NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2015

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

1.1	D	
1.2	A	
1.3	B	
1.4	C	
1.5	D	
1.6	B	
1.7	A	
1.8	A	
1.9	D	
1.10	C	$(10 \times 2 = 20)$
1.11	A	
1.12	B	
1.13	C	
1.14	A	
1.15	D	
1.16	C	
1.17	B	
1.18	C	
1.19	C	
1.20	C	$(10 \times 3 = 30)$

50 marks

SECTION B

QUESTION 2 MACRO ECONOMICS

2.1 2.1.1 Income method (2)

2.1.2 GDP at constant prices. Real GDP, i.e. removes/excludes inflation
GDP at current prices. Nominal GDP, i.e. includes inflation.
CREDIT with two marks if candidate correctly identifies that one does include inflation and the other does not.
Economists find GDP at Constant Prices more useful/reliable.
(If initial discussion is incorrect, ignore second part of the answer) (4)

2.1.3 (1 610 646 + 1 045 002 + 461 065) = 3 116 713
3 116 713 + (63 752 – 7 503) = 3 172 962
3 172 962 + (373 564 – 12 199) = **R3 534 327 million**
(Max 2 if answer only and NO calculations shown)
(Max 2 if GNI was calculated) (6)

2.2 2.2.1 The multiplier is the relation between initial investment and the final change in income. OR
The multiplier is the ratio of the change in income to the change in spending that brought it about.
Any other appropriate definition. (Clear understanding 2, some understanding 1) (Max 2 marks) (2)

2.2.2 There is a greater chance that households spend a proportion of their income/extra income on imports.
As spending on imports is a leakage, the overall size/impact will be smaller as money is leaving the economy.
(Max 2 marks) (2)

2.2.3 ***Relevant example correctly applied 2 marks***
Government decides to increase spending by building new roads/infra-structure.

Analysis of the impact on Employment and Economic Growth (2 × 2 = 4)
This increased spending creates jobs in the construction industry and raises the level of employment.
Direct and indirect employment increases, e.g. worker and the supermarket owner.
These newly employed people then have income to purchase consumer goods, which then stimulates demand for goods and services and increases economic growth.
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 and economic growth.
Accept an example of a calculation with an accurate and relevant explanation linked to economic growth and employment.
(Any other reasonable answer)
(Mark allocation: 2 + 4) (6)

2.3 2.3.1 Recession: **two consecutive** quarters of **negative economic growth**/real GDP. (2)

2.3.2
- Businesses cut back on production/some businesses may go bankrupt.
- Consumers spend less money. Fall in FEEL-GOOD FACTOR (pessimism).
- Individuals may lose their jobs/Unemployment increases.
- More money is spent by the Government on unemployment benefits.
- Less money is collected by the Government in income tax and VAT.
- Incomes start to fall, overall demand decreases.
- Any other reasonable answer. (6)

2.3.3 Interest rates can be lowered/Expansionary monetary policy.
Lower interest rates can increase consumption as consumers will have more disposable income which will increase overall demand/economic activity.
Lower interest rates may reduce the incentive to save thereby encouraging spending.
Lower interest rates can increase firms investing as the cost of borrowing decreases and this will stimulate economic activity.
(Max 6 marks for analysis and application) (Mention must be made about the impact on the business, if not Max 4)
It does depend on the size of the decrease of Interest Rates, whether or not it will have an impact.
Time lags. It may take a while for the change in interest rates to change consumer behaviour/filter into the economy.
It also depends on the attitude towards risk of those borrowing/as well as those lending, influenced by consumer and business confidence.
Other evaluative points:
Factors that can influence the effectiveness of this policy.
Possible impact (Max 2 marks for evaluation) (8)

2.4 2.4.1 Imported goods exceed exported goods. (2)

2.4.2 A fall in the value of the rand will make exports cheaper and imports more expensive.
Thus demand for exports rises and the demand for imports falls, improving the trade balance. (Max 4) (4)

