TOTAL MARKS

NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2019

ECONOMICS

EXAMINATION NUMBER

Time: 3 hours   300 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 36 pages. Please check that your question paper is complete.

2. Read the questions carefully.

3. **All questions are compulsory**.
    SECTION A: Question 1
    SECTION B: Question 2, 3, 4 and 5
    SECTION C: Question 6.

4. Answer ALL the questions in the spaces provided on this question paper.

5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.

6. It is in your best interest to write legibly and to present your work neatly.

7. Non-programmable calculators may be used.

8. Please **do not write in pencil** as work in pencil will not be marked. However, any sketches or diagrams may be done in pencil.

9. Four blank pages (pages 33 to 36) are included at the end of the paper. If you run out of space for a question, use these pages. Clearly indicate the question number of your answer should you use this extra space.

Allocation of marks

Q1	Q2	Q3	Q4	Q5	Q6	Total
50	50	50	50	50	50	300

SECTION A

QUESTION 1

Select the correct alternative and enter the letter of the correct answer in the block.

1.1	
1.2	
1.3	
1.4	
1.5	
1.6	
1.7	
1.8	
1.9	
1.10	
1.11	
1.12	
1.13	
1.14	
1.15	
1.16	
1.17	
1.18	
1.19	
1.20	

1.1   Which ONE of the following is **not** a method of calculating GDP at market prices?
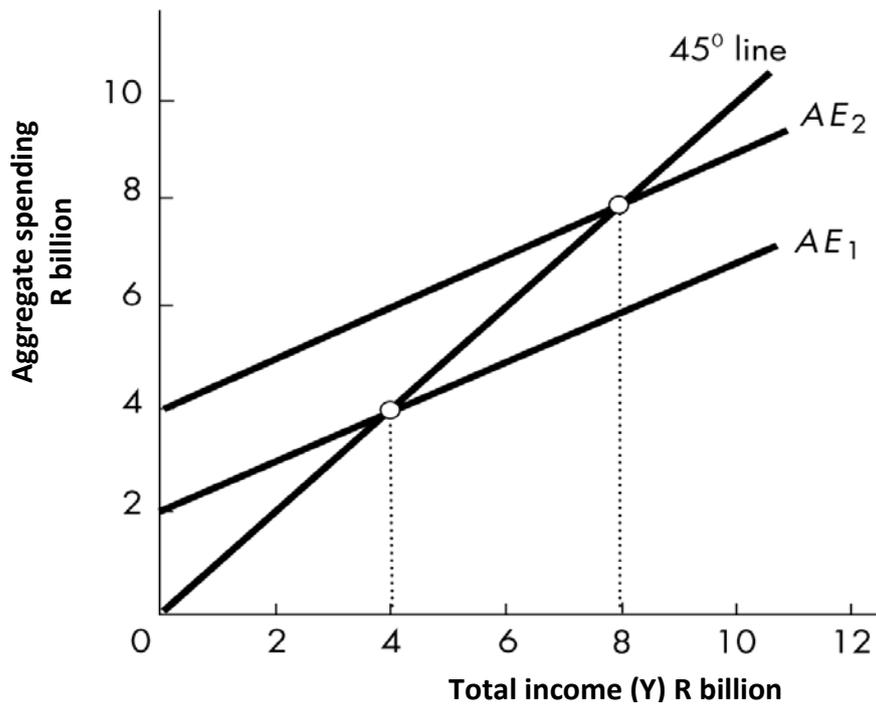
    A   income method
    B   value-added method
    C   expenditure method
    D   investment method   (2)

1.2   Retail sales, unemployment figures and real GDP are all examples of …

    A   leading indicators.
    B   lagging indicators.
    C   counter-cyclical indicators.
    D   coincident indicators.   (2)

1.3 Study Figure 1 and answer the question that follows.

Figure 1: The multiplier

In the above figure, the multiplier is …

A 1,5
B 2,0
C 2,5
D 3,0 (2)

1.4 In economics, the "long run" refers to the time period when …

A all factors of production are fixed.
B all factors of production can change.
C revenue is fixed.
D some factors of production are fixed and others may vary. (2)

1.5 The price of the product produced in a perfectly competitive industry is …

A determined by demand and supply conditions faced by an individual firm.
B determined by the government.
C determined by demand and supply conditions in the market.
D set by a few firms with market power in the industry. (2)

1.6   In theory, which of the following best describes the characteristics of a public good?

     A   excludable and rivalrous
     B   excludable and non-rivalrous
     C   non-excludable and rivalrous
     D   non-excludable and non-rivalrous   (2)

1.7   The cross elasticity of demand between goods X and Y is positive. This implies that they are …

     A   normal goods.
     B   substitute goods.
     C   inferior goods.
     D   complementary goods.   (2)

1.8   When a South African buys shares in a British company, this would be recorded in South Africa's …

     A   current account.
     B   capital transfer account.
     C   financial account.
     D   changes in net gold and other reserves account.   (2)

1.9   The Phillips curve demonstrates a …

     A   positive relationship between inflation and output.
     B   positive relationship between inflation and unemployment.
     C   negative relationship between inflation and unemployment.
     D   negative relationship between inflation and output.   (2)

