



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS
PREPARATORY EXAMINATION 2008
MEMORANDUM**

MARKS: 300

TIME: 3 hours

This memorandum consists of 24 pages.

SECTION A**QUESTION 1**

1.1 Various options are provided as answers to the following questions. Write only the letter (A – C) of the correct answer, next to the question number (1.1.1 – 1.1.12) in the answer book.

1.1.1 B ✓✓

1.1.2 B ✓✓

1.1.3 C ✓✓

1.1.4 A ✓✓

1.1.5 A ✓✓

1.1.6 A ✓✓

1.1.7 B ✓✓

1.1.8 B ✓✓

1.1.9 C ✓✓

1.1.10 A ✓✓

1.1.11 C ✓✓

1.1.12 C ✓✓

(12 x 2)

(24)

1.2 Choose the correct word from the list provided to complete the statements that follow. Write only the correct word next to the question number (1.2.1 - 1.2.5) in the answer book.

1.2.1 financial account ✓✓

1.2.2 multiplier effect ✓✓

1.2.3 normal profit ✓✓

1.2.4 industrial policy ✓✓

1.2.5 carrying capacity ✓✓ (5 x 2) (10)

1.3 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A - J) next to the question number (1.3.1 - 1.3.8) in the answer book.

1.3.1 C ✓✓

1.3.2 G ✓✓

1.3.3 D ✓✓

1.3.4 A ✓✓

1.3.5 H ✓✓

1.3.6 F ✓✓

1.3.7 B ✓✓

1.3.8 E ✓✓ (8 x 2) (16)

SECTION B

Answer any THREE questions from this section in your ANSWER BOOK.

QUESTION 2

- 2.1 Choose the correct alternative between brackets:
- 2.1.1 open ✓✓
- 2.1.2 periodically ✓✓
- 2.1.3 Laffer ✓✓
- 2.1.4 nationalization ✓✓ (4 X 2) (8)
- 2.2 List THREE exchange rate systems:
- Free floating ✓✓
 - Controlled floating / managed ✓✓
 - Fixed exchange rate ✓✓ (3 X 2) (6)
- 2.3 Study the comic strip and graph and answer the questions that follow:
- 2.3.1 The Balance of Payments is an accounting record of a country's transactions with the rest of the world during a given period of time ✓✓✓ (3)
- 2.3.2 Downward trend / declination ✓✓✓ (3)
- 2.3.3 Domestic expenditure increases specifically on non-durable and semi-durable goods, creating pressure on domestic production, causing shortages – thereby causing imports to increase ✓✓ DVD's / cell phones are imported ✓✓ that might have caused the increase in imports and decrease in exports showing the deficit from 2002 to 2006 ✓✓ **OR** imports of industrial machinery needed in the production of 'booze' and pizzas and cell phones ✓✓ means payments for imports will exceed money received for exports ✓✓ (Any other relevant fact can be accepted) (4)
- 2.3.4 Imports exceeding exports ✓✓✓ (3)
- 2.3.5 Increase in interest / repo rate ✓✓✓ (3)
- 2.3.6 Foreign direct investments will decrease due to the importation of final goods and services from foreign countries ✓✓ Exchange rate will weaken the rand (imported inflation) ✓✓ (Any other relevant fact can be accepted) (4)

2.4 Evaluate the necessity of public sector: (evaluate means to give judgement)

1. Community goods ✓✓
 - Goods like defence and street lighting – indivisibility, because free riders cannot be excluded – it cannot be charged a price on the basis of use ✓✓ learner's own opinion ✓✓
2. Collective goods ✓✓
 - E.g. parks, beaches, streets and roads – possible to exclude free-riders by levying fees or tolls ✓✓ learner's own opinion ✓✓
3. Merit/demerit goods ✓✓
 - Services like education, health and libraries supplied by government, because it would be undersupplied by market forces ✓✓ learner's own opinion ✓✓

(16)
[50]

QUESTION 3

3.1 Choose the correct alternative between brackets:

3.1.1 horizontal ✓✓

3.1.2 oversupply ✓✓

3.1.3 duopoly ✓✓

3.1.4 less ✓✓

(4 x 2) (8)

3.2 List any THREE characteristics of oligopolies.

- Type of product may be homogeneous or differentiated ✓✓
- Entry is free for new producers, but not easy ✓✓
- Considerable control over prices ✓✓

(Any other relevant fact)

