NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2019

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	D
1.3	B
1.4	B
1.5	C
1.6	D
1.7	B
1.8	C
1.9	C
1.10	B
1.11	B
1.12	D
1.13	B
1.14	D
1.15	C
1.16	C
1.17	C
1.18	D
1.19	D
1.20	A

SECTION B

QUESTION 2 MACRO ECONOMICS

2.1 2.1.1 A – Factors of production
B – Investment
C – Savings
D – Foreign Trade/Foreign Sector/International Sector

2.1.2 Monetary or money flows occur between the different markets and participants and consist of income, spending and taxation.
Real flows consist of goods and services and production factors between markets and participants.

2.1.3 Households and businesses pay taxes to the government and the government spends this on infrastructure, services, etc.
Relationship through the national budget, e.g. budget deficit is caused by government spending exceeding tax revenue.

2.1.4 **Relevant example 2 marks; Rounds of spending/income 4 marks**
An initial increase in spending, for instance government spending on a road project, leads to increased income for everyone working on the project. These workers then take their income and spend it at their local shops, increasing the income of the shop owners who can now spend it on someone/something else.
Any other reasonable answer, including calculations/ numerical examples

2.2 2.2.1 Trough

2.2.2 Gross domestic product is the total value of final goods and services produced within the borders of a country in a specific period, usually one year.

2.2.3 **Description; Relevant example**
Leading economic indicators are indicators that change before the economy changes, i.e. changes in advance of changes in the business cycle.
OR
Leading economic indicators help to anticipate and prepare for future changes in the business cycle.
Example:
Number of new cars sold, new companies registered, building plans approved, share prices, stock market returns, product exports, business confidence index, job advertisement space

2.2.4 **Correct Policy Action identified; Explanation**
Expansionary monetary policy.
Interest rates can be lowered. This will lead to an increase in consumption as consumers will have more disposable income that will increase overall demand/ economic activity.

Lower interest rates may reduce the incentive to save and encourage spending.
Lower interest rates can increase the number of firms investing as the cost of borrowing decreases and this will stimulate economic activity.
Open market transactions. When the Reserve Bank buys bonds, money is injected into circulation, stimulating economic growth.
Reserve requirements. The minimum amount could be decreased to improve economic growth.
Any other reasonable answer

2.3 2.3.1 Free-floating exchange rate
The value of the currency is determined purely by demand and supply of the currency. There is no government intervention.
Floating/managed floating
The value of a currency from day to day is determined by market demand for and supply of the currency. There might be some government intervention. Some currency market intervention might be considered as part of demand management.
Fixed exchange rate
A fixed exchange rate occurs when a country keeps the value of its currency at a certain level against another currency.

2.3.2

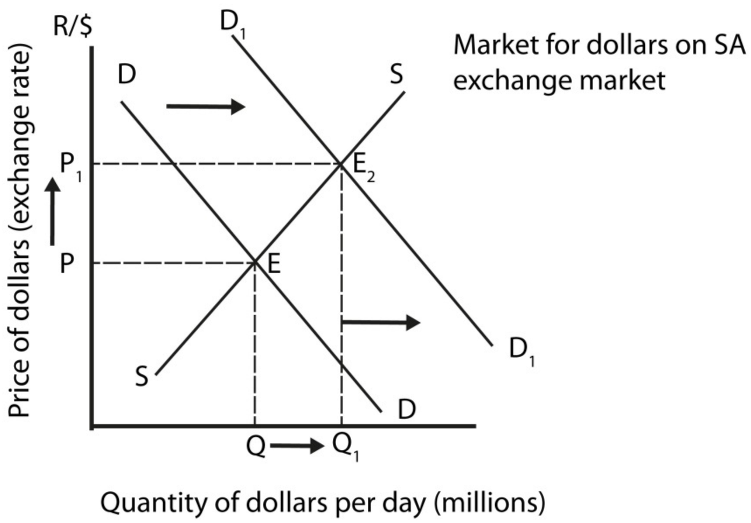


Diagram
- Demand shifting to the right
- Labelling (R/$ and quantity of $)

Explanation
- Increase in imports will lead to increased demand for foreign exchange, thus the demand curve will shift to the right.
- There will be a new equilibrium point, thus price of dollars increases, thus depreciation in value of the rand/appreciation of the dollar.

