KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL
SENIOR CERTIFICATE

GRADE 12

ECONOMICS P1

COMMON TEST

JUNE 2022

MARKS: 150

TIME: 2 Hours

This question paper consists of 12 pages.

INSTRUCTIONS AND INFORMATION

Answer THREE questions as follows:

- SECTION A: COMPULSORY
- SECTION B: Answer any TWO questions from this section.
- SECTION C: Answer any ONE of the two questions.

Number the answers correctly according to the numbering system used in this question paper.

Write the number of each question above each answer.

Read the questions carefully and start EACH question on a new page.

Leave at least ONE line between subsections of each question.

Start each question on a new page.

Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.

Use ONLY blue or black ink.

0. Non-programmable pocket calculators may be used.

1. Write legibly and present your work neatly.

SECTION A (COMPULSORY)

QUESTION 1   **30 MARKS – 20 MINUTES**

1.1   Various options are provided as possible answers to the following questions.
       Choose the correct answer and write ONLY the letter (A – C) next to the
       question number (1.1.1 – 1.1.5) in the ANSWER BOOK. e.g. 1.1.6 D.

       1.1.1   The flow of money from the financial sector to businesses is called …

                A   Imports (M)
                B   Taxes (T)
                C   Savings (S)
                D   Investment (I)

       1.1.2   Policies that are used for dampening the overheated economy are
                called ... fiscal policy.

                A   restrictive
                B   monetary
                C   expansionary
                D   natural

       1.1.3   A panel in parliament that monitors the activities of each government
                department is called the … committee.

                A   community
                B   portfolio
                C   parliamentary
                D   monetary policy

       1.1.4   The point in the business cycle that is associated with highest profits and
                consumption is known as...

                A   trough
                B   upswing
                C   boom
                D   peak

       1.1.5   Stock such as machinery and equipment that is used in production is
                called … goods.

                A   private
                B   demerit
                C   capital
                D   merit

1.1.6 The exchange of goods and services across the borders is
called ... trade.

    A   international
    B   barter
    C   money
    D   transfer

1.1.7 The amount of money paid to businesses to reduce their cost of
production is called ...

    A   tariffs
    B   subsidies
    C   quotas
    D   taxes

1.1.8 When one country can produce goods or services cheaper than
another is said to have a/ an ... advantage.

    A   absolute
    B   income
    C   comparative
    D   trade

(8 x 2) (16)

1.2   Choose a description from COLUMN B that matches the item in COLUMN A.
       Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the
       ANSWER BOOK.

COLUMN A		COLUMN B
1.2.1 Resource market	A.	The removal of unnecessary restrictions by legislation.
1.2.2 Upswing		
	B.	new scientific knowledge in the form of inventions and innovations.
1.2.3 Progressive taxes		
1.2.4 Collective goods	C.	Measures taken by the SARB to influence money supply and interest rates with a view to achieving economic growth
1.2.5 Deregulation		
1.2.6 Technology	D.	The interaction of economies with trade as an important element.
1.2.7 Globalisation		
	E.	Charges can be levied for them despite the fact that they are indivisible.
1.2.8 Monetary policy		
	F.	Where factors of production are sold.
	G.	Compulsory payments will increase as income increases.
	H.	Recovery and prosperity are experienced during this period.

(8 x 1) (8)

1.3   Give ONE term for each of the following descriptions. Write only the term next
       to the question number (1.3.1.-1.3.4.) in the ANSWER BOOK. Acronyms and
       abbreviations will NOT be accepted.

       1.3.1 The adding of final values of all goods and services calculated as
              gross value added.

       1.3.2 Paper issued by the states in exchange for loans which are redeemable
              at some future date in the long term.

       1.3.3 Goods that are characterised by non-rivalry and non-excludability.

       1.3.4 The price of the currency is officially increased by the government
              within a fixed exchange rate system.

       1.3.5 The reduced cost of production associated with producing a large
              quantity of output.

       1.3.6 The price of one currency in terms of another.   (6 x 1) (6)

                                                          TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

QUESTION TWO: MACRO-ECONOMICS   40 MARKS – 30 MINUTES

2.1   **Answer the following questions.**

   2.1.1 Name any TWO investments on the financial account.   (2 x 1) (2)

   2.1.2 How does an increase in population affect international trade?   (1 x 2) (2)

2.2   Study the table below and answer the questions that follow.

THE NATIONAL INCOME	
Items	**R/ Millions**
Compensation of employees	2 320 954
Net operating surplus	1 348 689
Consumption of fixed capital	740 122
Gross value added at factor cost	**(A)**

SOURCE: *SARB QUARTERLY BULLETIN*, 2021

   2.2.1 Identify the method of calculating the national income used above.   (1)

   2.2.2 Name the institution that is responsible for publishing the national income figures.   (1)

   2.2.3 Briefly describe the term *gross domestic product*.   (2)

   2.2.4 How can an increase in production costs affect the economy?   (2)

   2.2.5 Calculate the value of (A). (Show all calculations).   (4)

                                                                                        [10]

Please Turn Over

2.3   Study the extract below and answer the questions that follow.

SOUTH AFRICA POSTS LARGEST CURRENT ACCOUNT SURPLUS ON RECORD

South Africa reported its largest current account surplus on record last year as import demand was suppressed by the economy recovering from the impact of the corona virus and the value of gold exports rose to the highest since at least 1960.