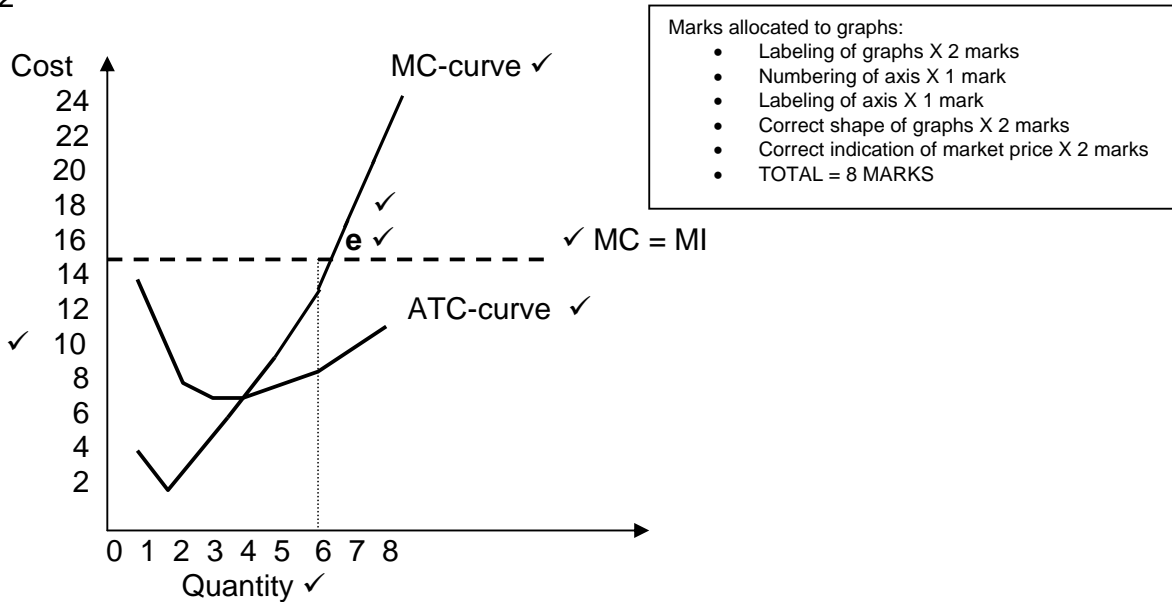
(3 x 2) (6)

3.3.1 Study the table and complete A – F.

Q	FC	VC	TC	AVC	ATC	MC
0	10	0	10	–	–	A = 0
1	10	4	14	4	B=14	4
2	10	6	16	C=3	8	2
3	10	10	D = 20	3,3	6,7	4
4	E = 10	16	26	4	6,5	6
5	10	26	36	5,2	7,2	10
6	10	F = 40	50	6,7	8,3	14
7	10	58	68	8,3	9,7	18
8	10	80	90	10	11,3	22

✓	✓	✓	✓
division	remains constant addition	subtraction subtraction	addition

3.3.2



(8)

3.3.3 Where marginal cost = average total cost ✓✓✓

(3)

3.3.4 Initially a sharp decrease and then a sharp increase / v-shape ✓✓✓

(3)

3.4 Explain the uses of cost-benefit analysis.

USES:

1. Used in public sector when evaluating large-scale public investment projects e.g. new highways, railway lines ✓✓

4 issues:

- All possible cost and benefits identified and calculated ✓✓ e.g. Eskom electricity supplies are interrupted – who will bear the cost? ✓✓
- Valuation of cost and benefits (market prices) ✓✓ e.g. Gautrain project being so large it distorts market prices ✓✓
- Interest rate at which to discount – cost and benefits occur at different points in time ✓✓ e.g. the repo rate and the bank lending rate where SA has not yet caught up on low interest rates therefore, the present repo rate may still be relatively high ✓✓
- Income redistribution which concentrates on economic efficiency benefits from all project ✓✓ – if benefits exceed costs, acceptance of project is recommended ✓✓

(8 X 2)

(16)
[50]

QUESTION 4

- 4.1 Choose the correct alternative between brackets:
- 4.1.1 growth rate ✓✓
- 4.1.2 Spatial Development Initiative ✓✓
- 4.1.3 export promotion ✓✓
- 4.1.4 demographic ✓✓ (4 x 2) (8)
- 4.2 List any THREE arguments for free trade.
- Free trade is persuasive ✓✓
 - Leads to greater world production / economic growth, profits, savings and investment ✓✓
 - Allows for specialization ✓✓
 - Mutual gains from international trade / developing countries take advantage of foreign expertise / innovation ✓✓
 - Efficient distribution of resources / promotes competition and resource allocation / choice ✓✓
 - Optimal use of endowment ✓✓
 - Trade restrictions tend to invite retaliation ✓✓
 - Generally agrees that open economy fares much better / increased efficiencies / economies of scale ✓✓
 - Protectionism leads to cost on society, inefficiency and loss in welfare ✓✓
 - Generates foreign exchange ✓✓ (3 x 2) (6)
- 4.3 Study the graphs below and answer the questions that follow:
- 4.3.1 Economic indicators are used to assess the performance of the economy - shows way in which economy is moving ✓✓✓ (3)
- 4.3.2 GDP is total value of all final goods and services produced within borders of country in 1 year ✓✓ one of most important measures of economic performance – measures increase in capacity of economy, at constant prices ✓✓ relates to geographical area – market prices are used ✓✓ (Any 2 X 2) (4)
- 4.3.3 Inequality in distribution of income ✓✓✓ (3)
- 4.3.4 Inequality in distribution of income has risen ✓✓ the closer to 1 the more unequal the distribution of income, the closer to 0, the more equal the distribution of income ✓✓ (2 X 2) (4)
- 4.3.5
- Less industrialized ✓✓✓
 - Labour unions ✓✓✓
 - Any other relevant fact (3)

