NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2013

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 MULTIPLE CHOICE

QUESTION 1

1.1	B	(3)
1.2	A	(3)
1.3	D	(3)
1.4	B	(3)
1.5	B	(3)
1.6	C	(3)
1.7	C	(3)
1.8	A	(3)
1.9	C	(3)
1.10	C	(3)
1.11	D	(3)
1.12	A	(3)
1.13	A	(3)
1.14	B	(3)
1.15	D	(3)
1.16	C	(3)
1.17	A	(3)

50 marks

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 The increase in real GDP or the increase in the production capacity/final goods and services of an economy from one time period to the next. Reference to base year (max 4) (4)

2.1.2 Higher spending increases the demand in the economy which leads to an increase in production which results in economic growth. . Reference to injections i.e. through spending e.g. investment spending (4)

2.1.3 Taxes, savings and imports are leakages and government expenditure, investment and exports are injections. (If candidate lists 3 leakages and one is incorrect then give only 1 mark out of the 2)
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 (max 14 marks).
Reference to equilibrium in leakages and injections (Max 2 marks) (14)

2.1.4 Government decides to increase spending by building new roads. This increased spending creates jobs in the construction industry and raises the level of employment.
These newly employed people then have income to purchase consumer goods, which then stimulates demand for goods and services.
The increased demand for goods and services results in increased levels of production which in turn increases the level of employment, raising incomes and stimulating further consumer demand.
This example shows how an increase in government expenditure (G) leads to a disproportionate increase in income (Y) as a result of the multiplier effect. (Max 8 marks)
If candidate uses a multiplier example then give 4 marks (max) (8)

2.2 **Components:** (max 12 marks)
Direct investments (FDI) – includes transactions relating to the investments of businesses for the purpose of obtaining a meaningful share (that is 10% plus) or control of such a business, e.g. Barclays buying 50% share in ABSA, Walmart buying 51% share in Massmart. Also includes investment in real estate. (max 4 marks)
Portfolio investments – buying and selling of shares by foreigners on a stock market, e.g. buying Anglo shares on JSE. , e.g. bonds (max 4 marks)
Other investments – other investments that are not FDI or portfolio – as a result of higher interest rates in SA than USA, money will flow into SA banks in the short term. These flows are volatile. Loans, currency and deposits and short term trade credit. (max 4 marks)

Ensure equilibrium through: (max 10 marks)
Promoting exports.
Reducing imports through import substitution policies as well as import tariffs.
Increasing interest rates which leads to less spending on imports from locals but encourages foreigners to invest in South Africa.

Exchange controls whereby there is a restriction on the amount of money that South Africans can take out of the country.
Government can sell foreign currencies and buy Rands, thereby strengthening the Rand to make imports less expensive (of course if Rand was weak South African products would be cheaper for foreigners and our exports would increase as well).
Any reasonable answer
Must expand on point to get the full 2 marks. (20)

[50]

QUESTION 3 MICROECONOMICS

3.1 3.1.1 A 12 B 32 C 15 D 6.5 E – 15 (5)

3.1.2 4 (1)

3.1.3 5 (2)

3.2

Monopolistic competition	Monopoly
• Many buyers and many sellers , but a few strong brand names dominate market. • Free entry into market, but could be difficult to compete against strong brands. • Incomplete access to market information. • Each firm produces a distinctive, differentiated product. • Market collusion is impossible. • Little/some control over price • Example	• One seller, many buyers. • Entry completely blocked, i.e. licences required. • Complete/incomplete access to market information. • Unique product with no close substitutes (heterogeneous). • Collusion not a factor because there is only one firm. • Considerable/complete control over price • Example

(10)

3.3 Spa treatments and DVD movie rental services are normal goods where quantity demanded increases with an increase in income, i.e. both coefficients are positive. Demand for spa treatment is income elastic, i.e. very responsive to changes in income. Spa treatments appear to be a luxury, because Yed >+1. For example: a 10% rise in income might lead to a 25% increase in demand. DVD rentals appear to be a normal necessity because Yed is less than 1. The demand for Pick n Pay supermarket clothing is estimated to fall when income rises, i.e. an inferior good because Yed is negative. With an inferior good, income and quantity demanded move in opposite directions. Definition of income elasticity or formula (max 2 marks)
(max 12 marks – max 4 marks per description of each coefficient) (12)