OR

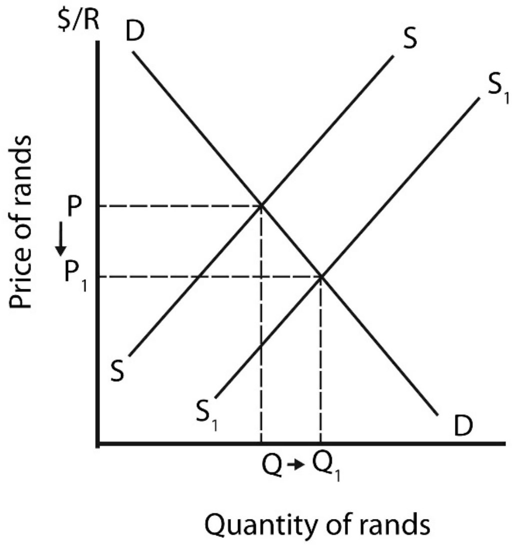


Diagram
- Supply shifting to the right
- Labelling ($/R/Price of rands and Quantity of rands)

Explanation
- South Africans are importing more and therefore have to sell rands to buy dollars which means there will be an increase in the supply of rands
- This will lead to a depreciation of the rand/appreciation of the dollar

QUESTION 3 MICRO ECONOMICS

3.1 3.1.1 The satisfaction derived or expected to be derived from the consumption of goods and services.

3.1.2 A – 10
B – 18
C – 3
D – 31

3.2 3.2.1 500 × 20 = R10 000
425 × 25 = R10 625
TR increased by R625

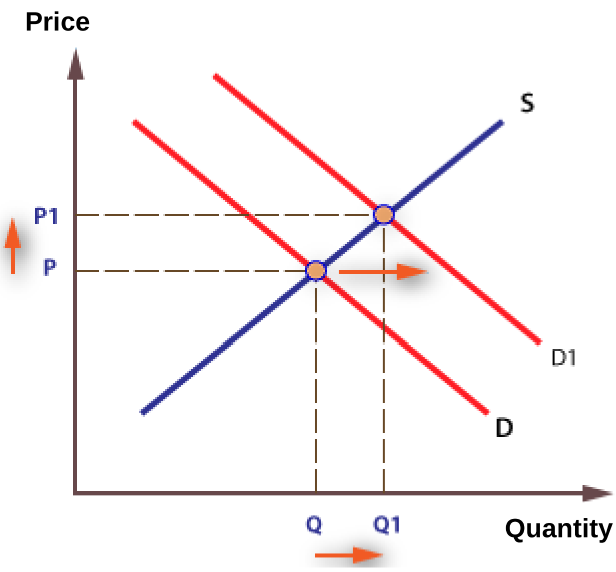
3.2.2 Credit formula or application of formula
–0,15/0,25 = (–) 0,6 or –15%/25% = (–) 0,6

3.2.3 **Explanation: Inelastic; Elastic**
Explanation
If a product has an elastic demand, it means that the amount demanded will change as the price of the product changes. Businesses will need to closely monitor how the demand for their product changes as the price changes.
If a product has an inelastic demand, businesses do not need to be as sensitive to changes in price mainly because people will need to have that product or service regardless of its price.
If the demand is inelastic, an increase in price results in increased revenue.
If the price rise results in decreased revenue, the demand is elastic.
Any other reasonable answer

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.
Or
Income elasticity of demand measures the responsiveness of demand to a change in consumer income.