[Adapted from *Business Tech*, March 2022]

2.3.1   Name the sub-account of the balance of payment discussed above.   (1)

2.3.2   Which mineral resource is responsible for the increase in the
        sub-account above?   (1)

2.3.3   Describe the concept *merchandise imports*.   (2)

2.3.4   What are the benefits of an increase in foreign income for South Africa? (2)

2.3.5   How can a reduction of imports be used to correct the current account
        deficit?   (4)

                                                                                 [10]

2.4   Briefly discuss the relationship between the *financial sector* and
        households in the circular flow.   (4 x 2) (8)

2.5   How does public sector failure negatively affect the South African economy? (8)

                                                                                 [40]

QUESTION 3: MACRO-ECONOMICS   **40 MARKS – 30 MINUTES**
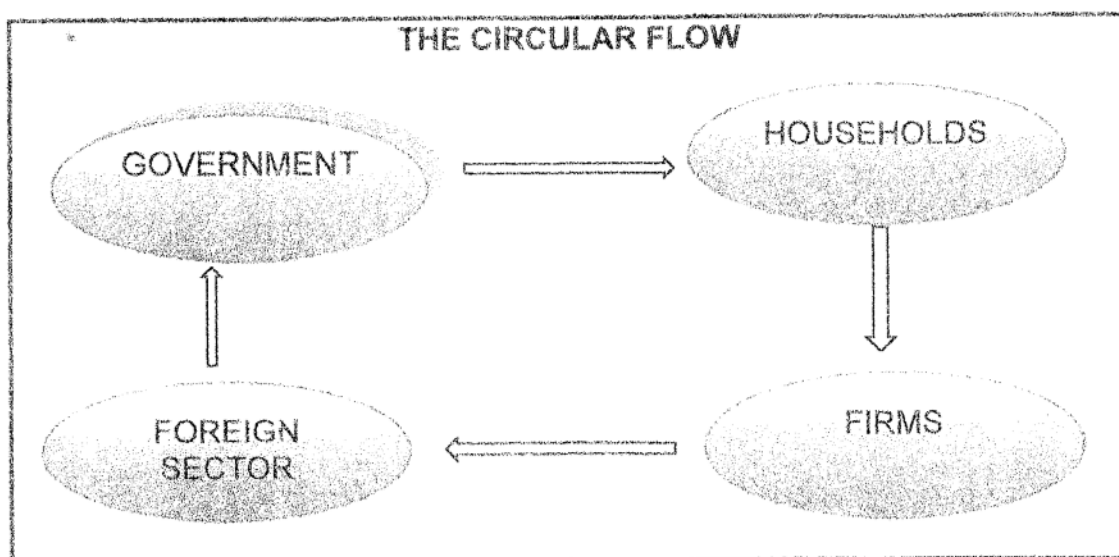
3.1   Answer the following questions.

    3.1.1   Name any TWO examples of indirect taxes.   (2 x 1) (2)

    3.1.2   How can a decline in the manufacturing sector negatively affect the
          economy?   (1 x 2) (2)

3.2   Study the diagram below and answer questions that follow.

THE CIRCULAR FLOW

3.2.1   Identify the type of circular flow model shown on the above diagram.   (1)

3.2.2   Name the producers on the above diagram.   (1)

3.2.3   Briefly describe the term *real flow*.   (2)

3.2.4   Explain the negative impact of an increase of leakages on the economy.   (2)

3.2.5   How does an increase in government spending benefit the
          economy?   (2 x 2) (4)

                                                            [10]

3.3 Study the information below and answer questions that follow.

SOUTH AFRICA TRADE SURPLUS WIDENS IN FEBRUARY	
Indices	**(Billion)**
Index of import prices	130.5
Index of export prices	141.1
Terms of trade	**(A)**

South Africa's trade surplus rose to ZAR R10.6 billion in February of 2022, from a downwardly revised ZAR 407 billion in the previous month. Exports advanced 8% month-over-month to ZAR 141.15 billion, boosted by shipments of vehicles, machinery, transport and minerals.

[Adapted from *Trading Economics*, February 2022]

3.3.1 Identify the index to compare imports prices and exports prices shown above. (1)

3.3.2 How much is the surplus from the above information? (1)

3.3.3 Describe the concept *balance of trade*. (2)

3.3.4 What is the positive impact of the availability of skilled workers in the country? (2)

3.3.5 Calculate the value of (A). (Show all calculations) (2 x 2) (4)

[10]

3.4 Briefly discuss the importance of the *foreign exchange market* and the *product market* in the circular flow. (8)

3.5 Why is it important for a country to calculate its national income? (8)

[40]