3.4 *1 cause = 8 marks where 6 marks = description of cause and 2 marks for government response (government response can count up to 4 marks out of 8)*
2 other causes = 6 marks (description of cause and at least 2 marks for government response)

1 mark for naming the cause

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.
Chemical example Chemicals are overproduced and over consumed.
Taxes, subsidies and regulations are the most common ways in which the government chooses to deal with externalities (any 4 × 2 marks, with at least 2 marks for government response) (max 8 marks)

Merit/demerit goods
Merit goods are goods that society feels should be consumed by its citizens, e.g. education and healthcare.
People with more education have higher earning potential.
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 8 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 or 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 8 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
Can impose price controls (max 8 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. dangers of cigarette smoking. (max 8 marks)

Unequal distribution of income
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 8 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 8 marks)

Price Discrimination
Charging different prices for the same product
For example, 2 people in the same aeroplane have paid different price for their air fare
Any other example

Barriers to entry
Explanation
(max 8 marks)

(Any 3 × 8 = max = 20)

[50]

QUESTION 4 ECONOMIC PURSUITS

4.1 The process necessary to bring about a significant improvement in the general standard of living of the majority of the population or high unemployment or increase in GDP per capita (2)

4.2 4.2.1 Any TWO of South Africa, China, Egypt.
Low GDP per capita or low HDI or unemployment

4.2.2 South Africa's debt to GDP is 33.5%. This is the amount of money the government has had to borrow as a percentage of the country's GDP. The higher the debt to GDP %, the worse it is for the government. The government has to borrow money when it has a budget deficit. Comparison with other countries i.e. SA is quite good. (2)

4.2.3 Canada/Germany HDI which looks at life expectancy, GDP per capita and literacy rate. Or low unemployment rate (8)

4.3 4.3.1 The Lorenz curve or is showing that the distribution of income is unequal. That there is a big gap between the rich and the poor in a country. (2)

4.3.2 **Low standard of living** as a result of low GDP per capita. Leads to poor housing, low literacy rates, poor health.
Low levels of productivity – rate at which workers produce goods is slow. This is a result of poor education and training, poor health.
High population growth rate – often birth rates far exceed economic growth rates, there are big families.
Often high levels of unemployment – the formal sector is undergoing a down-sizing process and there are fewer jobs in this sector. More jobs will have to be created in small to medium sized businesses.
Dependence on the primary sector – rely heavily on agriculture, mining, fishing, forestry. Export raw materials and import processed/manufactured products.
Political instability – dictators in some countries, social unrest which hampers economic progress.
Unequal distribution of income – there is a big gap between the rich and the poor.
Room for improvement in GDP
Any reasonable answer (Any 3 × 4 = 12)

4.4 **Prevent unemployment** Keep local producers in business by eliminating competition thus preserving jobs. New jobs created when new businesses are started to replace imported goods. (max 5)

Prevents Dumping
Stops unfair strategic efforts by international firms to flood the local market with cheap goods, thus causing local producers who cannot compete to go out of business, e.g. Chinese products. Products are cheap because of low cost of production more specifically cheap labour. (max 5)

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 5)

Protection of strategic industries
Protecting industries that are important to the country.
Large multinationals will squash any competitors. (max 5)

Improve balance of payments position
Limits the amount of money leaving the country, hence leading to a more favourable balance of payments position. (max 5)

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. This would become an issue during times of war or unrest. (max 5)

Encourage economic growth
The more local production, the more jobs are created, the higher the income, demand and spending.

Create income for the government
Charging tariffs on imports creates income for the government. In developing countries it can supplement government's limited income from other taxes.