2.4.3 Strikes in the mining sector have reduced production and as a result exports have decreased.
As a developing nation, we have a high propensity to import.
Increased reliance on/increased demand for cheap imports, e.g. from China.
Recession/Slowdown in the EU has caused the demand for exports to decrease.
The weakening exchange rate makes it more expensive to import products, e.g. oil.
The impact of the drought has meant that we have to import food and other agricultural products.
Load shedding has meant a loss of production and a reduction in exports.
(Any other reasonable answer) (Max 6)

[50]

QUESTION 3 MICRO ECONOMICS

3.1 The quantity demanded (Qd) exceeds the quantity supplied (Qs) resulting in a shortage in the market.
This shortage will result in black market activities occurring/increasing.
Non-price rationing mechanisms: Long queues or reservations or allocation through a 'lottery' system. (Max 4) (4)

3.2 3.2.1 **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 overproduced and over consumed and allocative efficiency is generally not achieved.
Misunderstanding the true costs of benefits of a product, e.g. effects/side-effects of using tanning salons or painkillers.
(Max 4) (4)

3.2.2 **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.
Where a firm in a market has market power, it may be able to restrict output and raise prices.
Imperfectly competitive firms are productively inefficient as they do not produce at lowest possible average cost.
(Max 4) (4)

3.3

Criteria	Monopolistic competition	Oligopoly	Monopoly
Number of firms	Many firms, but a few strong brand names dominate market	Few big firms that control market	One firm
Entry into market	Free entry into market, but could be difficult to compete against strong brands Few or no barriers (Max 1)	Free to difficult, to enter into market	Blocked or difficult to enter due to licence etc.
Nature of the product	Heterogeneous/ differentiated	Homogeneous or heterogeneous (differentiated)	Only one product (unique) with no close substitutes

(9)

3.4 3.4.1 Inelastic (1)

3.4.2 The price elasticity of demand measures the responsiveness of the quantity demanded of a product to changes in the price of the product. (2)

3.4.3 ***[Name the factor (1 mark). Explain (2 × 2 marks)] × 2***

Clear reference to elastic and inelastic, in the context of rice, required in the discussion.

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.
With rice, although there are some substitutes in consumption notably in richer nations, for many people rice is a crucial part of their staple diet and there is a reluctance to change consumption when prices change.
(Max 5)

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. So if the increase in the price of rice was seen as being long term in nature, people would have an incentive and time to change their consumption decisions and find substitutes.
(Max 5)

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.
In countries where rice takes up a large part of disposable income, higher prices might cause people to cut back on their consumption and seek cheaper alternatives.
(Max 5)

Necessities
For many people, especially in lower-income countries, rice is a necessity.
A change in price has a relatively small impact on the quantity demanded.
(Max 5)

Any other reasonable answer that can be clearly linked to rice and the impact on PED can be considered. (10)

3.5 ***Maximum 4 marks per characteristic and explanation.***
Large number of buyers and sellers, not one can influence the price.
Very large volumes of currencies are traded on the markets. This makes it difficult for one buyer or seller to influence the market. Most of the major banks have a foreign exchange trading floor which helps to 'make the market'. There are so many sellers operating around the world that the currency exchanges are open for business twenty-four hours a day. No one agent in the currency market can, on their own, influence price on a persistent basis – all are 'price takers'.

AND/OR

The market can be influenced by **official intervention** via buying and selling of currencies by governments or central banks operating on their behalf. There is a huge debate about the actual impact of intervention by policy-makers in the currency markets. Governments with large foreign reserves, such as China, can effectively intervene to influence the strength of their currency.

Products are homogeneous – similar appearance, quality and performance.
The 'goods' traded in the foreign exchange markets are homogenous – a US dollar is a dollar and a euro is a euro whether someone is trading it in London, New York or Tokyo.