    Please Turn Over

QUESTION 4: MACRO-ECONOMICS   **40 MARKS – 30 MINUTES**
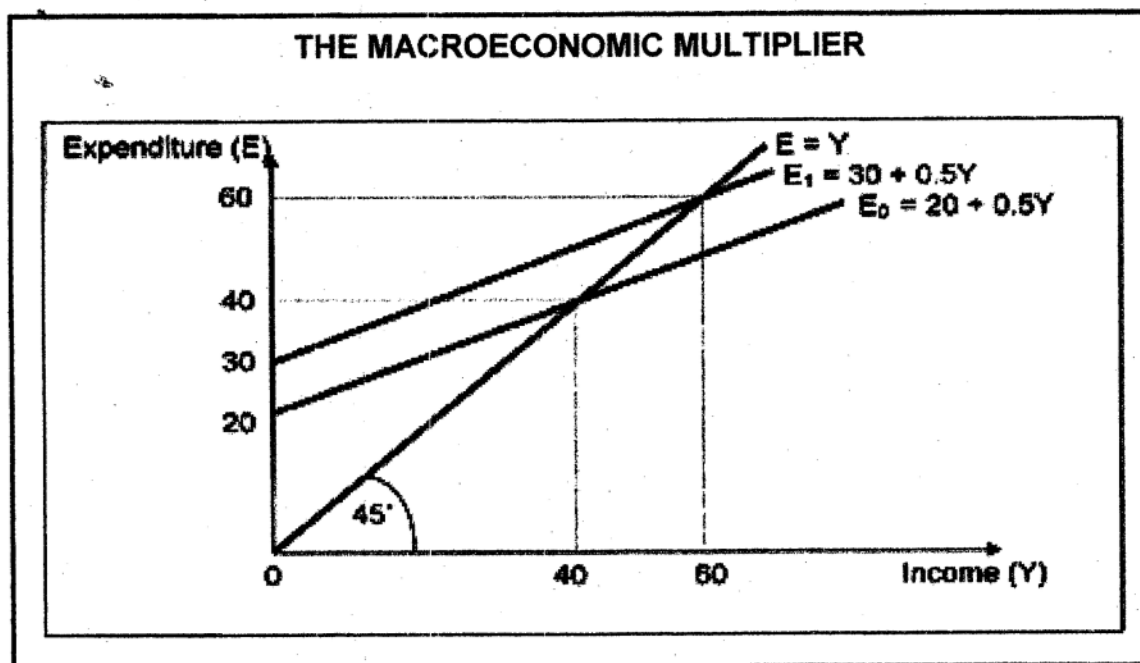
4.1   Answer the following questions

    4.1.1   Name any TWO categories of consumer goods.   (1 x 2) (2)

    4.1.2   How do subsidies affect production?   (2 x 1) (2)

4.2   Study the graph below and answer the questions that follow.

THE MACROECONOMIC MULTIPLIER

4.2.1   Name ONE sector involved in deriving the macro-economic multiplier.   (1)

4.2.2   Give the value of the injection made into the economy.   (1)

4.2.3   Briefly describe the term *autonomous consumption*.   (2)

4.2.4   Explain the negative impact of a decrease in consumer spending on the size of the multiplier.   (2)

4.2.5   Calculate the value of the multiplier using the formula k= 1/ (1-mpc) if the mpc is 0.5 . (Show all calculations).   (4)

                                                [10]

4.3   Study the cartoon below and answer questions that follow.

LOAD SHEDDING: CRISIS FOR THE SOUTH AFRICAN ECONOMY!

Source: Business Times
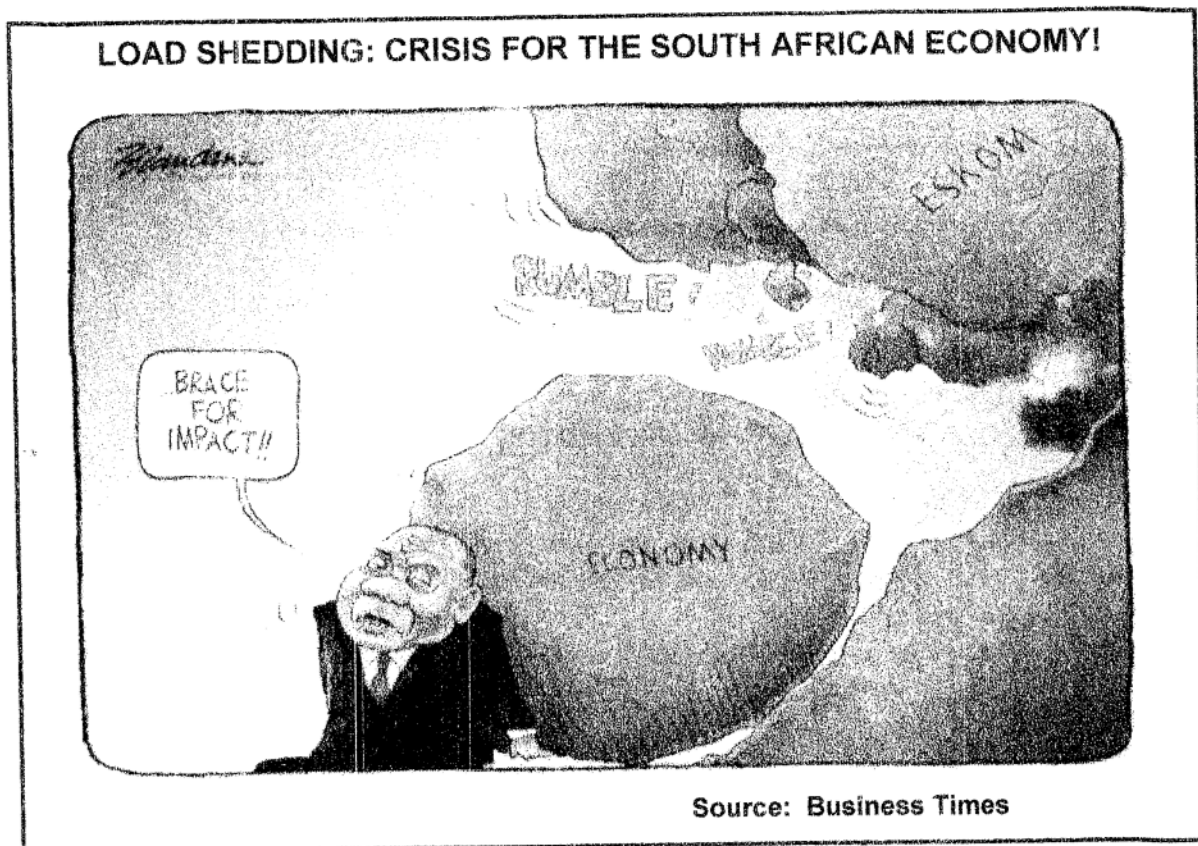
4.3.1   Identify the energy crisis faced by South Africa on the cartoon.   (1)