4.3.6 Exclusion of interest rates ✓✓✓ (3)

4.4 *Compare and evaluate* small business development and black economic empowerment as part of the South African development policy. (to compare means to examine things to see how they are alike or how they differ).

SA's industrial development policies are more or less appropriate for SA conditions and do not contradict international best practice ✓✓

SMALL BUSINESS DEVELOPMENT:

1. Found in developed and developing countries ✓✓
2. Motive is to create employment for structurally unemployed ✓✓
3. Department of Trade and Investment programmes initiatives create room and support for SMMEs because they focus on cross-cutting issues and sectoral initiatives ✓✓
4. Focus on incentives for small businesses, improved access to finance and capital, information and advice and promotion of entrepreneurship amongst youth and women ✓✓

BLACK ECONOMIC EMPOWERMENT:

1. UN and World Bank emphasize importance of empowerment of indigenous people ✓✓
2. International law recognizes legislation to empower indigenous people ✓✓
3. Various laws like Employment Equity Act enforces transformation in SA ✓✓

(Accept any other relevant fact.)

(16)
[50]

QUESTION 5

5.1 Choose the correct alternative between brackets:

5.1.1 deflation ✓✓

5.1.2 direct ✓✓

5.1.3 production ✓✓

5.1.4 benefits ✓✓

(4 x 2) (8)

5.2 List any THREE economic effects of tourism:

- Direct foreign spending by tourists ✓✓
- Job creation / employment ✓✓
- Entrepreneurial opportunities and informal sector ✓✓
- Foreign exchange generator ✓✓
- GDP ✓✓
- Poverty relief ✓✓
- Tourism externalities ✓✓
- Tourism and the environment ✓✓
- Tourism and infrastructure ✓✓

(Any 3 x 2) (6)

5.3 Study the extract below and answer the questions that follow:

5.3.1 Involves people moving from their usual place of residence to destination where they make use of facilities and take part in activities ✓✓✓

(3)

5.3.2 “Key state-owned enterprises ...” ✓✓✓

(3)

5.3.3

- 37 % decline in production of wheat, rice and corn yields ✓✓✓
- decline in 30 % of major rivers providing richest agricultural regions in China ✓✓✓
- one metre rise in sea level – half of population homeless and 60 % economic output gone ✓✓✓

(Any 1 X 3) (3)

5.3.4

- putting up more systems to provide renewable energy ✓✓✓
- reduce energy intensity ✓✓✓

(6)

5.3.5

- birth control strategy ✓✓✓
- help with energy provision ✓✓✓
- solve the green-house effect ✓✓✓

(Accept any other relevant fact).

(Any 1 X 3) (3)

- 5.3.6
- Climatic conditions are changing – drought, no water ✓✓
 - Limited production of agricultural products ✓✓
 - Limited space for tourists ✓✓
 - Limited supply of energy ✓✓
- (Any 1 X 2) (2)

5.4 *Analyse* environmental sustainability in respect of pollution, conservation, preservation and externalities. (to analyse means to break down in parts to understand an issue or problem)

POLLUTION:

- When people introduce waste matter into the environment, directly or indirectly ✓✓
- Definition: occurs when flow of residual emissions resulting from human activity exceeds natural environment's capacity to absorb ✓✓
- Technology and control: new technology leads to cleaner environment ✓✓
- Marginal decisions: marginal principle should be applied in order to accept level of pollution ✓✓
- Self interest: based on why market fails to contain pollution – external costs cannot be enforced ✓✓
- Policy difficulties: difficult to apply policy due to pollution benefits which are intangible ✓✓

CONSERVATION:

- Human activities affect environment, cause pollution and over-utilisation ✓✓
- Aspects: opportunity cost, externalities are present and self interest has short term horizon ✓✓
- Conservation of stocks: limit what is harvested in order to maintain stable stock at least at this minimum level ✓✓
- Maintain renewable stock: danger of over utilization that leads to exceeding rate of growth of stock below minimum necessary for recovery ✓✓

