NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2012

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 MULTIPLE CHOICE

1.1 C

1.2 B

1.3 A

1.4 A

1.5 D

1.6 D

1.7 B

1.8 A

1.9 C

1.10 C

1.11 D

1.12 D

1.13 B

1.14 C

1.15 C

1.16 B

1.17 A

Max 50 marks

SECTION B

QUESTION 2 MACRO-ECONOMICS

2.1 Income Expenditure Production/Value added (3)

2.2 GDP is the value of all goods and services produced within the borders of a country within a certain time period, usually a year.
GNP is the value of all goods and services produced by permanent residents of country within a certain time period, usually a year. (4)

2.3 Taxes, savings and imports are leakages and government expenditure, investment and exports are injections.
Households and businesses pay taxes (T) to the government and the government spends this on infrastructure, services, etc.
Households save money and businesses borrow that money to invest in expanding business, etc.
When products are imported money leaves the economy and when products are exported we get money coming into the economy. (10)

2.4

2.4.1 1 223 445 (2)

2.4.2 [1 455 678/105] × 100 = 1 386 360 (3)

2.4.3 [1 503 557 – 1 386 360] / 1 386 360 × 100 = 8.45% (4)

2.5

2.5.1 High utilisation of production capacity
Higher demand and prices for capital goods
Inflation increases as demand increases
Deficit on current account of balance of payments
Share prices lose momentum
High demand for credit – people spending more
Property prices rise
Interest rates increase as a result of high inflation
Increased capital investment
Eventually a peak is reached (any 4 × 2 marks) (8)

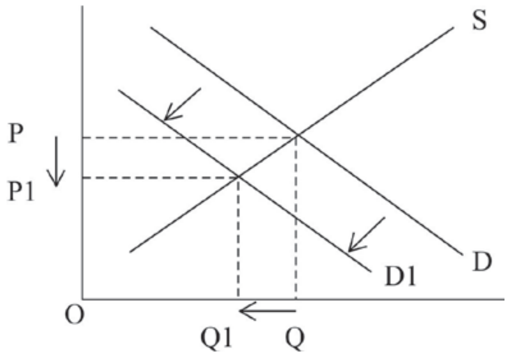
2.5.2 **Expansionary monetary policy (max 8)**
Decrease interest rates therefore encourage borrowing which will increase demand and there will be more spending in the economy.
Expansionary fiscal policy (max 8)
Decrease taxes. Consumers have more disposable income therefore increase in spending/higher demand. Increase in government spending. (16)

[50]

QUESTION 3 MICRO-ECONOMICS

3.1 There is an inverse relationship between price and quantity demanded. When the price increases there is a decrease in quantity demanded and when there is a decrease in price there is an increase in quantity demanded. (2)

3.2

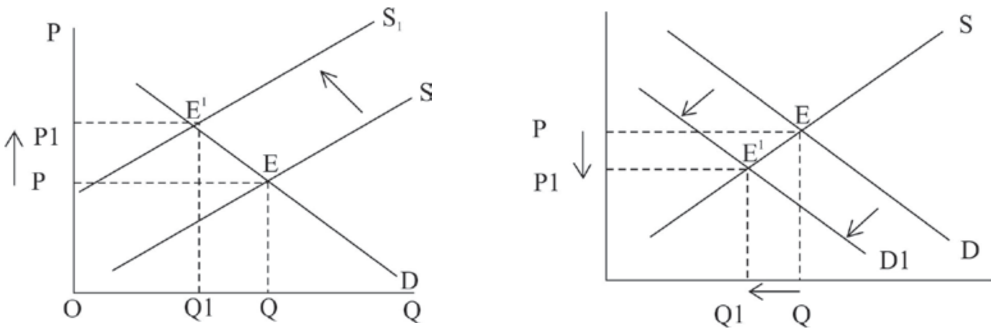


Label both axes. Label S and D. Label shift in demand to D1. Label or arrow to show decrease in demand/supply. Label or arrow to show decrease in price (6)

3.3

3.3.1 Products that are often purchased together. If products are complements then a change in the price of one product will lead to a change in the demand for the other product. Example (max 4) (4)

3.3.2 Market for DVD players Market for DVDs



Decrease in the supply of DVD players because of an increase in the production costs of DVD players. This leads to an increase in the price of DVD players. Because of the increase in the price of DVD players the demand for DVD players decreases which means that the demand for DVDs will decrease (complementary products). Shift in demand curve to the left (2nd diagram). This lower demand will then lead to a decrease in the price of DVDs. (6 marks for explanation)

Mark allocation for DVD players diagram
Shift in supply curve up and to the left.
Indicating the increase in price.
Correct labelling of axes and curves.