4.3.2   Which government department is responsible for budget in the
        economy?   (1)

4.3.3   Briefly describe the term *parastatals*.   (2)

4.3.4   What is the negative impact of an increase in electricity prices?   (2)

4.3.5   How does a country benefit from a lower tax rate?   (2 x 2) (4)

                                                                                          [10]

4.4   Differentiate between *money flow* and *real flow* in the circular flow.   (4X2) (8)

4.5   How can a negative Balance of payments affect the country's economy?   (8)

                                                                                          [40]

SECTION C

Answer **ONE** question from this section in the ANSWER BOOK
Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: **Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/ Analyse/Compare/ Evaluate/Distinguish/Differentiate/Explain/Assess/ Debate	Max. 26
Additional part: Give own opinion/Critically discuss/ Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/ Calculate/Deduce/Compare/Explain/Distinguish/Interpret/ Briefly debate	Max. 10
Conclusion: Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations •	Max. 2
TOTAL	**40**

QUESTION 5

- Discuss in detail the features underpinning forecasting of business cycles. (26)
- How can open market transactions be used as a tool to smoothen business cycles? (10)

[40]

QUESTION 6

- Discuss in detail the objectives of the public sector (26)
- How can the government improve the efficiency of parastatals in South Africa? (10)

[40]

TOTAL MARKS: 150

GRADE 12

JUNE 2022

ECONOMICS P1
MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 19 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1   **MULTIPLE-CHOICE QUESTIONS**

1.1.1	A	balance of payments
1.1.2	C	specialise in what they do best
1.1.3	B	terms of trade
1.1.4	A	trend line
1.1.5	D	improving the efficiency of markets
1.1.6	B	$G + I + X < S + T + M$
1.1.7	D	money market
1.1.8	B	It takes a larger percentage of the income of low-income earners than those with higher income

(8 x 2)   (16)

1.2   **MATCHING ITEMS**

1.2.1	E ✓	Where long-term funds are borrowed and saved by consumers and business enterprises
1.2.2	I ✓	Also known as the national product at constant prices
1.2.3	G ✓	Do not change direction until after the business cycle has changed its direction
1.2.4	C ✓	Allowed to respond to market forces within certain limits
1.2.5	H ✓	A form of credit that the IMF can use for a consistent disequilibrium
1.2.6	B ✓	Where resources cannot be reallocated to make one individual better off without making at least one individual worse off
1.2.7	F ✓	Prescribed by the United Nations to compile gross domestic product
1.2.8	A ✓	Includes libraries, health services, research programmes and education

(8 x 1)   (8)

1.3   **ONE WORD ITEMS**

1.3.1   Revaluation ✓
1.3.2   Direct taxes ✓
1.3.3   Gross National Product ✓
1.3.4   Terms of trade ✓
1.3.5   Real flow ✓
1.3.6   Disinvestment ✓   (6 x 1)   (6)

TOTAL SECTION A: 30

ECONOMICS P1

SECTION B

Answer TWO of the THREE questions in this section.

QUESTION 2

2.1   2.1.1   **Name TWO types of flows in the circular flow model.**

        ☐ money flow✓
        ☐ real flow✓   (2 x 1)   (2)

    2.1.2   **Why is it not possible to exclude individuals from using public goods?**

        ☐ It is not possible because once public goods have been provided, they can be used by everyone. ✓✓
        ☐ It is impossible to prevent individuals from enjoying the benefits. ✓✓
        ☐ E.g., once a traffic light is installed or fireworks displayed, they are enjoyed by everyone. ✓
        (Any other correct relevant response)   (Any 1 x 2)   (2)

2.2   **DATA RESPONSE**

    2.2.1   **Give the alternative term for recovery(growth) as depicted from trough to peak.**

        ☐ Expansion /upswing ✓   (1)

    2.2.2   **What is measured from peak to peak or from trough to trough?**

        ☐ Length ✓   (1)

    2.2.3   **Briefly describe the term *real GDP*.**

        ☐ Refers to GDP figures adjusted for price changes (effect of inflation has been removed). ✓✓
        (Accept any other correct relevant response)   (2)

    2.2.4   **Explain the government policy that the central bank can use in smoothing business cycles when the economy is at a peak.**

        ☐ The contractionary monetary policy is the most effective as the interest rates are increased to reduce spending and lower money supply in circulation. ✓✓
        (Accept any other correct relevant response)   (2)

2.2.5 **Why are endogenous factors viewed as a cause of business cycles?**

They are viewed as a cause of business cycles because**:**
- ☐ Keynesians hold the view that markets are inherently stable ✓✓
- ☐ Level of economic activity constantly tend to be continually above or below its potential ✓✓
- ☐ Business cycle is an inherent feature of market economy✓✓
- ☐ The price mechanism fails to coordinate demand and supply in markets ✓✓
  (Accept any other correct relevant response) (Any 2 x 2) (4)