1.10   Study Chart 1 and answer the question that follows.

Chart 1: Venezuela's annual inflation rate

Average consumer prices
Source: International Monetary Fund
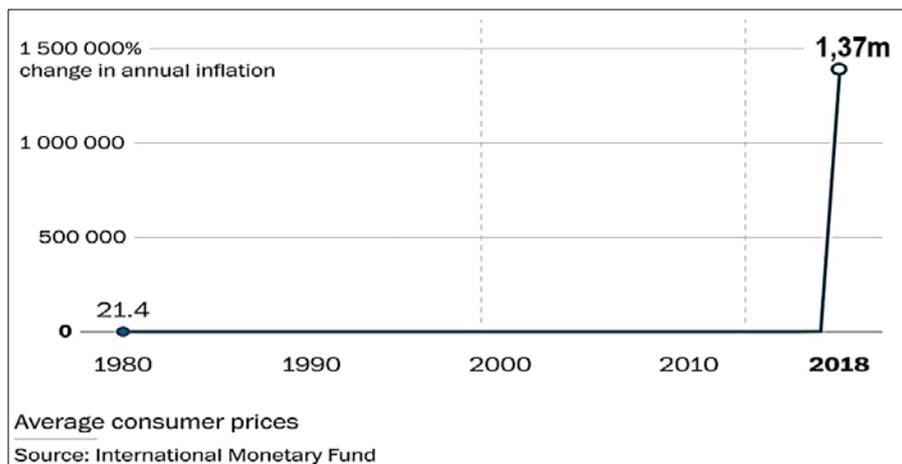
What type of inflation was Venezuela experiencing in 2018?

     A   disinflation
     B   hyperinflation
     C   moderate inflation
     D   deflation   (2)

1.11 In 2019, one US dollar buys R12,50 (ZAR) and in 2020, one rand (ZAR) buys $0,075 dollars. Which one of the following statements is most correct?

    A   There is no change in the exchange rate between 2019 and 2020.
    B   SA exports to the US are less expensive in 2020 than in 2019.
    C   Goods imported from the US are more expensive in 2019 than in 2020.
    D   For US investors, South African assets are more expensive to buy in 2020 than in 2019. (3)

1.12 A reduction in South Africa's company tax rate is most likely to …

    A   increase emigration.
    B   reduce the profitability of the country's firms.
    C   increase unemployment.
    D   increase foreign direct investment in the country. (3)

1.13 Study Table 1 below and answer the question that follows.

Table 1: National account figures 2017

Item	R millions
Gross value added at basic prices	**4 171 729**
Taxes on products	496 009
A	15 953
Gross domestic product at market prices	**B**

Choose the correct combination for **A** and **B** in the table above.

    A   Subsidies on production and 4 651 785
    B   Subsidies on products and 4 651 785
    C   Compensation of employees and 3 691 673
    D   Subsidies on products and 3 691 673 (3)

1.14 Study Table 2 below and answer the question that follows.

Table 2: Population, GDP at current prices and GDP at constant prices

Year	Population (million)	GDP at current prices (million)	GDP at constant prices (million)
2016	20	100000	100000
2017	21	110000	103000

The data confirms that …

    A   real GDP increased by 10%.
    B   nominal GDP increased by 5%.
    C   the population grew at a faster rate than current prices.
    D   real GDP per capita decreased. (3)

1.15   If the equilibrium market price of a good increases, this higher price would most likely occur as a result of …

    A   a fall in the price of a substitute.
    B   a rise in the price of a complementary good.
    C   a natural disaster.
    D   new firms entering the market.   (3)

1.16   What is most likely to indicate that an economy is developed rather than developing?

    A   a high birth rate and a low death rate
    B   a large primary sector and a high population growth
    C   a large service sector and capital intensive production
    D   a low level of investment and a high rate of savings   (3)

1.17   Country X's Lorenz curve is closer to the line of perfect equality than Country Y's Lorenz curve.

All other things being equal, which of the following is true?

    A   Country X has a larger Gini coefficient than country Y.
    B   Country Y has a more equitable distribution of income than country X.
    C   Country X's Lorenz curve will move closer to country Y's Lorenz curve if country X's top marginal income tax rate is decreased.
    D   Country Y's Lorenz curve will move closer to country X's Lorenz curve if country Y's top marginal income tax rate is decreased.   (3)

1.18   All other things being equal, which one of the following, A, B, C or D, represents the most likely outcome of cuts in interest rates in a country's economy?

	Household saving	Household borrowing	Country's currency
A	fall	fall	weakens
B	rise	rise	strengthens
C	rise	fall	strengthens
D	fall	rise	weakens

                                       (3)

1.19   Study Table 3 below and answer the question that follows.

Table 3: Hypothetical data for an economy

Government spending	Spending on imports	Taxes	Investments	Income from exports	Savings
25	60	30	20	70	35

Which statement about this economy is correct?

    A   It is expanding because exports are greater than investments.
    B   It is contracting because savings are greater than taxation.
    C   It is expanding because injections are greater than leakages.
    D   It is contracting because leakages are greater than injections.   (3)

1.20 An economy is experiencing high unemployment and an inflation rate below the inflation target.

Which macroeconomic policy mix is best for this economy?