Mark allocation for DVDs diagram
Shift of demand curve down and to the left.
Indicating the decrease in price of DVDs.
Correct labelling of axes and curves. (12)

3.4 Large number of Italian restaurants.
Each restaurant very small relative to the size of the market.
Goods are differentiated. Each has different menu and some specialise in pizza, others pasta.
Low barriers to entry – low capital costs, no special expertise, not likely to be large economies of scale.
Access to information is fairly open but not perfect.
More and more Italian restaurants will be set up as long as the existing ones are earning abnormal economic profits (TR – TC). (any 5 × 2 marks = 10)

3.5 **Substitutes**
The greater the number of substitute products and the more closely substitutable these products are, the more we would expect consumers to switch away from a particular product when its price goes up, i.e. the more elastic the demand is for the product.
For example, there are many different brands of margarine available on the market and so an increase in the price of one brand will lead to a large number of customers changing their demand to another brand.
Oil which has few substitutes will tend to have a relatively inelastic demand, with demand falling relatively little as price goes up. (Explanation 2 marks and example 2 marks) (4)

Time period
As the price of a product changes, it often takes time for consumers to change their buying and consumption patterns. PED thus tends to be more inelastic in the short term and then becomes more elastic in the long term.
For example, if the price of petrol were to rise sharply, they would carry on buying more or less the same amount of petrol. However, over time cars that use less petrol or none at all might be developed. (Explanation 2 marks and example 2 marks) (4)

Proportion of income spent on product
The higher the proportion of one's income spent on a product the more elastic the demand will be. **OR**
The lower the proportion of income spent on a product the more inelastic the demand would be.
Box of matches would not cost a large proportion of a worker's income, therefore, would be price inelastic demand. **OR**
However, a car would cost a large proportion and demand is therefore price elastic. (Explanation 2 marks and example 2 marks) (4)

Habit forming goods
Some products are addictive, e.g. cigarettes and alcohol.
A change in price has a relatively small impact on the quantity demanded. Therefore, demand is price inelastic. (Explanation 2 marks and example 2 marks) (4)

(16)

[50]

QUESTION 4 ECONOMIC PURSUITS

4.1 Data/statistical measure of an aspect of the economy. Pieces of information that show economic conditions exist. (2)

4.2

4.2.1 Using GDP change in real GDP from one time period to the next.
Problems: not all production and expenditure is included. International comparisons are often unreliable because of different ways of measuring GDP, double counting. (Any ONE problem × 2 marks)
Informal trading is included but it is not accurate. (5)

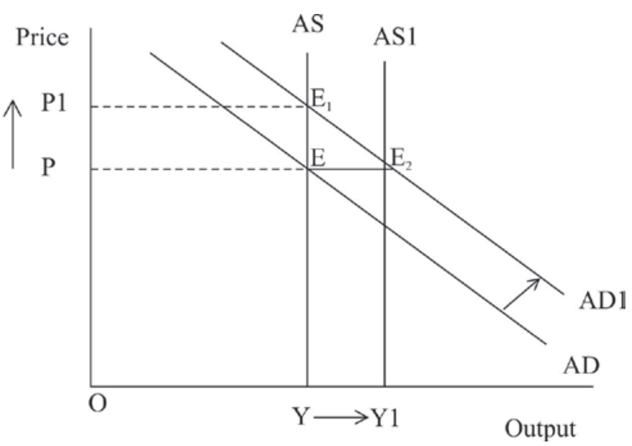
4.2.2 Measured by unemployment rate as a percentage of labour force.
Problems: strict vs expanded definition of unemployment – some workers give up looking for work when they become discouraged therefore, don't often get an accurate figure. (5)