Diversification of industry base
Countries can become too dependent on exports of certain products, thus it is good to encourage other domestic industries. (20)

[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

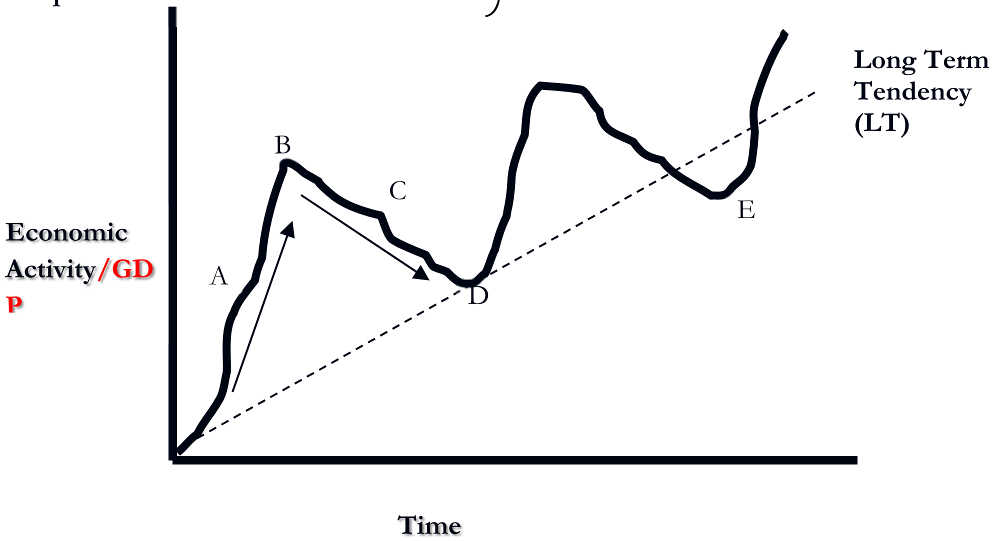
5.1 5.1.1 People on fixed incomes, e.g. pensioners – money will buy less.
People who lend money (creditors) – money they are repaid will be worth less.
People saving money in a bank – decline in real value of savings.
People who get wage increases below inflation – will be worse off in real terms.
Consumers - money will buy less (only 4 × 2 marks) (8)

5.1.2 **Fiscal policy** – By increasing taxes, consumers will have less disposable income and will thus spend less. The government could also reduce spending, e.g. put infrastructure projects on hold. (max 8)
Monetary policy – By increasing interest rates or decreasing money supply, consumers will pay more to borrow money and will have less money to spend. This will decrease demand. (max 8)
Evaluation of how SA can use monetary and fiscal policy (max 8) – can refer to inflation targeting and the fact that SA has not changed interest rates even though inflation has moved beyond 6%. Reason for this is the low growth rate. (14)

5.1.3 Inflation is to be kept within a specific target range of between 3 – 6%. The SARB will increase interest rates if it moves above this target and will decrease interest rates if inflation is well within this range. (4)

5.2

A: Expansion / Upswing
B: Peak
C: Contraction / Downswing / Recession 4 max
D: Trough
E: Depression



Show where South Africa is currently on the business cycle (10)
Reasons: (any 1 × 2 marks)
Positive growth in SA
Other countries improved growth
Interest rates are low
Any other reasonable answer

5.3 **Diagram (max 6)**

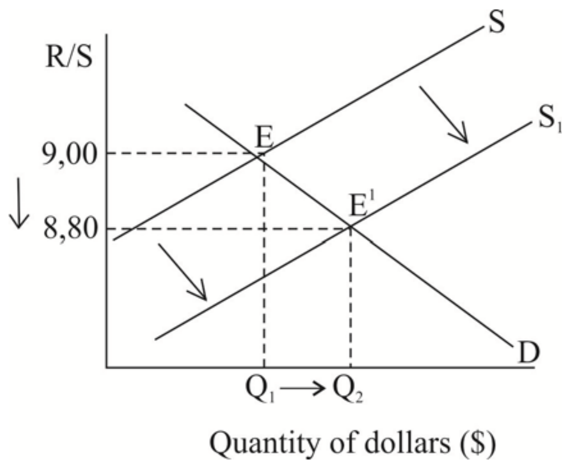


Diagram (max 6) Y-axis could also be labelled Price of $s in Rends.
Rand has appreciated.
OR
<u>Graph showing</u>: Y axis – Price of dollars in terms Rands X axis – quantity of Rands, shift in demand curve to the right, show increase in price
Rand has appreciated (8)