A   expansionary fiscal and expansionary monetary policy
B   contractionary fiscal and contractionary monetary policy
C   expansionary fiscal and contractionary monetary policy
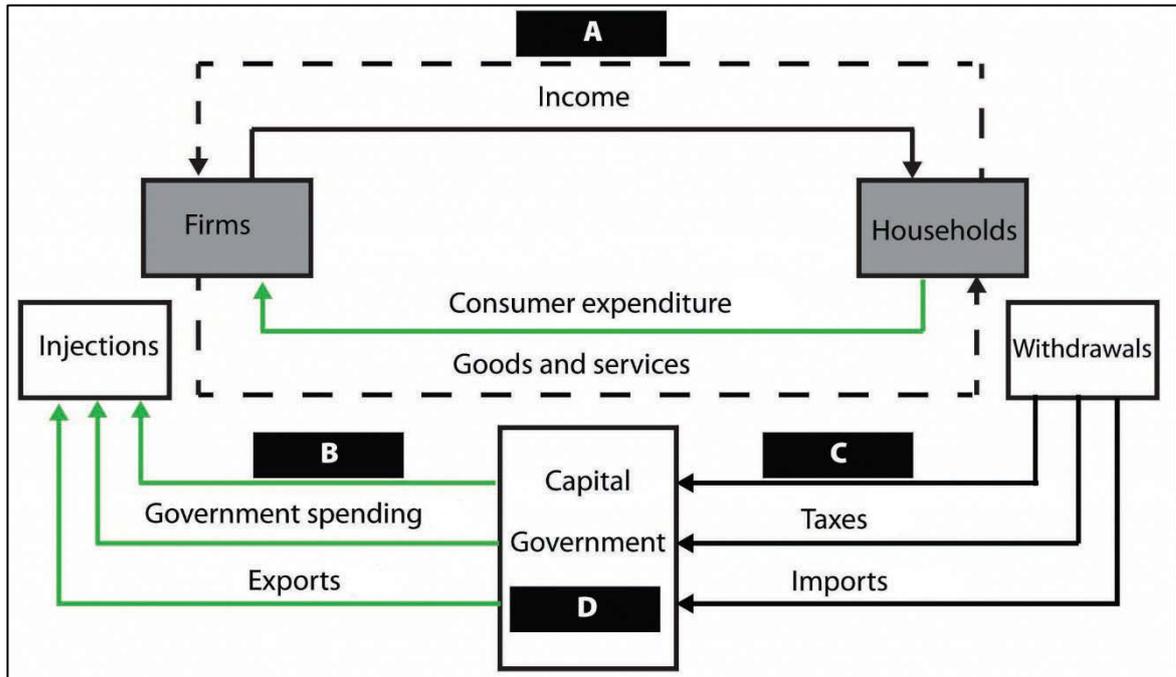D   contractionary fiscal and expansionary monetary policy   (3)

50 marks

SECTION B

QUESTION 2   MACROECONOMICS

2.1   **Study Diagram 1 below and answer the questions that follow.**

        Diagram 1: Circular flow of income

2.1.1   Name A to D.

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                                                                    (4)

2.1.2   Briefly explain the difference between monetary flows and real flows.

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                                                                    (4)

2.1.3 Briefly explain the relationship between taxes and government spending in the circular flow model.

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(4)

2.1.4 Use a relevant example to explain the possible impact of the multiplier process on an economy.

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(6)

2.2 **Leading indicators suggest that South Africa's gross domestic product (GDP) is on the road to a recovery.**

2.2.1 Name the lowest point on a business cycle before an economy enters a recovery.

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(2)

2.2.2 Define the economic term *gross domestic product.*

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(4)

2.2.3 Use an example to explain the economic term *leading indicator.*

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(4)

2.2.4 Discuss how monetary policy can be used to improve economic growth in an economy.

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(8)

2.3 **The International Monetary Fund (IMF) classifies South Africa's exchange rate as a managed floating system.**