2.3 **DATA RESPONSE**

2.3.1 **What method of calculation was used in the table above to determine the Expenditure on GDP at market prices.**

- ☐ expenditure method ✓ (1)

2.3.2 **Name any other method to calculate GDP?**

- ☐ income method✓
- ☐ production method✓ (1)

2.3.3 **Explain the concept *gross capital formation*.**

- ○ Expenditure on assets used repeatedly during the production process. ✓✓
- ○ Increase in capital stock. ✓✓ (2 x 1) (2)

2.3.4 **Calculate the value of A. Show all calculations.**

A (GDP at market prices) = 2 428 316 + 657 113 - 677 740 ✓= R2 407 689m ✓ (2)

2.3.5 **Differentiate between GVA (GDP) at basic prices and Expenditure on GDP at market prices.**

GVA at basic prices is calculated using the production method and is usually less than expenditure on GDP at market prices. ✓✓
To convert GVA at basic prices to Expenditure on GDP at market prices, subtract subsidies on products and add indirect taxes on products. ✓✓ (4)

5 ECONOMICS P1 (MSED/JUNE 2022)

2.4 **Discuss the multiplier and its effects on the national income if the marginal propensity to consume (MPC) is 0,6 and the investment increases by R10 bn. Show calculations.**

☐ A relatively small investment produces a proportionately large increase in national income ✓✓

☐ K = 1/ 1— mpc

☐ = 1/1— 0,6 ✓✓

= 2,5 ✓✓
Multiplier effect = 2,5 x R10bn ✓✓

☐ Therefore, an investment of R10bn will produce a R25 bn increase in national income✓✓

(If a learner gives a graphical representation of the effect, the graph should indicate the change in investment of R10 bn and the change in national income of R25 bn.
Accept if the learner explains the effect based on the principle of one person's spending becomes another person's income.)

(Accept any other correct relevant response)
(Allocate a max of 2 marks for mere listing/examples)   (Any 4 x 2)   (8)

2.5 **How is the South African economy influenced by the effects of international trade?**

POSITIVE INFLUENCE

- The living standard of South Africans will improve through specialisation in the production of certain goods. ✓✓
- The increase in technology leads to mass production e.g., the use of cellphones. ✓✓
- Increasing production efficiency e.g., resources are used more effectively – less waste. ✓✓
- More choice of goods and services from all over the world – not only domestically. ✓✓
- Increased competition leads to innovation and high standards in economic capacity. ✓✓
- Globalisation brings the countries of the world together and share knowledge. ✓✓

NEGATIVE INFLUENCE

- Less developed countries might not be able to compete with developed countries. ✓✓
- Specialisation causes more producers to close down their businesses. ✓✓
- Globalisation let people to forget their culture and indigenous knowledge systems disintegrate. ✓✓
- Mass production leads to local people buying inferior quality goods from other countries at the expense of local producers. ✓✓
  (Accept any other correct relevant response)   (4 x 2)   (8)
  [40]

QUESTION 3

3.1   3.1.1   **Name TWO items involved in the conversion of GDP at factor cost to GDP at basic prices.**

        ☐   Other taxes on production ✓
        ☐   Other subsidies on production ✓   (2 x 1)   (2)

     3.1.2   **What effect will the depreciation of the Rand have on the demand for foreign goods?**

        ☐   The demand for imported goods will decrease because it will be expensive to import. ✓✓
        ☐   However, exports will increase and there will be a capital inflow. ✓✓   (Any 1 x 2)   (2)

3.2   **DATA RESPONSE**

     3.2.1   **Name the sub-account used in the above table.**

        ☐   Current account ✓   (1)

     3.2.2   **What does a negative figure mean in the trade balance?**

       When the value of imports is greater than exports \ when there is a deficit ✓   (1)

     3.2.3   **Describe the term balance of payments.**

       Balance of payment is a statement of a country's trade and financial transactions with the rest of the world over a particular period of time. ✓✓   (2)

     3.2.4   **Why is net gold exports entered as a separate item and not part of merchandised exports?**

    •   South Africa is the world's largest gold producer.✓✓

    •   It is net exporter of gold and therefore the amount is positive.✓✓

    •   Historical importance of gold to South Africa a major earner of foreign exchange.✓✓

    •   The large role gold played in the past.✓✓

    •   Trends can be identified. ✓✓   (Any 1 x 2) (2)

     3.2.5   **Calculate the trade balance for the second quarter in 2020**

       Trade balance = (Merchandised exports + Net gold exports) – Merchandised imports (R826bn + R70bn) – R983 bn ✓✓= - R87bn ✓✓   (4)

3.3 **DATA RESPONSE**

    3.3.1 **Name the graph depicted above.**

        Phillips Curve ✓   (1)

    3.3.2 **Which point in the graph indicates the initial natural unemployment rate?**

        Point C ✓   (1)

    3.3.3 **What is the result of PC1 intersect at point D?**

        The natural rate of unemployment decreases, from 14% to 9%. ✓✓   (2)

    3.3.4 **Mention any supply side policy measure that can be used to shift PC to PC 1**

        • Improved education ✓✓
        • Effective training ✓✓
        • Fewer legal restrictions on businesses ✓✓
        • Fewer restrictions on the immigration of skilled workers ✓✓