5.4 A = East London/Transkei	B = Agri – tourism, forestry	
C = Rustenburg	D = Metals minerals, platinum	
E = Walvis Bay – Jhb – Maputo	F = Industries, tourism, transport	(6)

200 marks

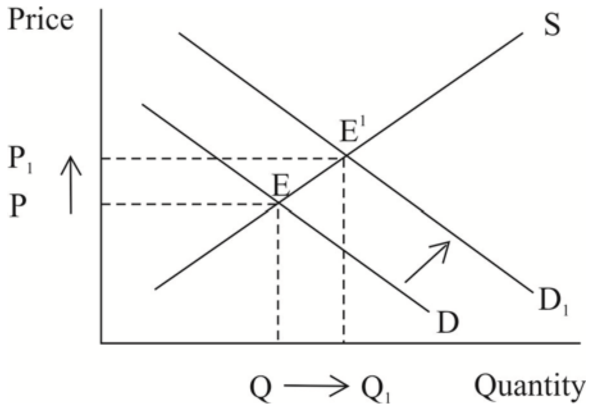
SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 The price where the demand for a product is equal to the supply of the product. (2)

6.1.2 All the different country's economies in the world (2)

6.2 Graph: labelling of axes, labelling of D and S curves and equilibrium price and quantity shift in demand curve to the right, shows increase in the oil price with an arrow



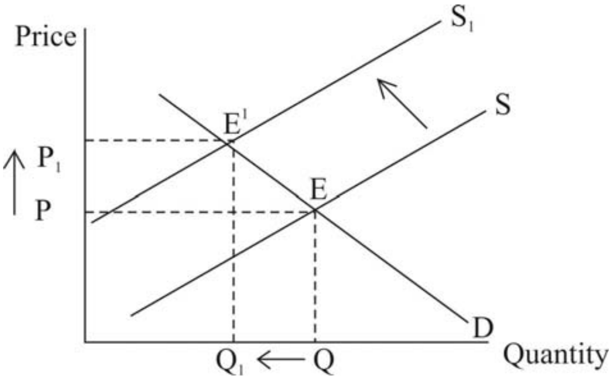
(6)

6.3 This would lead to an increase in the fuel price in South Africa. Most businesses/industries rely on fuel and thus their cost of production would increase which would lead to higher prices on goods and services. This would lead to higher inflation.
High inflation or fuel prices result in people not being able to purchase as much as before. Leads to greater poverty.
Decrease in demand for goods and services as a result of inflation will lead to a decrease in GDP (10)

6.4 6.4.1 Organisation for petroleum exporting countries. (2)

6.4.2 Any two of: Algeria, Angola, Ecuador, Iraq, Kuwait, Libya, Nigeria, Qatar, the United Arab Emirates, and Venezuela. (Iran and Saudi Arabia mentioned in article) (2)

6.4.3 Graph: labelling axes correctly, demand and supply, equilibrium price, supply curve shifts upwards to the left, shows increase in the price of oil either with arrows or P to P1. (max 6 marks)
Explanation: OPEC can hold back supply/decrease production. This creates a shortage and pushes up the price of oil. (max 6 marks)



(12)

6.5 With an increase in the price of fuel, consumers will generally not decrease their consumption in the short term, which makes the demand for fuel inelastic in the short term. However, over time, consumers might find an alternative source of energy, e.g. hybrid cars, which would reduce the demand for fuel in the long term. (max 10 marks)
Explanation of elastic and inelastic (max 2 marks) (10)

6.6 A group of countries or businesses that collude to limit output or to set prices. This normally disadvantages the consumer.

50 marks

Total: 300 marks