2.3.1 Briefly differentiate between free-floating, managed floating and fixed exchange rate systems.
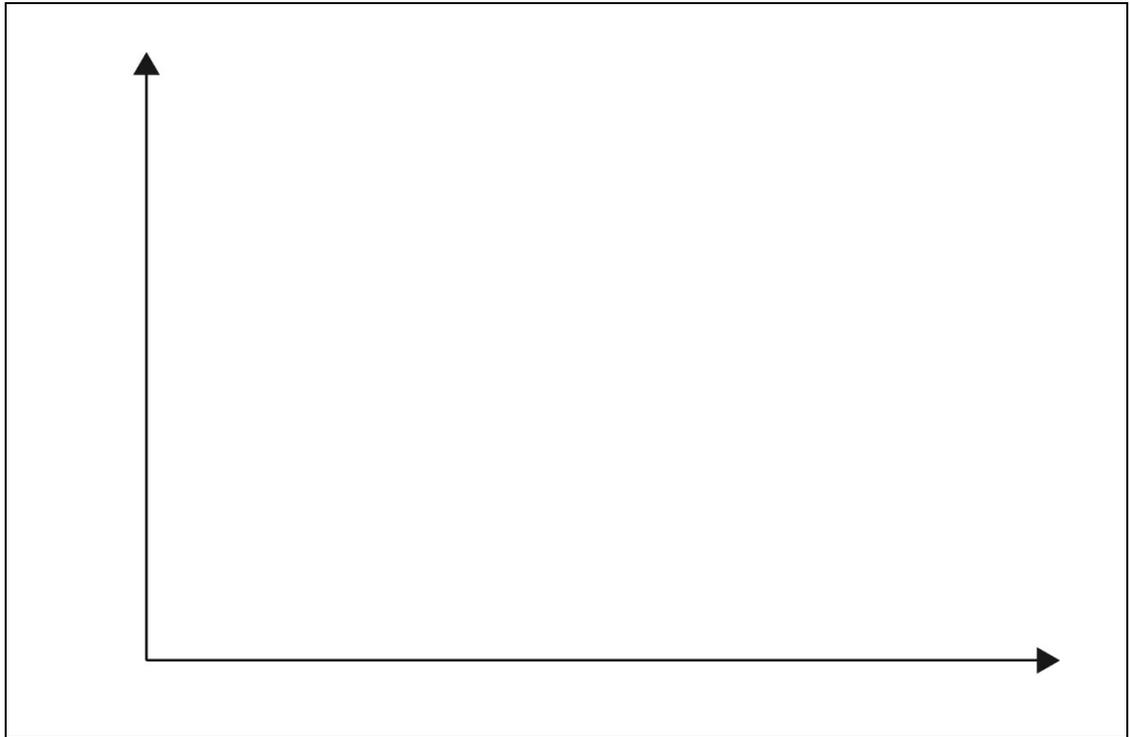
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(6)

2.3.2 Use a graph and an explanation to illustrate what will happen to the R/$ exchange rate if imports increase dramatically due to infrastructure spending by the South African Government.

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(8)
[50]

QUESTION 3   MICROECONOMICS

3.1   **Study Table 4 below and answer the questions that follow.**

The table below shows the marginal utility and total utility of toy cars.

Table 4: Marginal and total utility of toy cars

Quantity of toy cars	Marginal utility of toy cars (utils)	Total utility of toy cars (utils)
1	10	A
2	8	B
3	6	24
4	4	28
5	C	31
6	0	D

3.1.1 Describe the economic term *utility*.

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(2)

3.1.2 Calculate the values of A, B, C and D.

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(4)

3.2   **A firm is selling 500 units of a good at a price of R20. Having increased the price to R25, the quantity demanded falls to 425 units.**

    3.2.1   Calculate the difference in total revenue as a result of the price increase. Show all calculations.

        (4)

    3.2.2   Calculate the price elasticity of demand. Show all calculations.

        (4)

    3.2.3   Explain how a firm could benefit from knowing whether the product they sell is price elastic or price inelastic.

        (4)

3.3   **Study Table 5 below and answer the questions that follow.**

The table below shows the income elasticity of different products.

Table 5: Income elasticity

Good	Income elasticity of demand
X	+0.6
Y	−0.2
Z	+1.4

3.3.1   Describe the economic term *income elasticity of demand*.

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(2)

3.3.2   Use economic theory to briefly explain the difference between the income elasticity of demand of good X and good Y.
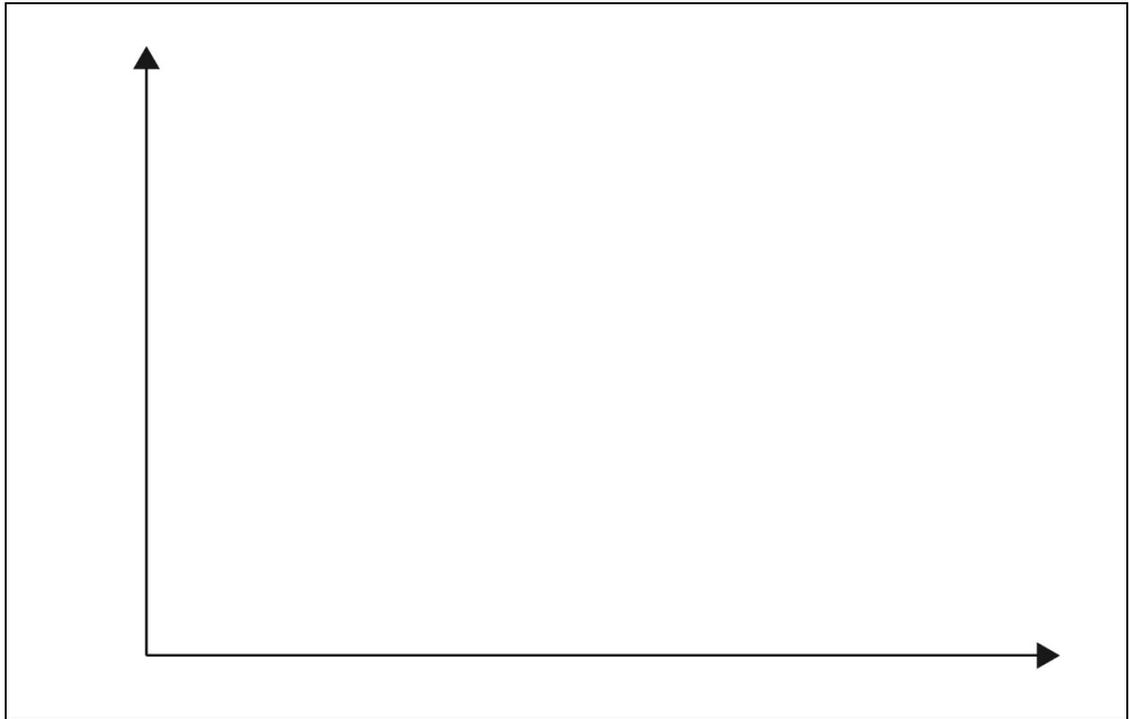
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(6)