AND/OR

When comparing different currencies they do differ from each other as far as price and volatility are concerned. There are many factors that influence the strength of a currency, often linked to a country's economic strength.

All economic agents have perfect information on market conditions.
Most buyers or sellers are well informed with access to real-time market information and analysis on the factors driving the prices of each individual currency. Technological progress has made more information immediately available.

AND/OR

The cost of accessing this information can be expensive and as a result could mean that some economic agents are excluded.

There are no barriers to entry or exit.
Significant barriers as only large banking and investment firms have access to the tools, systems and capital required to trade currency.

AND/OR

Technology has developed that individual investors can trade with one of the many online platforms at affordable rates.

All production factors are mobile.
Factors like capital can move freely to where it is needed. Investors can invest their money in most currencies, and the internet allows skilled labour to access currency markets from almost anywhere.

Horizontal Demand Curve/Perfectly Elastic
In a perfect market all firms all price takers. No one agent in the currency market can, on their own, influence price on a persistent basis – all are 'price takers'.

AND/OR

A degree of official intervention by central banks, could mean that there is some influence on the price.

Accept any other relevant application of the currency market with that of a perfect market. (16)

[50]

QUESTION 4 ECONOMIC PURSUITS AND MIXED QUESTIONS

4.1 4.1.1 **Import tariff/s:** These are duties or taxes levied on imported products by the government.

Import quotas: The government limits the quantity of goods or services that can be imported into the country.

Subsidies: Subsidising local industries in order to compete with imported products by reducing the cost of production.

Credit other relevant forms of protectionism i.e. Exchange Rate Controls, Physical Controls and Quality Standards.
(Any 2 × 2) (4)

4.1.2 ***Relevant reason identified (2). Explanation (2)***
Protection of specific industries:
Newly established industries find it very difficult to compete with the cheaper costs of production of long-established firms.
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.
(Max 4)

Employment:
The protection of local industries is an important mechanism to protect job opportunities in a country. Keep local producers in business by eliminating competition thus preserving jobs.
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)

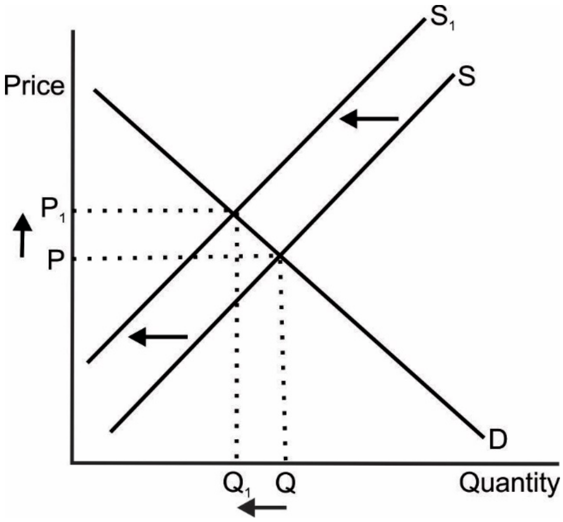
Prevention of dumping:
Dumping occurs when goods are sold on foreign markets at below the cost in the original country.
Imported cheap goods could be disastrous for local competitors and local job opportunities.
Sometimes these imported cheap goods are of inferior quality.
(Max 4)

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

Impact on Trade Balance/Balance of Payments:
Increased imports and/or decreased exports can have a negative impact on the trade balance.
(Max 4)

Credit other possible impacts of SA Citrus on EU Markets. (8)

4.1.3



Mark allocation for EU Citrus Market diagram
Shift in supply curve up and to the left.
Indicating the increase in price and decrease in quantity.
Correct labelling of axes and curves. (P, Q, S and D) (6)

4.2 4.2.1 National Development Plan (1)

4.2.2 Eliminate poverty
Reduce inequality
Decrease in unemployment
Increase in Economic Growth
(Max 4) (4)

4.2.3 **Lack of Transport Infrastructure**
Slower/inefficient movement of goods. Almost everything in the economy tends to move slower, is less reliable, unnecessarily expensive and decreases competitiveness.