3.3.2 **Identification; Explanation**
Good X is a normal good or necessity. This is a good for which an increase in income results in an increase in the demand for the good.
OR
These products will have a positive income elasticity of demand, e.g. chocolates.
Good Y is an inferior good. This is a good for which an increase in income results in a fall in the demand for the good
OR
These products will have a negative income elasticity of demand, e.g. bread, maize meal.

3.3.3



Mark allocation:
Shift in demand curve up and to the right.
Indicating the increase in price and increase in quantity.
Correct labelling of axes and curves.

3.4 **Explanation; Government action**

3.4.1 Imperfect/Asymmetric information

The free availability of information is important to the free functioning of markets. If some traders in a market (whether buyers or sellers) have more or better information than others, they may be able to take advantage of this and thus use market power to influence outcomes.

In the real world there is asymmetric information, e.g. seller of a used car has more information about the car than the buyer. (lemon or peach? etc.)

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 over-consumed and allocative efficiency is generally not achieved.

Government can force firms to disclose information about their products, e.g. warnings on cigarette packaging.

Any other reasonable answer

3.4.2 Imperfect competition

When a firm in a market has market power, it may be able to restrict output and/or raise the price in order to make significant profits.
Monopolies and oligopolies could restrict supply in order to maximise profits.
Resources are therefore under-allocated to the production of goods and services, compared to production under conditions of perfect 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.
Any other reasonable answer

3.4.3 Merit goods

Merit goods are goods and services that society feels should be consumed by its citizens, e.g. healthcare and education.
Merit goods are under-consumed in a free market. When people are unaware of, or underestimate, the benefit of consuming a merit good, market failure occurs.
Government can provide merit goods or subsidise the production of merit goods, e.g*. government subsidy for education.*
Any other reasonable answer

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 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 or the increase in the general standard of living of the majority of the population in a country

4.2 4.2.1 GDP per capita indicates living standards of people/ average income per person.
The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education, standards of living, and quality of life for countries worldwide.

4.2.2 This may reflect the fact that Sri Lanka places greater emphasis on human development than on economic growth.
It may also reflect the impact that HIV/AIDS has had on human development in South Africa.
Sri Lanka has a higher life expectancy.
Sri Lanka has a higher literacy rate.
Any other reasonable answer.

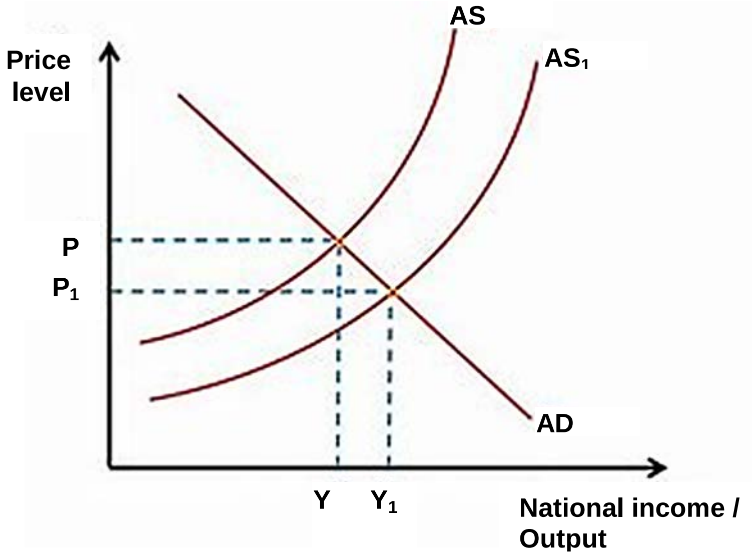
4.3 4.3.1 It is measured by the change in real GDP from one time period to the next.
OR
Formula: $\frac{(\text{Current Real GDP } - \text{ Previous Real GDP})}{\text{Previous Real GDP}} \times 100$

4.3.2 It is measured by the unemployment rate as a percentage of labour force.
OR
Formula: Number of unemployed / Labour Force × 100
OR
Strict definition: Someone who is unemployed and is actively searching for employment

4.3.3 Positive economic growth
Balance of payments equilibrium/surplus/Exchange rate stability
Low unemployment or full employment
Equal/fair distribution of income
Low inflation 3%-6% or price stability

4.3.4 Yes, the government should be concerned.
Unemployment rate is high and increasing.
Economic growth rate remains low.