3.3.3 Use ONLY a supply and demand graph to show the effects that an increase in income would have on the price and quantity sold of good Z.

(6)

3.4 Discuss the following causes of market failure and *assess* what the government can do about each one.

3.4.1 Imperfect/asymmetric information

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(6)

3.4.2 Imperfect competition

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(6)

3.4.3 Merit goods

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(6)
[50]

QUESTION 4   CONTEMPORARY ECONOMIC ISSUES

4.1   Explain the difference between economic growth and economic development.

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(4)

4.2   **South Africa has a much higher GDP per capita than Sri Lanka, but Sri Lanka fares much better than South Africa on the basis of the HDI.**

4.2.1   Briefly differentiate between the human development index (HDI) and gross domestic product (GDP) per capita as measures of economic development.

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(4)

4.2.2   With reference to the statement in 4.2, comment on TWO possible reasons for this being the case.
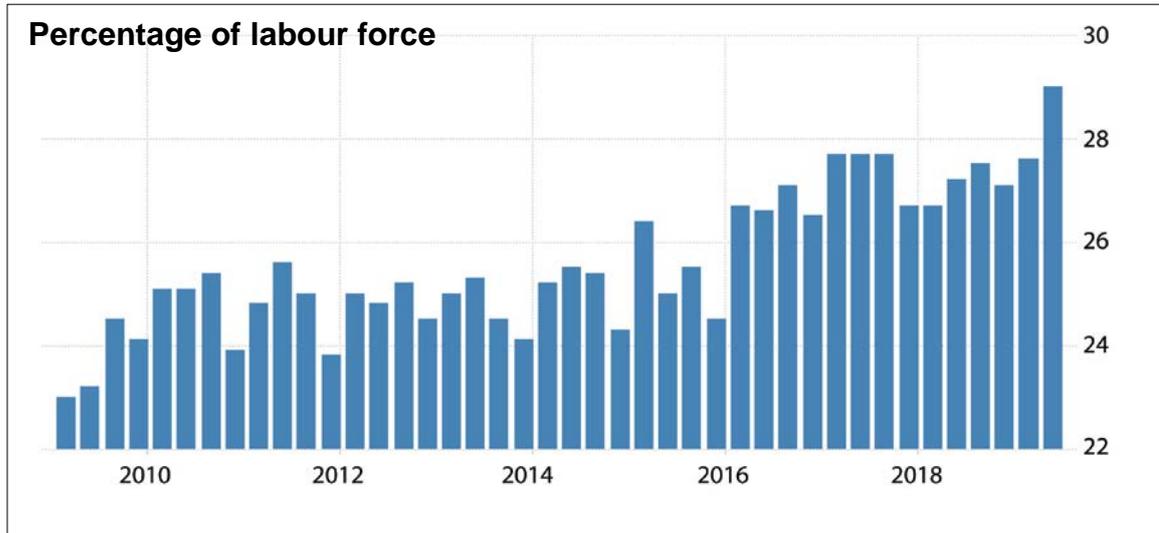
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(4)

4.3   **Study Chart 2 and Chart 3 and answer the questions that follow.**

Chart 2: South Africa's unemployment

[Source: tradingeconomics.com]