      3.3.5 **Explain the relationship between unemployment and inflation in the above graph?**

        Inverse relationship / trade off /✓✓ If unemployment increases from A,B and C inflation falls from 6% to 2% to 0%. ✓✓ (Any 2 x 2)   (4)

3.4 **Discuss free-floating exchange rates.**

    ☐ They work automatically ✓✓
    ☐ If imports increase, the demand for foreign exchange increases✓✓
    ☐ The currency depreciates because of the working of market forces ✓✓
    ☐ Depreciation makes imports more expensive in the depreciating country and exports cheaper in the foreign country ✓✓
    ☐ Imports decrease and exports increase and the currency appreciates ✓✓   (8)
    (Accept any other correct relevant response)

3.5 **Evaluate the impact of the downgrading of South Africa' s credit rating on the economy.**

NEGATIVE IMPACT
- Government has to pay a higher interest rate on its debt. ✓✓
- Less money to use for building the economy, important infrastructure and welfare programmes. ✓✓
- Many international investments portfolios are not allowed to invest in sub investment graded economies (junk status) as debt/bond repayments are costly. ✓✓
- The downgrading of a country creates a lack of foreign investments with a weaker rand/inflation then increases as the cost of all imported goods also increase.✓✓
- The South African government will find it difficult to get international loans to fund the budget and balance of payment of deficit. ✓✓
- Fewer multi-national companies will be allowed to do business in South Africa as some of them have strict mandates not to open businesses in junk status countries. ✓✓

POSITIVE IMPACT
- Consumers/firms are forced to save more ✓✓
- Government is prompted to encourage / fast track economic growth. ✓✓
- Job creation ✓✓
 (Accept any other correct relevant response)
 (Allocate a max of 2 marks for mere listing/examples) (8)
 [40]

QUESTION 4

4.1   4.1.1   **Name TWO demand factors for foreign exchange.**

□   Importing of goods ✓
□   The payment for services from foreign countries ✓
□   The repayment of a foreign loan borrowed from a foreign country✓
□   Tourists spending money overseas✓
□   The buying of shares or assets in another country ✓
   (Accept any other correct relevant response)   (Any 2 x 1)   (2)

4.1.2   **Why are households regarded as an important participant in the circular flow?**

□   They are the owners of the factors of production ✓✓
□   They are the primary participants in the circular flow ✓✓

(Accept any other correct relevant response)

                                                                (Any 1 x 2)   (2)

4.2   **DATA RESPONSE**

4.2.1   **What is the original equilibrium exchange rate in the above graph?**

□   R17 ✓   (1)

4.2.2   **What happens to the value of the Rand when prices change from R17 to R18?**

□   Depreciation ✓/ decline✓/ decrease✓   (1)

4.2.3   **Describe the term *depreciation of a currency.***

□   Depreciation of a currency is a decrease in the price of the
   currency in terms of another country's currency due to market
   forces✓✓   (1 x 2)   (2)

4.2.4 **Explain how managed exchange rates correct disequilibria in the balance of payments.**

☐ Central banks use their reserves to effect depreciations and appreciations. ✓✓
☐ Over the long-term currencies have to find their equilibrium levels. ✓✓ (1 x 2) (2)

4.2.5 **How will the depreciation in the value of a currency affect businesses?**

☐ Depreciation will increase the production costs for businesses as they will require more money to buy from other currencies. ✓✓
☐ Exporting businesses can sell more to foreign countries as their products will become cheaper. ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Who presents the budget speech in Parliament?**

☐ Minister of Finance ✓ (1)

4.3.2 **Identify the type of budget mentioned in the extract above.**

Mini budget / Medium term budget policy statement / MTBPS ✓ (1)

4.3.3 **Briefly describe the term *budget*.**

☐ A budget is a document showing anticipated revenue and estimated expenditure ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

4.3.4 **What is the main purpose of levying a sugar tax?**

• increase state revenue ✓✓
• discourage people from the excessive use of sugar which causes diabetes and heart diseases ✓✓
(Accept any other correct relevant response) (Any 1 x 2) (2)

4.3.5 **Explain why an increase in VAT will have a negative impact on the economy.**

An increase in VAT will:
- cause an increase in prices of a wide range of products ✓✓ which will lead to an increase in inflation ✓✓
- disadvantage the middle class and poor ✓✓ decrease in disposable income / they will purchase less ✓✓
- lower demand influencing production in a negative way ✓✓ and decrease economic growth ✓✓

4.4. **Explain the laffer curve below and explain the relationship between tax rate and tax revenue.**

- The curve shows that as tax increase government revenue increases up to a certain point (e.g. t_1). ✓✓
- If the tax rate rises beyond t, e.g. at t_2 there will be a decline in government revenue. ✓✓
- When the tax rate is high people are less likely to work hard. ✓✓
- If tax is 100% then nobody will work because all income would go to the government. ✓✓
- Too high tax rates may lead to tax evasion and avoidance. ✓✓
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest. ✓✓
- If tax rate is zero, no government revenue will be raised. ✓✓
- Economists use this to justify a reduction in the level of income tax. ✓✓
- The apex of the curve shows the tax rate where government revenue can be maximised. ✓✓
- This point can vary from country to country – the Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate. ✓✓
- Evidence suggests that tax rates in most countries are below t. ✓✓
- In South Africa individual and company income tax rates were reduced over the last decade. ✓✓
(No marks to be allocated for the Laffer curve.)