4.3.5



Mark allocation for aggregate demand and supply diagram
Shift in aggregate supply curve down and to the right.
Indicating the decrease in price and increase in output.
Correct labelling of axes and curves.

Explanation
Better education and training can improve labour productivity and increase aggregate supply and thereby increase GDP.
Educated people have the skills to create their own businesses and generate work for themselves or others outside the formal job market, thereby reducing the unemployment rate and stimulating economic growth.
Better education and training improve skills, flexibility and mobility, thereby reducing unemployment and increasing economic growth.
Any other reasonable answer

4.4 4.4.1 A budget deficit occurs when government spending is greater than tax revenue.

4.4.2 **Explanation; Relevant examples**
Direct tax is imposed on a person or institution / Direct taxes are taxes on income, profits and wealth, paid directly by the bearer to the tax authorities.
Examples income tax, capital gains tax, company tax
Indirect tax is imposed on a transaction or goods and services or Indirect taxes are taxes on expenditure.
Examples VAT, customs duty, excise duty

4.4.3 **Direct taxes**
Explanation; Evaluation
Higher income taxes
Taxpayers will have to pay more of their income. As a result the government's tax revenue should rise, reducing the deficit.
But
May create disincentives to work, tax avoidance/emigration.
This could further reduce aggregate demand which will increase the budget deficit.
If aggregate demand decreases, it could lead to increased unemployment, therefore increasing benefit payments, further reducing tax revenue.
Accept discussion of Laffer curve to analyse the effect of increased taxes.
Higher company tax
In principle companies will have to pay a higher proportion of their profits to the government, therefore raising tax revenue and reducing the deficit.
But
May deter foreign direct investment, resulting in lower tax receipts in the longer term.

Indirect taxes
Explanation; Evaluation
An increase in VAT will generate more revenue for the government.
An increase in revenue will help the government reduce its budget deficit.
But
VAT is likely to cause higher inflation, reduced GDP growth and some job losses, increasing the budget deficit.
Any other reasonable answer

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 The amount of labour needed by employers.

5.1.2 **Relevant reason identified and Explanation**
Location/province/region– e.g. from the source it is clear that the salaries in Gauteng are higher than in the Western Cape.
Skills levels – the higher the skill levels, the higher the salaries and vice versa.
Demand for labour – where the demand for labour is greater than the supply, the salary will be higher.
Influence of trade unions – workers in unions may be able to get higher pay because the union can put pressure on the employer to increase salaries.
Any other reasonable answer

5.2 5.2.1 Consumer price index.

5.2.2 Cost-push inflation
This is when production costs increase, leading to higher prices.
Demand-pull inflation
This occurs when the demand in the economy increases quicker than supply, leading to price increases.

5.2.3 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

5.3 5.3.1 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.

Any other reasonable answer

5.3.2 **Relevant reason identified; Explanation**

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.

Employment:

The protection of local industries is an important mechanism to protect jobs 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.

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 jobs.

Sometimes these imported cheap goods are of inferior quality.

Encourage economic growth:

The more local production there is, the more jobs are created. This leads to higher demand and spending.

Any other reasonable answer

5.3.3 **Name; Explanation**

Natural resources are not evenly distributed:

E.g. S.A.'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, produces in mass and sells 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.

Any other reasonable answer

SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 A maximum price occurs when a government sets a legal limit on the price of a good or service – with the aim of reducing prices below the market equilibrium price.

6.1.2 **Explanation**
Rand/dollar exchange rate – the weaker the rand, the more expensive the price of oil.
Price of oil – the higher the price of oil, the higher the price of petrol.