Chart 3: South Africa's GDP growth
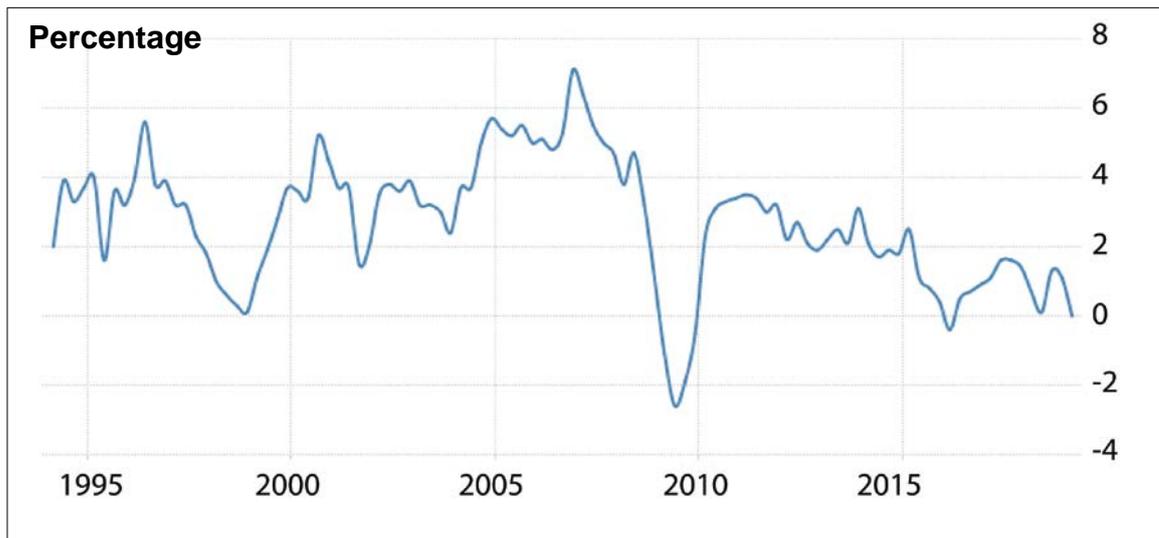
[Source: tradingeconomics.com]

4.3.1   How is economic growth measured?

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(2)

4.3.2 How is unemployment measured?

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(2)

4.3.3 Name FOUR of South Africa's macro-economic objectives.

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(4)

4.3.4 Should the South African Government be concerned with the most recent data in Chart 2 and Chart 3? Justify your answer.

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(4)

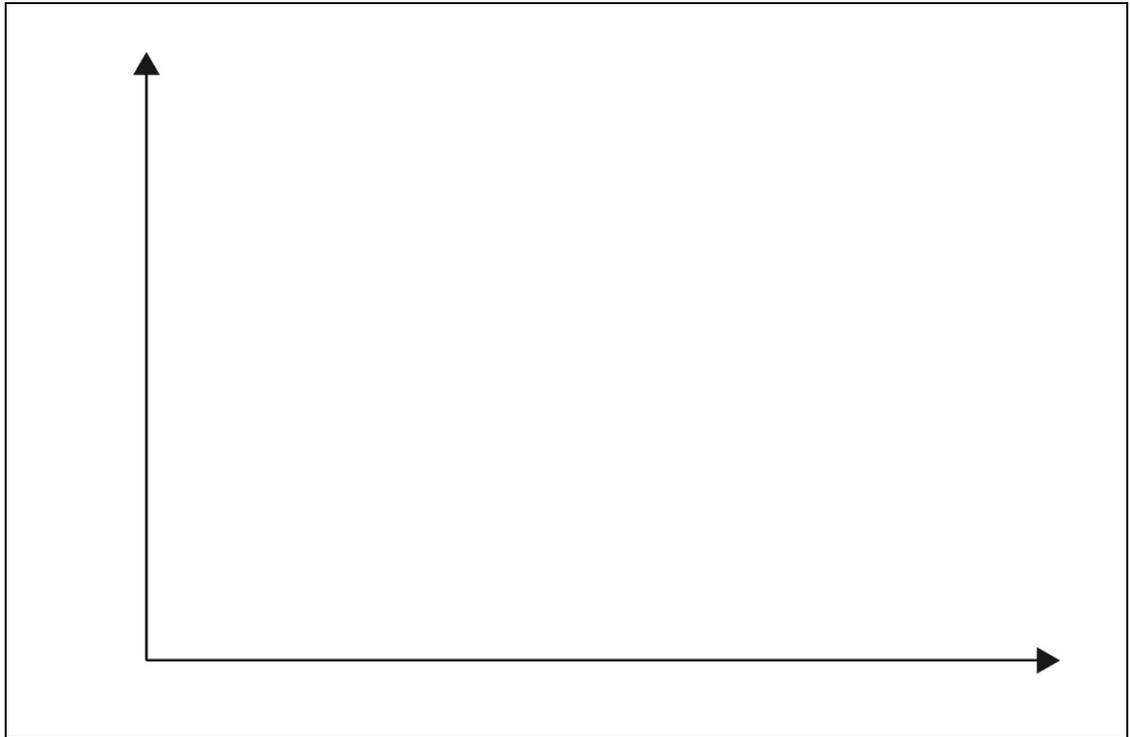4.3.5 Use an aggregate demand and aggregate supply diagram and a brief explanation to illustrate how better education and training can improve the unemployment rate and the economic growth rate.

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_____

(10)

4.4 **To reduce its budget deficit, the government could consider increasing direct or indirect taxes.**

   4.4.1 What is meant by the economic term *budget deficit*?

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                                                                        (2)

   4.4.2 Using examples, explain the difference between direct and indirect taxes.

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   4.4.3 Evaluate the extent to which an increase in both direct and indirect taxes will improve the budget deficit.