(4 x 2)   (8)

4.5 **Evaluate taxation as part of the government's strategy to grow the economy.**

Government is stimulating economic activities through taxation by:
• providing tax incentives to export-driven producers ✓✓
• increasing the number of zero-rated products to enhance increased consumption ✓✓
• keeping company tax (corporate tax) at a lower levels ✓✓
• reducing the import duties on capital goods that eventually would not impact negatively on domestic prices ✓✓
• reducing the tax rate for the foreign investors as an incentive inward investment ✓✓

Taxation is hampering economic activities by an increase in the:
• VAT rate that would definitely limit expenditure on necessary goods needed by lower income groups and impact negatively on production ✓✓
• individual personal income taxes that will discourage workers in higher income groups to work extended hours ✓✓
• fuel levies that eventually will lead to higher production costs and have a negative effect on the aggregate demand of economic goods and services ✓✓
• excise duties which hamper agricultural production because of lower demand for imports ✓✓
(Accept any other correct relevant response)
(Allocate maximum of 2 marks for examples or mere listing of facts)   (8)

[40]
TOTAL SECTION B: 80

SECTION C

Answer ONE of the TWO questions in this section.

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order response: ☐ A good starting point would be to define the main concept related to the question topic ☐ Do not include any part of the question in your introduction. ☐ Do not repeat any part of the introduction in the body. ☐ Avoid saying in the introduction that you are going to discuss in the body.	Max. 2
Body ☐ Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate ☐ Additional part :Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/Calculate/ Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/ How? / Suggest	Max. 26 Max. 10
Conclusion Any relevant higher order conclusion that should include: ☐ A brief summary of what has been discussed / analysed without repeating facts already mentioned in the body ☐ An opinion or valued judgment on the facts discussed ☐ Additional support information to strengthen the discussion / analysis ☐ A contradictory viewpoint with motivation, if so required ☐ Recommendations	Max. 2
TOTAL	**40**

QUESTION 5: MACROECONOMICS   40 MARKS – 40 MINUTES

• **Discuss ALL the features underpinning forecasting of business cycles.   (26 marks)**

• **Why is price stability important to prevent extreme fluctuation in business cycles?   (10 marks)**

INTRODUCTION

Business cycles can be used to make economic forecasts (predicting future events) / a business cycle can be described as successive increasing and decreasing economic activities. ✓✓
E.g. During a boom, there is an increase in employment opportunities (decrease in unemployment), therefore when a business cycle is entering the expansionary phase, it is possible to predict that there will be a decrease in unemployment. ✓✓
The following assist with the process of forecasting:

MAIN BODY:
Economic indicators:
Are statistics used to measure some aspect of the economy. ✓✓
Examples of indicators are GDP, unemployment rates and interest rates. ✓✓

Leading economic indicators: ✓ (most important type of indicator)
Are indicators that change before the economy changes. ✓✓
Leading indicators tend to move up or down a few months before business cycle expansions or contractions. ✓✓
They give consumers, business leaders and policy makers a hint of where the economy might be heading. ✓✓
When leading economic indicators rise in one year, the rest of the economy is likely to rise in the following year. ✓✓
When leading indicators decline in one month, the economy is likely to decline in the next 3-12 months. ✓✓
Examples of leading indicators:
Equity /commodity prices ✓
Business confidence ✓
Job advertising space ✓
Manufacturing orders ✓
Lagging economic indicators: ✓
These economic indicators do not change direction, until after the business cycle has changed direction. ✓✓
Example, the value of wholesalers' sales of machinery is a lagging economic indicator. ✓
If the business cycle reaches a peak and then begins to decline, we can predict that the value of new machinery sold will reach and then begin to decline in the future. ✓✓
Examples of lagging indicators:
Unemployment rates. ✓
Number of commercial vehicles sold ✓
Real investment in machinery and equipment. ✓
Coincident economic indicators:
These indicators move at the same time as the economy. ✓✓
Example, the value of retail sales is a coincident economic indicator. ✓
If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline. ✓✓
Examples of coincidence indicators:
Industrial production index. ✓✓

Volume of imports ✓
Utilization of productive capacity in manufacturing. ✓
Composite economic indicators: ✓
It is a summary of the various indicators of the same type into a single value. ✓✓
Each economic indicator i.e. leading, lagging and coincident will each have a single value. ✓✓
These three composite indicators are then used to calculate a single composite indicator which is then used to benchmark (measure) a country's economic performance. ✓✓
I.e. a single figure can be used as norm indicating a country's economic performance. ✓✓

NON-ECONOMIC INDICATORS:

The Trend: ✓
The trend indicates the general direction in which the indexes in the economy moves. ✓✓
When the economy is growing, there is an upward trend ✓✓ / When the economy is decreasing, there is a downward trend. ✓✓
Resistance points: if the economy peaked at 3% in the previous year, unfavourable forces should be removed to break through that point ✓✓
Channels: successive higher turning points or lower turning points create upward or downward channels ✓✓

Amplitude of a cycle: ✓
Is the difference in the value of total output between peak and trough ✓✓ (see diagram below)
Amplitude shows two things:
The power of the underlying forces: ✓
e.g. interest rates, exports or consumer spending ✓
A large amplitude during an upswing shows strong underlying forces. ✓✓
A cycle with a large amplitude usually lasts longer. ✓✓
The extent of change: ✓
The larger the amplitude, the more extreme the changes that may occur. ✓✓
E.g. during an upswing, unemployment may decrease from 20% to 10% (a decrease of 50%), ✓✓ or inflation may increase fro 3% to 6% (i.e. 100%), ✓✓ or a surplus on the current account (BOP) can change from a surplus to a deficit. ✓✓