PRESERVATION:

- Means to keep something intact – resources that are not only non-renewable but also irreplaceable e.g. a wetland ✓✓
- Private property: will not work as private enterprise, as e.g. farmer will use river-mouth eco-system for farming purposes ✓✓
- No compromise: opportunity to develop into holiday resort may lead to severely affected animal and plant life ✓✓
- Government policy: must intervene – buy or expropriate, subsidise, controls ✓✓

EXTERNALITIES:

- Extra costs and benefits captured by market transactions can be positive or negative ✓✓
- Negative externalities: air and water pollution oversupplied in market ✓✓
- Positive externalities: businesses expected to spend certain amount of money on equipment that reduces pollution – cleaner air may benefit others ✓✓

(4 X 4)

(16)
[50]

QUESTION 6

6.1 Choose the correct alternative between brackets:

- 6.1.1 injections ✓✓
 6.1.2 exogenous ✓✓
 6.1.3 a budget ✓✓
 6.1.4 appreciation ✓✓

6.2 List any THREE characteristics of monopolistic competition

- Large number of producers active in market ✓✓
- Nature of product is differentiated ✓✓
- Free market entry ✓✓
- Businesses have little control over price of product ✓✓
- Incomplete information for both sellers and buyers ✓✓

(Accept any other relevant fact)

(Any 3 x 2) (6)

6.3 Study the diagram below and answer the questions that follow:

- 6.3.1 A = R8 000 ✓
 B = R10 000 ✓
 C = R2 000 ✓
 D = R1 000 ✓
 E = R7 000 ✓
 F = R2 500 ✓
 G = R4 500 ✓

(1 X 7) (7)

- 6.3.2
- If income tax is decreased, the multiplier will increase ✓✓
 - Disposable income will rise – consumption expenditure will increase ✓✓

(2 X 2) (4)

- 6.3.3
- Real flows: goods and services are sold in product market and factors of production in the factor market ✓ e.g. labour ✓
 - Money flows: income and expenditure ✓ e.g. rent ✓

(4)

- 6.3.4 C = consumption expenditure ✓
 I = investment ✓
 G = government expenditure ✓
 X = exports ✓
 M = imports ✓

(5)

- 6.4 Explain externalities and public goods as reasons for market failures.
- Externalities – Private costs and benefits(third parties)✓✓ have come through the market mechanism and have a price/ Common and widespread feature in an economy/ Spillovers or neighbourhood effects.
 - Do not go through the market and therefore do not have a price attached to them. ✓✓
 - Difference between social costs and benefits and private benefits.✓✓
 - Exist in production and consumption✓✓ though based on private cost and benefits and this is a significant cause of market failure.

PUBLIC GOODS.

- They are Non-rivalry and Non-excludability kinds of goods. ✓✓
- Community goods which are not provided for by the price mechanism /Collective or Social goods.✓✓
- Markets cannot meet the needs for defence, street lighting✓✓ etc.
- Provision is made by the government.✓✓

(Accept any other relevant fact.)

(2 X 8)

(16)

[50]

TOTAL SECTION B:

150

SECTION C

Answer any TWO questions from this section in your ANSWER BOOK.

- I. Essay responses should include an introduction, body and conclusion. For the introduction and conclusion 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.
- II. Other long answer-questions: For the structure 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.
- III. Long answer questions where a letter is required:
 - 5 marks will be allocated for the format of the letter as follows: 3 marks for the salutation and 2 marks for the closing;
 - 5 marks will be allocated for the interpretation of the topic and language usage;
 - a maximum of 40 marks will be allocated for the body.

QUESTION 7

"It is the work of economists to analyze events as they happen, to explain them and to predict or forecast their future behavior." - Mike Levin

Discuss how business cycles are used in forecasting. Make use of a diagram to explain a typical business cycle. Conclude your discussion with a note to the local business chamber why you think we are at a certain point in the cycle.

[50]

- Important for those who wish to know if economic conditions are worsening or Improving✓✓
- Where the economy is on the business cycle and in what direction it is moving✓✓
- We need to identify certain critical variables or indicators (business cycle indicators)✓✓ that possibly reflect or predict movements in overall economic activity.