Electricity supply constraints
The cost of production increases and fewer goods are produced. Electricity impacts on every business; this will lead to higher operating costs for businesses. These higher costs will be passed on to consumers and inflation will increase.

Lack of Investor confidence
Outflow of money/limit on future investment. South Africa needs FDI/ injections to grow the economy.

Labour unrest
Strikes and prolonged labour issues lead to lost production and less income being generated.

Poor Logistics
Prevents goods/traded goods from reaching their market. Lack of ware-housing/storage, etc. increases costs/diseconomies of scale, etc.

Unemployment
Loss of human productive potential, reduces economic growth. Lack of consumer spending reduces demand and reduces economic growth.

(Any 3 × 2)

Credit any other relevant explanation that has clear link (or implied link) with economic growth. (6)

4.3 ***Explanation (1 × 4 = 4) Change as a result of NDP (2 × 4 = 8)***
If the description of the characteristics is incorrect, no follow on marks for the NDP are awarded. If, however, the description is partly correct and the impact of the NDP is correct, award maximum of two marks.

4.3.1 GDP per Capita indicates living standards of people. Expected change from *NDP will increase GDP per Capita.*

4.3.2 The Gini co-efficient is a number between zero and one that is a measure of inequality. *NDP will lower the Gini co-efficient.*

4.3.3 The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education, standards of living, and quality of life for countries worldwide. *NDP will increase HDI ranking.*

4.3.4 Under 5 mortality indicates the number of deaths in a country before reaching the age of 5, often indicating a good health system and good nutrition. *The NDP will lower the number*. (12)

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

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.

Developed countries refer to countries where the tertiary sectors of industry dominate the economy. These countries have a high income per capita and a high Human Development Index (HDI). This would include the G8 countries, most of Europe, Australia, etc.

(9)
[50]

QUESTION 5 CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS

5.1 5.1.1 A decrease in the rate of inflation/Inflation increasing at a decreasing rate. (2)

5.1.2 It is a period of **stagnation in the economy/**slow growth combined with rising inflation and increasing unemployment. (2)

5.1.3 PPI pertains to cost of production. Price of the goods as they leave the factory gate. (*Consider links with CPI.*) (2)

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 over-time.
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 other reasonable answer)
(Any 3 × 4 = 12) (12)

5.3 5.3.1 2012 (2)

5.3.2 ***1 mark for the formula OR the correct application of the formula 2 marks for the answer***
Monthly:
111,0 – 110,5/110,5 × 100/1 = 0,45% or 0,5%

1 mark for the formula OR the correct application of the formula 2 marks for the answer
Yearly:
111,0 – 105,4/105,4 × 100/1 = 5,31% or 5,3% (6)

5.3.3 No need to adjust the repo rate.
Yearly inflation is within target range/Yearly inflation is between 3 – 6%. ***(If candidate states 'Yes', award marks if clear reference is made to economic indicators/sound economic reasoning, etc. OR if the candidate interprets the percentage correctly, even if the answer in Question 5.3.2 is incorrect)*** (4)

5.4 5.4.1 To prevent exploitation of workers/prevent exploitation by some employers.
To reduce income inequality/to reduce poverty/to increase the basic standard of living.
It may provide workers with an incentive to work/chance for workers to upskill themselves.
(Any other reasonable answer)
(Max 2 × 2) (4)