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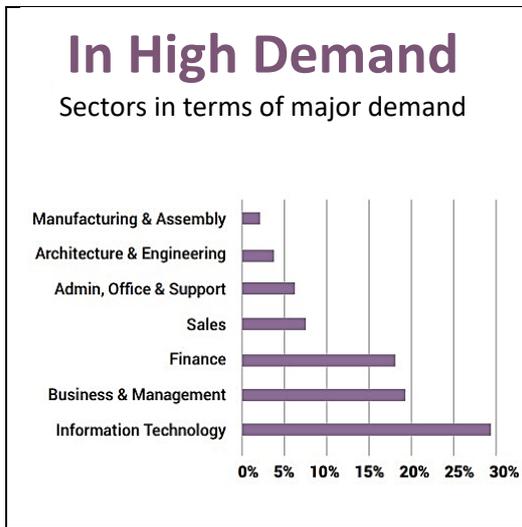   **[50]**

QUESTION 5   MIXED QUESTIONS

5.1   **Study Source 1 and Source 2 and answer the questions that follow.**

Source 1: Demand for labour   **Source 2: Average salaries**

In High Demand
Sectors in terms of major demand

Manufacturing & Assembly
Architecture & Engineering
Admin, Office & Support
Sales
Finance
Business & Management
Information Technology

0% 5% 10% 15% 20% 25% 30%

IT Project Administration/ Management

Average salary (CTC) offerings for a skilled-level position

GP: R39 074 – R47 656 p.m.
WC: R34 247 – R47 050 p.m.

Nursing/ Professional Care Giving

Average salary (CTC) offerings for a skilled-level position

GP: R19 668 – R24 473 p.m.
WC: R17 980 – R24 143 p.m.
KZN: R19 455 – 24 600 p.m.

[Source: <http://www.businessessentials.co.za>]

5.1.1   What does the economic concept *demand for labour* mean?

(2)

5.1.2   With reference to Source 2 and your own knowledge, discuss TWO reasons for differences in salaries.

(6)

5.2   **Relief for consumers as CPI hits two-year low.**

Headline CPI compared with CPI excluding fuel (annual rate of change)

— Headline CPI y/y
- - CPI excluding fuel y/y
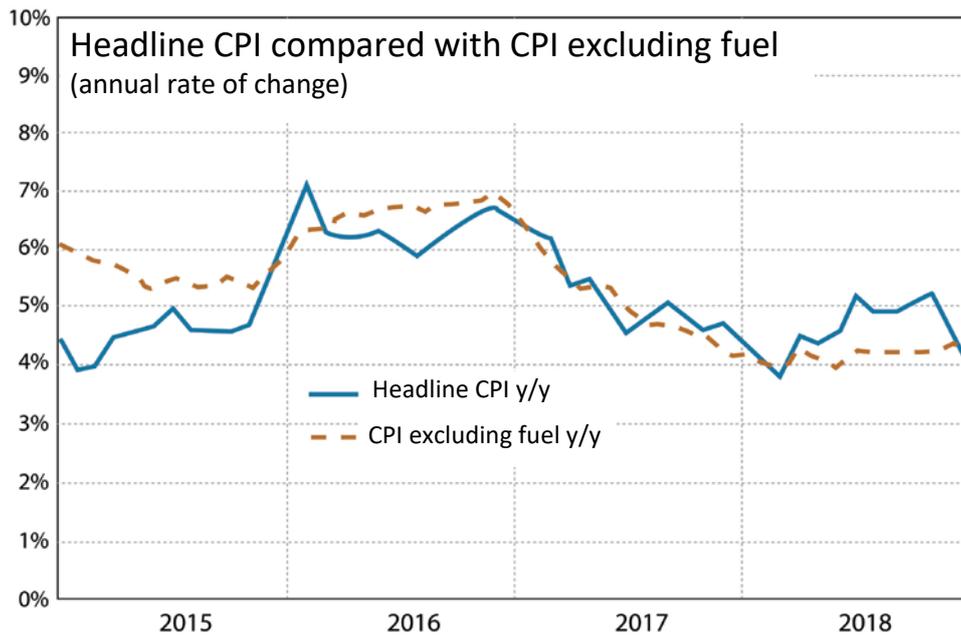
[Source: Consumer Price Index (CPI), January 2019]

5.2.1 What does the acronym CPI stand for?

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(2)

5.2.2 Briefly differentiate between cost-push and demand-pull inflation.

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(4)

5.2.3   Discuss THREE consequences of inflation.

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(12)