1. THREE GROUPS OF BUSINESS CYCLE INDICATORS:

- 1.1 Leading indicators ✓✓
- 1.2 Lagging indicators ✓✓
- 1.3 Coincident indicators ✓✓

1.1 Leading indicators:

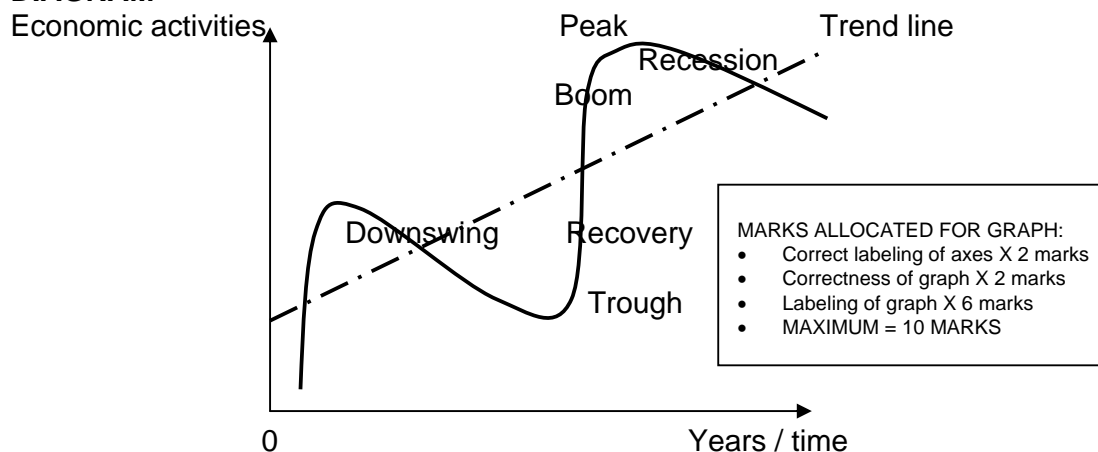
- Lead the cycles in economic growth by a fixed period✓✓
- Cyclical behaviour have a fixed have a fixed relationship with the business cycle ✓✓
- Used to predict turning points in each other, since they should also lead those that lead the business cycle✓✓
- Peak before the peak in aggregate economic activity✓✓
- Reach the trough before the aggregate economic activity reaches a trough✓✓
- Advance the warning of changes in aggregate economic activity✓✓ (max 10)

1.2 Lagging indicators

- Follow coincident indicators ✓✓
- Serve to confirm the behaviour of the coincident indicators ✓✓
- If it does not confirm the upswing or downswing for instance, it signals that the upswing or downswing is weak and will most likely end at an early stage ✓✓
- Change direction after reference turning points in the business cycle has been reached ✓✓
- Confirm changes that were first indicated by the leading indicators and then the coincident indicators ✓✓
- Provide an advance signal of a turning point in the business cycle ✓✓
- First to reflect imbalances that intensify (increase) or subsidize (decrease) in the economy ✓✓
- Influence of movements on subsequent movements in the leading indicators help explain the view that one business cycle generates the next one ✓✓ (max 10)

1.3 Coincident indicators

- Gross value added at constant prices, excluding agriculture, forestry and fishing ✓✓
- Value of wholesale, retail and new vehicle sales at constant prices ✓✓
- Utilization of production capacity in manufacturing ✓✓
- Total formal non-agricultural employment ✓✓
- Industrial production index ✓✓ (max 10)

2. DIAGRAM**3. NOTE TO BUSINESS CHAMBER**

- Very strong possibility that we might enter recess now ✓✓ (according to some Economists) due to: high interest rates ✓✓, high petrol cost ✓✓, power outages ✓✓ influencing production activities negatively all over the country ✓✓ might lead to cut down on costs e.g. lay off of workers ✓✓ **OR**
- South Africa will stay in upswing although we are experiencing strong negative elements like power outages, we are strong enough to withstand a recess (downswing) in the economy
- The note is an open-ended answer and what ever the viewpoint of the learner, should be marked in that context. (max. 10 marks)

Use the following rubric together with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context; average writing style
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates significant ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)

QUESTION 8

It is the aim of firms operating in a free market system to maximize their profits. The industry is characterized by freedom of entry and exit. Therefore, the individual business is a price taker.

Write an essay and explain with the aid of a diagram how long-term equilibrium for the industry is achieved under conditions of perfect competition.

[50]**INTRODUCTION**

The industry is the sum of all the individual businesses involved in a particular industry
✓✓✓