5.4.2

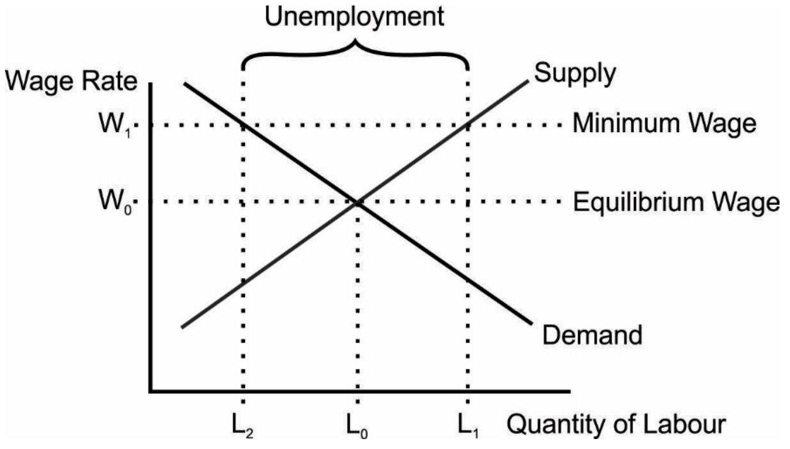


Diagram (4 marks)
Minimum wage clearly indicated above the equilibrium (2 marks)
Labelling 2 Marks (D/S/Q/W)

Analysis/Explanation (4 marks)
Higher wages reduce the demand for labour and increase the supply.
Thus minimum wages can lead to increased unemployment/surplus in the labour market.
(Credit if surplus/unemployment is indicated on the diagram.) (8)

5.4.3 ***Explanation/Analysis linking Minimum Wages, costs and selling price.***
An increase in the Minimum Wage will increase the wage bill/firms costs/ production costs, as they will have to pay their employees more. Firms will therefore increase their selling price to ensure profitability/ survival.
Supply will shift to the left as production costs increase and results in a higher price and lower quantity.
(Max 2 × 2)

Evaluation:
It depends on the individual firm – some firms may choose to reduce profit margins, while others may look at ways to reduce workforce through retrenchment, redundancies, etc.
Firms that pay above minimum wage would not necessarily need to change anything as they would not be affected by an increase.
In labour-intensive industries, e.g. agriculture/mining where labour is a significant cost factor an increase in National Minimum Wage will definitely increase their costs and reduce profitability/competiveness.
If wage increases are accompanied by an increase in productivity it may mean that the firm's costs are lower due to e.g. economies of scale.
Other evaluative points:
Factors that can influence the effectiveness of this intervention.
Consequences/ possible impact- links with industrial unrest.
(Max 2 × 2) (8)
[50]

200 marks

SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 A business owned or controlled partly or wholly by the government **OR** a state-owned enterprise/business. (2)

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

Improved performance/quality service – any profit-driven firm ensures that the focus is on financial performance; as a result employees are productive and efficient.
The government has failed in delivering quality services to the public and privatisation should be increased. The sooner companies like SAA and Eskom are sold to private enterprise, the better.

Increased competition/efficiency
Competition is necessary for efficiency and increasing production. By privatising state-owned industries the government can no longer 'protect' inefficient industries and they will be forced to become more efficient.

Government finances will be under less pressure
Public spending as a percentage of GDP continues to increase and government finances are constantly under pressure with significant bailouts such, e.g. SAA, Eskom. Privatisation will ensure that government spending is addressing more urgent needs in the economy.
(Any other reasonable answer)
(Any 3 × 2 marks = 6)

Disadvantages: (max 6 marks)
Prices/Costs increase
Without state funding, costs will increase and as result prices will increase. In the case of electricity, this will negatively affect consumers, increasing inequality.
Privatisation can lead to consumers being exploited.

Loss of control of Strategic Industries
The government can manage the economy by controlling the important industries. SAA and Eskom play a significant role in growing the South African economy and if in the hands of private individuals, control is lost.