4.3

4.3.1 Mozambique
Any THREE of the following reasons: (3 × 2 marks)
Lowest GDP per capita which means there is a low standard of living.
High unemployment rate which leads to high levels of poverty.
Low life expectancy which is as a result of poor medical facilities.
Lowest literacy rate – without education people battle to get a job.
Lowest HDI which means that there is low economic development. (8)

4.3.2 Large population which means a high demand.
High economic growth rate compared to other countries.
Unemployment relatively low. (6)

4.4 Supply in the short term is fairly fixed because for the economy to produce more goods and services, workers need to be trained, new machines need to be bought, better roads need to be provided, etc. Therefore the aggregate supply curve (AS) is vertical at Y.
If AD is increased from AD to AD1 prices will rise if there is no increase in output. Inflation without growth occurs. The supply side approach suggests that AS1 is established to the right of AS so that if AD increases, output can be increased without a rise in the general level of prices, i.e. inflation. (max 6)



Price/Output and AS and AD. Shift to AD1. Increase in price to P1. Shift to AS_1.
(max 6) (8)

4.5 **Prevent unemployment or encourages emplyment.** Keep local producers in business by eliminating competition thus preserving jobs. New jobs created when new businesses are started to replace imported goods. (max 4)

Stops unfair strategic efforts by international firms to flood the local market with cheap goods, i.e. **dumping** thus causing local producers who cannot compete to go out of business. (max 4)

Protection of infant industries – Newly established industries find it almost impossible to compete with the cheaper cost of production of long established firms in developed countries. Production in developing countries is normally on a small scale, workers are inexperienced and the cost of borrowing capital is higher in developing countries. (max 4)

Improve balance of payments position. Limits the amount of money leaving the country, hence leading to a more favourable balance of payments position. (max 4)

To guard against over reliance on other countries for strategic goods.
Prevents a situation where the country is reliant on another country for strategic goods like food and weapons. (max 4)

Encourage economic growth. The more local production there is the more jobs are created. This leads to higher demand and spending. (max 4)

Diversification of the industry base. Countries can become too dependent on exports of certain products. It is thus good to encourage other domestic industries. If prices fluctuate certain industries can suffer. (max 4)

(Any 4 reasons × 4 = 16)
[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1 **Causes (max 10)**
Demand pull inflation – when the demand for goods and services increases and the production remains the same or does not increase as fast, e.g. (max 5)
Cost push inflation – caused by an increase in the costs of production, e.g. increase in wages due to strikes, increase in oil price. (max 5)
Policies (max 12)
Monetary policy – the SARB can increase interest rates which makes borrowing money more expensive. Therefore, less spending, lower demand Increase reserve requirements of banks. (max 6 marks)
Fiscal policy – government can increase taxes so consumers have less disposable income. Therefore less demand and prices come down. (max 6 marks). (20)

5.2 Deflation – prices of a wide range of goods and services decrease continuously over a long period of time.
Hyperinflation – a very high or excessive rate of inflation. (4)

5.3 Demand for electricity is relatively inelastic. By increasing the price for electricity, Eskom will therefore experience an increase in revenue which is used to finance its extension in power generating capacity.
Of course, Eskom is a monopolist and therefore has considerable power in the marketplace but will experience a decrease, however slight, in sales because of alternative sources of power, such as mobile power-generating plants (installed by large users, for example factories) and gas (used by domestic users for cooking and heating, for example). (max 4 × 2 marks) (8)

5.4

5.4.1 25%/–10% = –2,5 (2)

5.4.2 Because the XED is negative it means that the hiring of clubs and the rounds played are complementary products. (4)

5.5 **Advantages: (max 6 marks)**

They benefit from **economies of scale** (Bigger is better) which means that the prices to consumers is relatively lower than if we had a number of small firms.
A monopoly owned, run and controlled by the government will **stop** the consumers being **exploited**.
The government can manage the economy by controlling the **important industries**.
The government can **invest money** and make their service more efficient.
Companies owned and run by the people *for* the people take social costs (pollution, etc.) into account and the profit goes back *to* the people.
Nationalisation **removes exploitation**.
It **reduces inequalities**. The distribution of wealth becomes uniform and just.
(any 3 × 2 marks = 6)