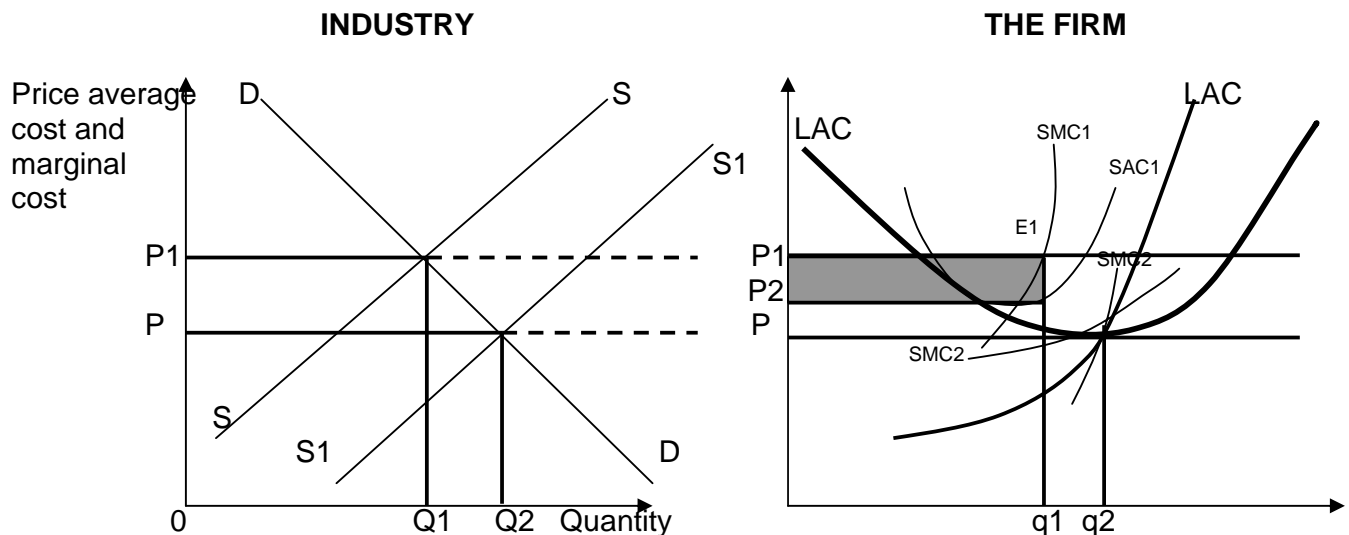
The LAC curve indicates the lowest cost per unit at which any particular output, as indicated on the horizontal axis, can be produced in the long term

Industry is made up of all individual businesses that supply output to particular market
e.g. wheat market (max 3 marks)

BODY

- In long term all factors of production are variable (mobile) – business can adapt capacity in full ✓✓
- Businesses will not be making an economic profit or loss over the long term ✓✓
- Businesses entering market and others making readjustments – equilibrium where all businesses are merely making normal profits ✓✓
- Industry as a whole can expand or shrink, because new businesses could enter market or existing businesses could exit ✓✓
- Graph illustrates the way in which businesses that are making an economic profit adapt their equilibrium position in the long term under perfect competition ✓✓
- **ECONOMIC PROFIT:** suppose business short-term plant is represented by SAC1. ✓✓ With market price P1 business is making economic profit of P1E1FP2 with short-term plant-size represented by SAC1 ✓✓ At price P1 business will maximize profit in short term at point E1, where principle of profit maximization $MR = MC$ applies and quantity q_1 will be produced ✓✓
- **BIGGER PLANT, LOWER UNIT COSTS:** when doing good estimate, if they expand, be able to produce at lower unit cost in long term (descending portion of LAC-curve) ✓✓ Possibility of bigger profit will lead to bigger plant being built ✓✓ Business will not be interested in producing at levels higher than E2 of LAC because it represents higher cost levels ✓✓ – internal scale disadvantages (diseconomies of scale) cause LAC to rise to right of point E2 ✓✓
- **NEW ENTRANTS, INCREASED SUPPLY:** **Economic profit** attracts new businesses to industry because quantity offered on market increases as result of expansion by existing businesses ✓✓ supply curve shift to right (S to S1) – price drops until it reaches price level P. ✓✓ Price P is at same level as minimum point in LAC where total revenue $OP \times Oq_2$ equals total cost $Oq_2 \times q_2E_2 =$ normal profit ✓✓ - long-term equilibrium

- **INITIAL LOSSES:** Process of adjustment of businesses who made economic profits was discussed above. If business however made losses (market price below minimum point of long-term average cost curve) process works other way round ✓✓ eventually LAC curve form tangent with demand curve and businesses remaining in industry will be making normal profit ✓✓
- **PRICES IN LONG TERM:** Above analysis leads to conclusion that under perfect competition price of product in long term will settle at level that corresponds to lowest point of LAC curve ✓✓ Point E2 represents equilibrium in long term ✓✓ no incentive to leave or enter industry ✓✓ when market price has been established under perfect competition at level where each business is in equilibrium at minimum point of its LAC curve , the industry will also be in long-term equilibrium ✓✓
- **EQUILIBRIUM:** once long-term equilibrium has been achieved, provided no changes in technology or factors of production, there will be no further entry or exit of businesses ✓✓ (max 32)



ALLOCATION OF MARKS FOR GRAPHS:

- Labeling of axes X 2 for each graph
- Numbering of axes X 2 for each graph
- Correct outlay of graphs X 2 for each graph
- Labeling of graphs X 2 for each graph
- MAXIMUM = 8 MARKS PER GRAPH

CONCLUSION

Any suitable sentence - 2 marks max.