6.1.3 **Relevant reason identified; Explanation**
Cost of production increases
Most businesses/industries rely on fuel and thus their cost of production will increase which would lead to higher prices on goods and services.
Lower demand/economic growth
Decrease in demand for goods and services as a result of less disposable income will lead to a decrease in GDP.
Higher inflation/lower standard of living
Higher CPI and/or PPI leads to a lower standard of living.
Increased transport costs
Increase in fuel prices will put pressure on the transport sector, namely private motor cars, taxis, public bus transport and even Uber transport and will make it more difficult for a lot of commuters to travel to and from work.
Any other reasonable answer.

6.1.4

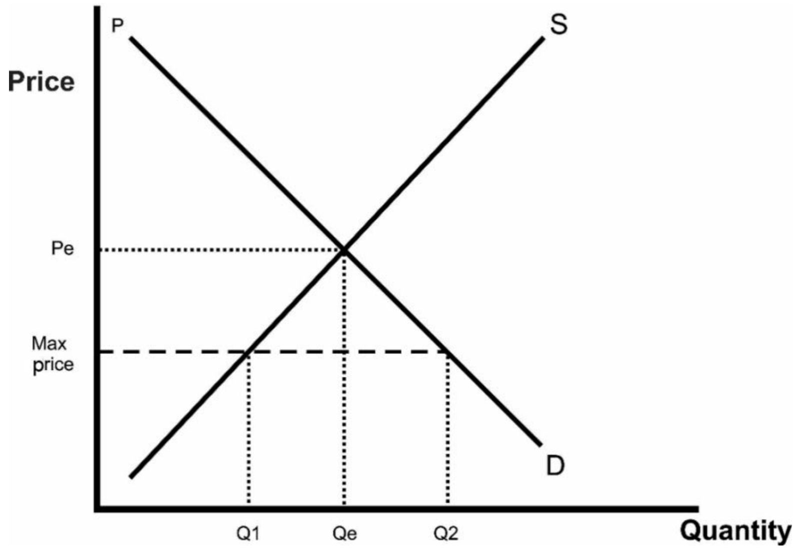


Diagram
Max price clearly indicated. (one mark for just showing max price line)
Correct labelling of axes and curves.

Explanation
If the maximum price is set below the equilibrium price, it will cause a shortage – demand will be greater than supply.
Because of the shortage, it creates the incentive to develop a 'black market' where people illegally trade the good.
Another consequence of a maximum price is that people will be forced to queue to try and get the good before it sells out.
Accept any other reasonable answer.

6.1.5 **Characteristics; Explanation**
In an oligopoly, a few large firms dominate the market.
There are only a few firms in the South African petrol market 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.
Petrol, as a product, may be regarded as homogeneous.
The quality of service, different types of fuel and different add-ons e.g. loyalty schemes, supermarkets, access to ATMs 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 fuel station/petrol company, e.g. substantial amounts of capital.
Complete information is not available due to competition.
While there is a lot of information available for the different petrol companies, 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, this is difficult to do with the petrol price, as it is regulated, but could occur within the diesel market.

6.2 6.2.1 China

6.2.2 Injection

6.2.3 **Analysis and explanation**

Argument for:

As the rand weakens, imported goods get more expensive and exported goods become cheaper. This will improve the trade balance.

A weaker rand means that mines exporting commodities see an increase in their profits. Greater exports will improve the trade balance.

The weaker rand may also have short-term benefits for sub-Saharan countries importing substantial volumes from South Africa.

Any other reasonable answer

Argument against:

The source indicates that some of our imports are inelastic; this means that a weakening of the exchange rate may not necessarily lead to a decrease in imports, worsening our trade balance.

The weak rand will also see the cost of imported goods to consumers rise.

A weaker currency could result in the economy facing higher fuel prices, with potential negative effects on the trade balance.

Any other reasonable answer

Total: 300 marks