Government's social responsibility
The private sector only focuses on profits; it is the role of government to intervene more to ensure that goods and services are rendered to all people. By privatising the parastatals the focus shifts away from social responsibilities. 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.
(Any other reasonable answer)
(Any 3 × 2 marks = 6) (12)

6.2 6.2.1 ***Identification of the factor, i.e. increase and/or decrease (2 × 3 = 6)***
Analysis, i.e. how it influences inflation (2 × 3 = 6)
Wages and salaries – increases in wages and salaries lead to an increase in cost of production, which often results in a higher selling price.
Exchange rates – a weaker exchange rate causes the price of imported goods to increase and as a result increases costs and stimulates inflation.
Interest rates – a decrease in interest rates leads to consumers having greater spending power and as a result demand increases faster than supply.
Oil prices – supply shocks such as an increase in the price of oil has a knock-on effect and increases the price of other goods.
Cost of electricity – supply shocks such as an increase in the price of electricity has a knock-on effect on increase in the price of other goods.
(Max 12) (12)

6.2.2
- Low inflation or price stability
- Positive economic growth
- Surplus on the Balance of Payment/balance of payments equilibrium/ maintains stable exchange rates
- Low unemployment or full employment
- Fair/equal distribution of income/economic equity (3 × 2 marks = 6)

6.3

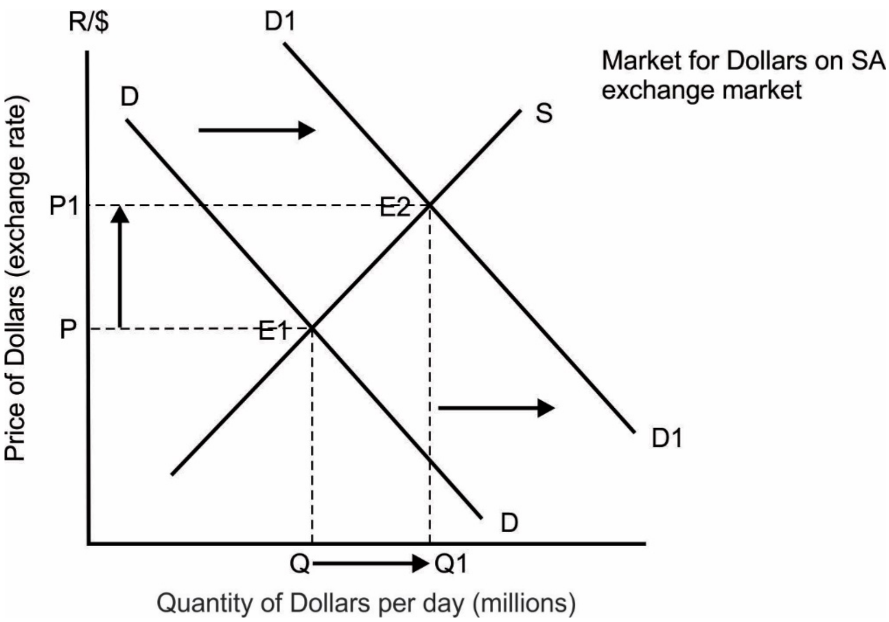


Diagram (6 marks)
- Demand shifting to the right (2 marks)
- Price and quantity arrows (2 marks)
- Labelling (R/$ and Quantity of $) (2 marks)

Higher real interest rates in the USA will lead to increased demand for foreign exchange (dollars) as hot money flows will increase to the USA, thus the demand curve will shift to the right.
There will be a new equilibrium point, thus the dollar/rand exchange will move from P (rand value) to P1 (rand value), thus a depreciation in value of the Rand.
Credit accurate references of implications of depreciation and the possible impact of the USA being the preferred investment destination (10)

6.4 Venezuela (2)

6.5 This would lead to a decrease in the fuel price in South Africa.
Most businesses/industries rely on fuel and thus their cost of production will decrease which would lead to lower prices on goods and services. This would lead to lower inflation.
Lower inflation or fuel prices result in people having more disposable income.
Increase in demand for goods and services as a result of greater disposable income will lead to an increase in GDP.
Lower CPI and/or PPI and a higher standard of living. (Any 3 × 2 marks = 6)

50 marks

Total: 300 marks