Use the following rubric together with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

(5)

QUESTION 9

Since 1994 South Africa also made significant progress towards strengthening bilateral ties with its main trading partners. This has mainly taken the form of free trade area (FTA) protocols.

Write a letter to the Minister of Trade and Industry, where you discuss the arguments in favour of protectionism. Evaluate SACU, SADC and AU as major protocols in terms of these. Address of recipient: P/Bag X101, Cape Town, 8000.

[50]

Address of sender

Date

Minister of Trade and Industry
P/Bag X101
CAPE TOWN 8000

✓✓✓

Sir

ARGUMENTS IN FAVOUR OF PROTECTIONISM

As protectionism is the application of a trade policy whereby you as the government discourages importing of certain goods and services with a view to protect home industries against unequal competition from abroad, I would like to highlight the main arguments for protectionism as follows. ✓✓

1. INDUSTRIAL DEVELOPMENT ✓

- some countries suitable for establishing certain kinds of industries ✓✓
- if there is free trade, these industries will not be able to compete with well-established older countries as first few years are the most difficult ✓✓
- established countries also use unfair methods like price-cutting and dumping, so they will need protection ✓✓
- by protecting these industries, competition will be prevented which may hamper the growth of local industries ✓✓
- You must however realize that it is difficult to do away with protectionism one it has been applied for some time and often it is of a permanent nature ✓✓

2. STABLE WAGE LEVELS AND A HIGH STANDARD OF LIVING ✓

- We might think that the standard of living will be undermined if cheaper goods are imported from countries where wages are lower ✓✓
- It is however incorrect that high wages always result in high production costs – if the workers productivity is very high, the unit cost of production is relatively low ✓✓
- protection can prevent local wage levels from falling ✓✓

3. UNEMPLOYMENT CHECKED AND MORE EMPLOYMENT PROVIDED: ✓
 - Foreign competition may lead to local industries not able to find a profitable market – production may stop ✓✓
 - If protected, it will result in less unemployment – only valid if production is for local market ✓✓
 - The unemployment problem can however not be solved by protection ✓✓
4. ECONOMIC SELF-SUFFICIENCY ✓
 - In war time/friction between countries/shift in demand/depending to much on other countries/a country gets cut off – must be self-sufficient ✓✓
 - Protection should be granted especially to key industries ✓✓
5. DANGERS OF DUMPING ✓
 - Sometimes sell goods to foreign country at lower prices than charged at home ✓✓
 - Protection prevents foreign industries from dumping their surpluses and out of season goods at low prices, harmful to local industries ✓✓
 - Reason for dumping is to capture new markets and force financially weaker industries out of competition ✓✓
6. INHABITANTS OF COUNTRY UNABLE TO SPEND MONEY OVERSEAS ✓
 - Money remains and circulated in country ✓✓
 - Protection stimulates establishment of new industries and expansion of existing ones ✓✓
 - More money might lead to inflation – when protected prices usually rise ✓✓
7. GREATER ECONOMIC STABILITY ✓
 - Prevents country from over specialisation – a problem of free trade ✓✓
 - Protection is beneficial to secondary industries and promotes economic welfare ✓✓
8. NATURAL RESOURCES NOT DEPLETED ✓
 - Free trade exhausts resources – world shares in resources ✓✓
 - Protection protects home industries from overseas competition, ensures survival of industries, with proper planning, conservation and utilization of natural resources ✓✓
9. STABILISING EXCHANGE RATES AND BALANCE OF PAYMENTS CONSIDERATIONS ✓
 - Traders buy on cheapest markets and sell on most expensive markets ✓✓
 - Export primary products and imports manufactured goods ✓✓
 - Disrupts balance of payments and exchange rates ✓✓ (max 9)

It is however clear that South Africa has adopted a deliberate policy of liberalizing international trade by abolition of trade restrictions and moving towards free trade and development:

- SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) implementing SADC Protocol on Trade – come into effect in 2000 ✓✓ SA member of SADC in 1992 ✓✓ at present it has status of FTA ✓✓ SADC protocol, some 97 % of imports from SADC qualified for duty-free access to SA in 2005 ✓✓ trade should be fully liberalized by 2010 ✓✓

- SOUTHERN AFRICAN CUSTOMS UNION (SACU) into effect in 2004
✓✓ current members Botswana, Lesotho, Namibia, SA and Swaziland ✓✓
members jointly negotiate FTAs with rest of world ✓✓ current negotiating
agenda includes talks with United States of America and European Free Trade
Association (EFTA) ✓✓
- AFRICAN UNION (AU) ✓✓ intends to develop continent into economic and
monetary union ✓✓ adopted New Partnership for Africa's Development
(NEPAD) as development strategy ✓✓ provides regional cooperation and
integration ✓✓ first phase to develop five regional FTAs – SADC is one of them
✓✓

All these developments do not take place in isolation but is part of SA's broad industrial strategy towards economic relations with developed and developing trading partners in the North and South.

