2)

3.4.3

- One seller and many buyers.
- No or little direct competition.
- No substitutes – consumer has no choice concerning price, quality or supplier.
- Price maker – they determine price, because they control supply.
- Imperfect information – Do you know the profit margin, the cost price?
- Non-homogenous products/heterogenous products.
- Restricted entry – e.g. patent, license, technology
- Often large amount of starting capital needed to enter the market, e.g. SASOL, Mittal Steel
- Legal consideration: Laws play an important role – e.g. SA Post Office. Any (3 × 2 = 6)

3.4.4
- They can control prices, which could be to the disadvantage of the consumer.
- The quality of the products could be poor due to a lack of competition.
- Products may not be made cost effectively, due to a lack of competition.
- Monopolies could make big profits at the cost of consumers.
- Innovation could be lacking.
- It is not necessarily the best allocation of resources. (Any 2 × 2 = 4)

3.4.5
- Use a monitoring organisation like the Competition or Board Commission or Act to manage and prevent monopolies and by giving them the power to enforce fines where necessary.
- They can investigate any possible unfair marketing strategies and investigate mergers and acquisitions.
- An example: Walmart and Massmart
- Government can encourage competition (4)

[50]

QUESTION 4 IMPROVING THE STANDARD OF LIVING

4.1 4.1.1 Growth Employment and Redistribution

4.1.2 World Trade Organisation

4.1.3 Spatial Development Initiative (3 × 2 = 6)

4.2 Natural Resources:
- The supply of resources is fixed and differs from one country to another.
- Renewable resources should be managed in such a way that they can be used sustainably.
- South Africa has been blessed with an abundance of resources like gold, platinum, coal, iron ore, etc.
- Some resources can possibly be better utilised in the future due to new technology and mining methods, for example: oil in the deep sea.
- *Future growth in South Africa cannot be built on natural resources like agriculture and mining, as its role has declined over time. It is currently less than 10% of GDP.* (max 5)

Labour:
- The size of a country's labour force and the level of education, training and skills of workers determine success.
- The more skilled the labour, the higher the quality of management and good labour harmony, the higher the productivity.
- *In South Africa there are serious labour problems. Better trained labour and an improved education system may contribute to economic growth.*
- *South Africa spends the most on education of any country in the world and government has through the SETAs tried to improve training in the workplace.*
- *We are still not producing enough skilled workers and matric results in subjects like maths and science are still poor.* (max 5)

Capital:

- Countries need capital to be invested in capital goods (machinery) and infrastructure.
- Sources of capital: savings, profits and surpluses on the budget and foreign investments.
- *South Africa needs many more FDIs to aid the capital shortage – e.g. Eskom and its expansion plans.*
- *The more a country invests in infrastructure, the better the long term growth.* (max 5)

Entrepreneurship:

- Entrepreneurs are the driving force behind economic growth.
- *The government must ease the process to start and manage businesses.*
- *They provide suggestions on labour laws and taxes for small business.*
- *This is a very difficult factor of production to improve.* (max 5)

Technology:

- It increases production without increasing the factors of production.
- Leads to higher productivity at lower costs.
- It improves the quality of the goods and services.
- It produces new products and a wider variety of goods and services.
- *Most technology is imported and could lead to job losses.* (max 5)

4.3 A Maputo corridor
B East London
C minerals and tourism
D Lubombo SDI (4 × 1 = 4)

4.4 Employment argument:

- Protecting local businesses against imports also protects local jobs.
- South Africa already has a serious unemployment problem and cannot afford to lose jobs to foreign competition.
- An example is the clothing industry in South Africa that has to compete against cheap imports from China and India. (4)

To prevent dumping:

- Some countries mass produce goods at very low prices and have to find foreign markets for the excess goods. They dump these goods on other country's markets at cost or even below cost sometimes.
- Countries have to protect their local manufacturers against these low prices and sometimes low quality imports. (4)

4.5 4.5.1 Bad. The closer the Gini-coefficient is to 1, the more uneven the distribution of income in a country.

4.5.2 Bad. The lower the growth in the M3 money supply, the lower the demand for credit and the less consumers are spending, which could imply low economic growth.

4.5.3 Good. The UN's HDI measures the standard of living of people in a country. The higher the ranking the better the standard of living.

4.5.4 Good. Secondary enrolment refers to children being in high school, thus the higher the percentage the better. The more children that are attending high school the better for the country. (4 × 3 = 12)

[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES

5.1 5.1.1 Deflation is when prices of goods and services are declining. This could however lead to businesses making less profits, lower share prices and thus people's wealth and pensions could decline over time.

5.1.2 Tourism could lead to damage to the environment if left unchecked. For example: damage to sand dunes, hiking routes, etc.

5.1.3 We are too dependent on coal and oil to create energy, all of which leads to CO_2 emissions and global warming problems. We need to look at wind, water and solar energy in the future. (3 × 2 = 6)

5.2

- A decrease in the buying power of the currency – the consumer can buy less with his/her money.
- Negative influence on savings and investments – have to compare inflation rate with the returns on investments.
- People who are dependent on a fixed income are influenced negatively, e.g. pensioners.
- It benefits debtors at the expense of creditors. Debtors pay back less overtime.
- If the inflation of a country is higher than that of other countries, it will lose its competitive advantage.
- Can cause bracket creep and fiscal drag – government receives more tax money (higher salaries, higher taxes).
- Can cause social and industrial unrest, for example, as a result of food inflation. (Any 3 × 4 = 12)

5.3 5.3.1

- South Africa does a lot of trade and business with countries around us and with the rest of Africa.
- Many residents of South Africa's neighbours work in our country, including Lesotho, Swaziland, Mozambique, Zimbabwe, etc.
- SA neighbours seek medical attention in SA. (4)

5.3.2 The World Cup Soccer tournament of 2010 brought many new tourists to South Africa and presented South Africa with an ideal opportunity to market our country as a tourist destination. (4)

5.3.3

- Tourism includes many services which are labour intensive and so create more employment than other sectors.
- Tourism brings development to the poor in rural areas. Many prime tourism attractions are located in rural areas.
- Tourism offers opportunities to diversify sources of income for poor people, e.g. to start and operate small-scale tourism businesses, such as beading, wooden carvings.