5.3 **US Trade War with China heats up.**
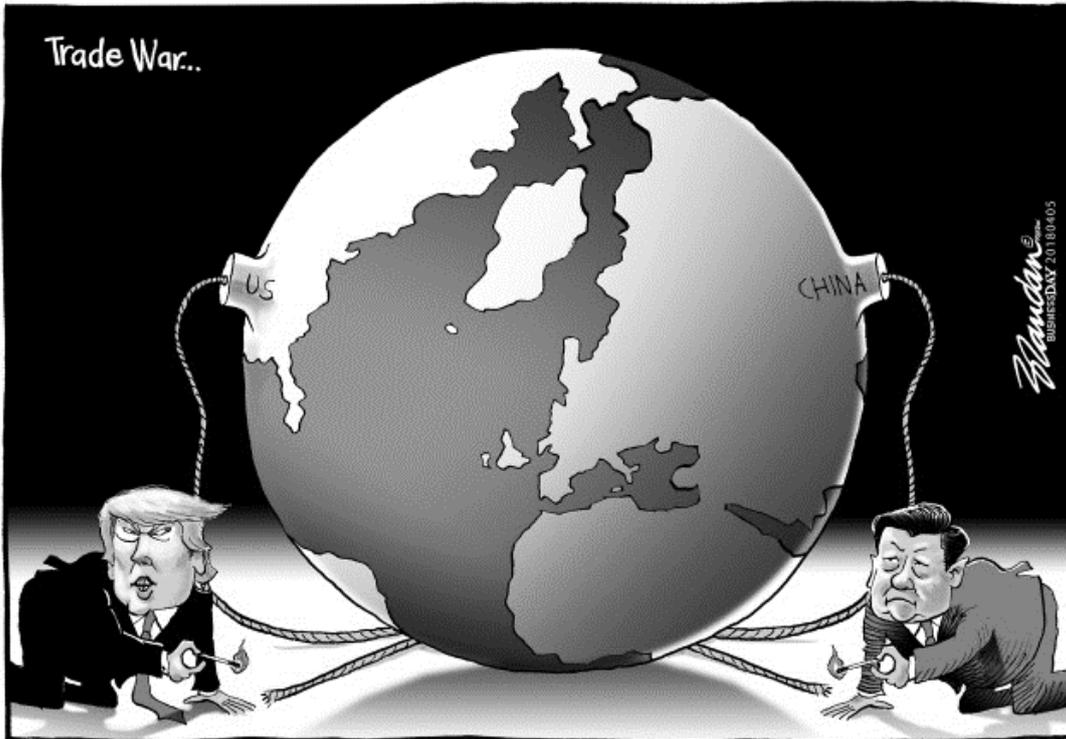
5.3.1 Describe TWO forms of protectionism.

(4)

5.3.2 Discuss TWO possible reasons for countries using trade barriers to protect their economies.

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(8)

5.3.3 Trade is a key growth area for most countries. Discuss THREE reasons why countries trade.

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(12)
[50]

200 marks

SECTION C

QUESTION 6   DATA RESPONSE

6.1   **Study Cartoon 2 and Source 3 below and answer the questions that follow.**

Cartoon 2

[Source: <https://www.businesslive.co.za/bd/opinion/2018-06-04-cartoon-fuel-price-heist>]

Source 3: SA's petrol market

> **Petrol market in South Africa**
>
> The South African Government is concerned about the rising cost of petrol in South Africa, which is largely caused by the rand to dollar exchange rate and the price of crude oil.
>
> There have been calls for the government to set maximum petrol prices. Another suggestion is to allow petrol stations to discount petrol prices, as is the case with diesel. Currently the petrol price is regulated but the diesel price is not.
>
> South Africa has only a handful of major producers and, if prices are deregulated, there is a risk that prices will be decreased in order to eliminate competition from the small independent suppliers.
>
> Once these smaller players are wiped out of the market, the oligopoly could then collude on prices.

[Source: Adapted from: <https://www.mg.co.za>]

6.1.1 Describe the economic term *maximum price*.

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                                                                    (2)

6.1.2 With reference to Source 3, briefly explain how the TWO factors mentioned in paragraph 1 influence the cost of petrol in South Africa.

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6.1.3 Explain TWO economic challenges facing South Africa because of the rising cost of petrol.

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                                                                    (6)

6.1.4 Discuss, with the aid of a diagram, what will happen if the government imposes a maximum price on petrol that is below the equilibrium price and **assess** what effect this will have on the market for petrol.

(10)

6.1.5 The petrol market in South Africa is regarded as an example of an oligopoly. Justify how this example corresponds with FOUR characteristics of oligopolies.

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(16)

6.2   **Study Source 4 and answer the questions that follow.**

Source 4: South Africa's trade balance

There are always winners and losers in exchange rate movements. One of the economic theories is that an improvement in South Africa's trade balance can be attributed to the weakening of the rand against the dollar. However, demand for imported goods is often more inelastic than the demand for our exported goods.

EXPORTS	IMPORTS
R118 884 554 896	R115 350 179 371
Trade balance: R3 494 375 525	
Top 5 countries we exported to:	Top 5 countries we imported from:
1. China (9,9) 2. Germany (8,5) 3. United States (7,0) 4. Japan (4,9) 5. India (4,8)	1. China (19,6) 2. Germany (9,5) 3. United States (6,4) 4. Saudi Arabia (4,8) 5. Nigeria (3,9)

[Figures: November 2018]

[Source: <http://www.sars.gov.za/ClientSegments/Customs-Excise/Trade-Statistics/Pages/default.asp>]

6.2.1   Which country is South Africa's biggest trade partner?

(2)

6.2.2   With reference to Source 4, identify whether the trade balance represents a leakage or an injection.

(2)

6.2.3 Evaluate whether a weaker rand will always lead to an improvement in the trade balance.

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(8)

50 marks

Total: 300 marks

ADDITIONAL SPACE (ALL questions)

REMEMBER TO CLEARLY INDICATE AT THE QUESTION THAT YOU USED THE ADDITIONAL SPACE TO ENSURE THAT ALL ANSWERS ARE MARKED.