Yours sincerely,

✓✓

_____ (your signature)

YOUR NAME

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
2	Candidate has interpreted topic correctly but has not linked facts to topic.
3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

(5)

QUESTION 10

The American humorist, Art Buchwald, once explained inflation as follows: "In 1887 there was a bar and a grill owner in San Francisco named George Inflation. One day he failed to receive a shipment of stock from the East. Since the demand was great, George Inflation decided to charge 15 cents more per glass, instead of the standard 10 cents. He also made the glass smaller. This did not stop his customers from buying these products, so he raised the price to 20 cents, then 25 cents. The other bars in San Francisco raised their prices accordingly and when their customers complained they would say, 'Blame it on inflation'." -McEwan, A & Weisskopf.

Write an essay on inflation, explaining the policies that are used to combat it. Conclude your essay with the most important measure used by the Reserve Bank to combat it and give a short evaluation of the efficiency of this instrument.

[50]**INTRODUCTION**

A sustained and considerable increase in the general price level and a simultaneous decline in the buying power of money ✓✓✓ / Sustained and a significant increase in the general price level over a period of time (Max 3 marks)

BODY

Fiscal measures: Measures to taken by the Minister of Finance through policies for taxation and expenditure control inflation ✓✓

- If there is excess demand ✓ in the economy, which stimulates inflation, fiscal authorities can lessen the demand through direct taxation ✓✓ e.g. personal income tax ✓✓
- Indirect taxation ✓ Vat or customs and excise duties can be increased ✓✓
- A loan levy can be introduced or increased ✓✓
- State can cut back on its expenditure ✓ by postponing, reducing, or canceling governments projects ✓✓ e.g. dams, roads, schools ✓✓
- Financing the budget deficit ✓ This must be done on a non-inflationary basis ✓✓ e.g. loans from the non banking sector ✓✓
- Imposing surcharges ✓ This imposed on imported goods can help control inflation ✓✓ e.g. especially on luxury goods ✓✓
- An alternative fiscal approach to curbing inflation was intruded in the USA known as the supply-side economy ✓✓
- This could be done through tax reduction on personal income to encourage people to work harder ✓✓ /
- Tax reduction on Companies to encourage investment and capital growth ✓✓ /
- Reduction of taxes on interests and dividends to encourage greater savings ✓✓ /
- Reduced government spending ✓✓ (max 14 marks)

Monetary measures: This the reduction or adjustment of the quantity of money in circulation in the economy✓✓

- Maintain a fine balance between goods and services (real sector) and the monetary sector✓✓(money supply, credit)
- Inflation caused by excess demand can be curbed by if monetary authorities reduce the money supply✓✓
- Bank rates ✓ the central bank has to make decisions on the position of the interest rates✓✓
- Excessive credit is cause of inflation✓ Restrict the granting of credit by banks✓✓
- Moral pressure✓ Banks have to be more careful when granting credit✓✓
- Relaxing exchange controls ✓ (max 14 marks)

Other measures These depend upon any mixtures of policies during a given situation✓✓

- Increasing productivity✓ A positive long-term measure to reduce inflation✓✓and an important means to counteract inflation✓✓
- Price controls✓ most direct method to combat inflation✓✓e.g. fixing prices etc.
- A wage policy✓ - Used to break the inflationary spiral of increased wages✓✓
- Stricter conditions for consumer credit✓ introduction of a need for a deposit in credit transactions✓✓
- Encouraging personal savings✓ - Imbalance between demand and supply caused by inflation is corrected because greater savings means that the supply can expand while the demand declines✓✓
- Import control✓ - Allow entry of more imports to dilute local prices✓✓
- A floating exchange rate✓ - Prices are automatically adjusted to international conditions✓✓
- Indexation✓ Inflation cannot be beaten but the harmful effect of it should at least be lessened✓✓
- Inflation targeting✓ Central government and the central bank set a target for the inflation rate and applied policy measures in an attempt to meet the target✓✓ (max 14 marks)

Interest rates ✓✓ most important instrument used by SARB – influenced by the repo rate – currently due to excessive private consumption expenditure ✓✓ (max 6)

CONCLUSION

Any suitable sentence may be taken as correct as a conclusion (max 2 marks)

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TOTAL SECTION C: 100**GRAND TOTAL: 300**