- Tourism can be seen as an investment by foreigners. Tourists come to South Africa and spend their money thereby boosting the economy.
- Direct taxation of tourism goods, the revenue from which the government could use to support low income households or poverty alleviation schemes. Any 3 × 2 = (6)

5.3.4

- Better marketing of SA abroad – development of niche markets, e.g. weddings and honeymoons, golf, adventure sport and plastic surgery.
- Improvement of tourism infrastructure – hotels, transport and communication.
- Income from tourism is seasonal – it has to improve in shoulder and low seasons.
- Role of airlines has to improve, especially SAA has to serve the relevant international routes.
- Focus on stronger developing countries – China, India and Brazil.
- SA has to focus more on international conferences.
- Avoid extreme taxation of tourists, e.g. airport tax.
- Marketing of other tourism areas in South Africa like the Drakensberg, Eastern Free State and Northern Cape.
- Tourism industry has to caution against exploitation of tourists – tourists have to receive value for money.
- Improvement of general service delivery in South Africa.
- Encourage tourism amongst South Africa's own citizens.
- Deal with crime issues. (Any 3 × 2 = 6)

5.4 5.4.1 Demand for resources will increase:

- Demand for food, water and energy will increase to levels that will not be sustainable.
- Could lead to shortages and potential social and political unrest.
- Prices of food and other commodities could rise.

Increase in pollution and carbon emissions:

- More people will lead to more pollution and higher CO2 emissions, increasing the effect of global warming.
- The impact of so many people on the environment will be problematic, especially on water and food supplies.

Greater demand on governments:

- Governments will have to provide for the needs of people with the limited resources available.
- The needs of people will make it even harder for governments to protect the environment in the future.

Impact of global warming on people:

- Changes in weather patterns will impact on people as natural storms, droughts and floods become more common and more severe.
- These weather problems will also impact on agricultural production, i.e. food production. Any 5 × 2 = (10)

5.4.2 Food security is when a country produces enough food for its own people and is not dependent on other countries. It does not need to import food from other countries. (2)

[50]

200 marks

SECTION C

QUESTION 6 DATA RESPONSE

6.1 Developing countries are still in the process of economic development and are characterised by lower standard of living and per capita income.
Examples: South Africa, Zimbabwe, Argentina, Vietnam, etc. (Any 2 × 1) (4)

Emerging countries are a group within the developing countries that are growing quicker than the rest and are on their way to becoming a developed country.
Example: South Africa, BRIC countries, Argentina, Poland, Turkey, etc. (Any 2 × 1) (4)

6.2 Gross Domestic Product is the total value of final goods and services produced within the borders of a country over a specific period, usually one year. (4)

6.3
- They are four of the biggest countries in the world when you use population and GDP as a benchmark.
- They are also four countries with high economic growth rates, high exports and they import vast quantities of resources, goods and services.
- They are on their way to becoming developed countries and wield great economic and political power. (6)

6.4 No

Any 5 × 2
- South Africa's economy is much smaller in size and population numbers when you compare them to the other four members.
- We are especially struggling with low economic growth and high unemployment in contrast to growth rates of 10% in China.
- There are other countries that could have become members before us, including Mexico, Argentina and Indonesia.
- South Africa's government has not been able to tackle serious economic problems and has not shown clear economic policy for a growth path.
- South Africa has too many problems with crime and corruption.
- The other BRIC countries are only interested in gaining access to South Africa's resources and not in helping us grow and develop our economy. (12)

OR

Yes

Any 5 × 2
- These are the four biggest economies in the world and are growing quicker than developed countries, thus giving us huge opportunities for exporting to the BRIC countries.
- It will help tremendously with raising awareness of South Africa and could lead to more foreign investments.
- These big populations represent enormous new markets for South African goods and companies in the future.
- It could lead to more direct investments from these countries in South Africa, giving us more access to capital.
- It will increase South Africa's international standing and give us more political clout.
- These countries, especially China and India, are big importers of resources of which South Africa has large quantities. (12)

6.5 Demand Factors:

1. Levels of income differ from country to country:
   Higher income results in a change in needs, especially for luxury goods.

2. Consumer preferences and tastes change:
   People are exposed to more and more products every day.

3. Religious, cultural and social lifestyles differ from one country to another:
   This influences the demand for certain products.

4. Development of communications and transport:
   Countries and products are within easy reach of one another.

5. Different levels of economic development:
   Poor countries will have a demand for basic food and wealthy countries for luxuries.

6. Natural resources and products differ from one country to another:
   Countries import what they don't have and export what they do have.

7. Increase in population and their income:
   Demand and needs change – own countries cannot meet the need.

Supply Factors:

8. Natural resources are not evenly distributed:
   E.g. South Africa's mineral riches enable us to produce more cheaply to export.

9. Climatic conditions differ from one country to another:
   Some products can be produced cheaper than in other countries, e.g. coffee in Brazil.

10. Labour resources:
    Quality, quantity and costs differ between countries, e.g. labour supply in Malaysia is high and cost is low. Other countries have high levels of sophistication of labour and are more productive.

11. Technology and Specialisation:
    Some countries have access to technological resources and can produce at a low cost. Japan specialises in electronic equipment, which they mass produce and can sell at lower prices. (Any 5 × 4 = 20)

50 marks

Total 300 marks