Disadvantages: (max 6 marks)

Low performance – when the ownership is in the public sector, the employees do not work for profit and their performance and efficiency is poor.
Lack of competition – Competition is necessary for development and increasing production. Nationalisation has decreased the spirit of competition.
Favouritism – the management of nationalised firms will provide jobs to favoured persons because the political leaders have influence on the state authorities.
The state becomes the owner of the nationalised business. The State and the Government become responsible for the loss and the profit of the nationalised business.
They must **face stiff competition** from private enterprises so that their efficiency may be increased. (any 3 × 2 marks = 6) (12)

[50]

200 marks

SECTION C

QUESTION 6 DATA RESPONSE

6.1 Statement of all the transactions undertaken by the citizens of a country with people and institutions in the rest of the world. Records the value of the country's transactions with the rest of the world. (2)

6.2 SA has a deficit on its current account which means more money is leaving the country than coming in and China has a surplus. China's surplus has decreased since 2007. SA's deficit has decreased since 2008. (max 8 marks) (8)

6.3

6.3.1 (161 802 + 16 617) – 168 951 = 9468 (4)

6.3.2 161 802 + 16 617 + 23 892 + 10 065 – 168 951 – 36 079 – 24 000 – 4 399 = – 21 053 (4)

6.3.3 Surplus. The change in net gold and other reserves figure is positive. (4)

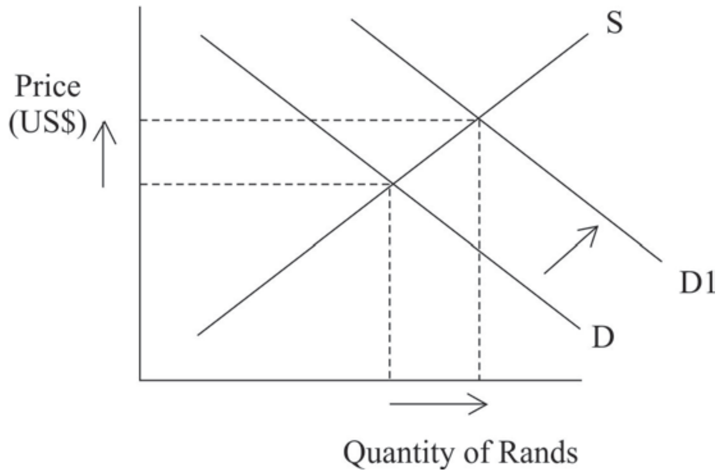
6.4

6.4.1 Merchandise imports exceed merchandise exports. The trend is for there to be a deficit on the current account. Harmful to SA economy as more money is leaving the country than coming in.
It puts pressure on the financial account to record a surplus. Over the last 7 years the financial account has bailed out the current account and ensured that there is a surplus on the balance of payments account.
(Any 2 × 2 marks = 4) (4)

6.4.2 Increase in exports.
Increase in tourism.
SA more attractive for foreign investors
(Any 2 × 2 marks = 4) (4)

6.5 Current a/c – fewer exports because of less demand from EU countries which is one of SA's biggest trading partners.
Financial a/c – changed levels of investment into the EU and from the EU into SA. Loss of confidence in investing.
Reduced profit levels of SA businesses operating in EU.
Less investment by EU investors in SA reduces outflows of interest/dividends. (Any 4 × 2 = 10 max) (8)

6.6



Label X and Y axes label D and S. Shift in demand curve to D1. Arrow showing increase in the price of Rand against the $ (DIAGRAM = max 6 marks.)
If there is a now a surplus on the current account it means that more money will coming into SA than leaving. This will result in an increased demand for Rands by foreigners. This will lead to an appreciation of the Rand against the Dollar. (DISCUSSION = max 6 marks.) (12)

[50]

50 marks

Total: 300 marks