The length of a business cycle: ✓
Is the time it takes for a business cycle to move through one complete cycle (peak to recession to a trough, the back to a trough, a boom and to a peak. ✓✓
It is useful to know the length of a business cycle, because the length tends to remain relatively constant over time, ✓✓ e.g. if a business cycle has a length of 12 years, it can be predicted that 12 years will pass between successive peaks or troughs ✓✓ or that it will take 6 years for the economy to pass through a recession. ✓✓
Longer cycles show strength and shorter cycles weaknesses. ✓✓
Cycles may overshoot: when activity in terms of composite indicators increases beyond its normal level. ✓✓

Extrapolation: ✓
Extrapolation means to estimate something that is unknown, from facts and information that is known. ✓✓
Extending a trend line with only one cycle length into the future may provide information on what is likely to happen. ✓✓
The trend of a curve: continue with the curve to complement the completed section. ✓✓
If a business cycle has passed through a trough and entered a boom phase, forecasters may predict that the economy will grow in the months to follow. ✓✓
Extrapolation techniques are sometimes used to predict future share prices. ✓✓

Moving averages: ✓
A moving average is a statistical analytical tool used to analyse changes that occur in a series of data over a period of time ✓✓ / a method of repeatedly calculating a series of different average values along a time series to produce a smooth curve. ✓✓
Moving averages are calculated to iron out small fluctuations and reveal trends in the business cycle. ✓✓E.g. the moving average for a business cycle could be calculated for the past three months in order to smooth out any minor fluctuations and to indicate the trend over the past three months. ✓✓

(Max 26)

Additional

Price stability is important in preventing extreme fluctuations in business cycles because it:
• contributes to high levels of economic activity and employment ✓✓
·   improves the transparency of the price mechanism so that people can recognise changes in relative prices without being confused by changes in the overall price ✓✓
·   allows people to make well-informed consumption decisions ✓✓
·   encourages foreign investment to promote growth ✓✓
·   helps to allocate resources more efficiently ✓✓
·   avoids unproductive activities that are sometimes used to protect one against the impact of high inflation ✓✓
·   avoids the risk of deflation which makes it more difficult implement policies guarding against it ✓✓
·   implements inflation targeting, by reducing distortion of inflation or deflation which exacerbate the distortionary impact on the economic behaviour of tax and social security ✓✓
·   prevents an arbitrary redistribution of wealth and income as a result of unexpected fluctuations ✓✓
·   keeps interest rates unchanged to ensure continued growth in the economy without big fluctuations ✓✓
·   adapts the cash reserve requirements which will compel banks to limit credit/money in circulation ✓✓
(Accept any other correct relevant higher order response)

CONCLUSION
Policy makers should closely watch all these indicators because external factors are very significant for South African business cycles ✓✓
Different methods can be used in forecasting like the quantitative method that is based on mathematical models or qualitative methods being used in long term forecasting ✓✓
(Accept any other correct relevant higher order response)   (Max. 2)

QUESTION 6: MACROECONOMICS
☐   Discuss in detail the supply reasons for international trade.   (26 marks)
☐   Examine the impact of mass production on international trade.   (10 marks)
                                                                      [40]

INTRODUCTION
International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and ser-vices not available in their own countries, or which would be more expensive domestically. ✓✓
Countries trade with each other when they do not have the resources, or capacity to satisfy their own needs and wants. ✓✓   (Max 2)

MAIN PART

SUPPLY REASONS:

Natural resources: ✓
They are not evenly distributed across all countries of the world. ✓✓
They vary from country to country and can only be exploited in places where there are such resources. ✓✓
Each country has its own unique mix of natural resources that make it possible for them to produce certain goods and services more efficiently and at a relatively lower price. ✓✓
E.g. South Africa's gold and diamond resources have given us an advantage in producing gold and diamonds. ✓✓
Climatic conditions: ✓
Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
Many crops can only be cultivated in certain climatic conditions and areas and in certain kinds of soil. ✓✓
Topography E.g. Brazil is the biggest producer of coffee in the world. ✓
Labour resources: ✓
The quality, quantity and cost of labour also differ between countries. ✓✓
Some countries have highly skilled labour with high productivity rates. ✓✓
This enables them to produce goods and services at a lower price than they are produced in other countries. ✓✓
Certain individuals have greater ability and aptitude for certain tasks. ✓✓
It is a worldwide phenomenon that some countries have developed a skill and aptitude for the production of a certain commodity. ✓✓ E.g. The Swiss (watch making). ✓
Technological resources: ✓
Some countries have access to technological resources that enable them to produce certain goods and services at a low unit cost. ✓✓
Improved production processes, the availability of equipment and machinery, and other technological factors all influence the supply of goods and services; and thereby contribute to cost differences between countries. ✓✓ (e.g.) Japan ✓
Specialisation: ✓
Some countries specialize in the production of certain goods and services. ✓✓
By specializing in the production of certain goods and services, a country can take advantage of economies of scale and therefore produce the goods at a comparatively cheaper unit cost. ✓✓

(e.g.) Japan specialized in the production of certain electronic goods and then sold them at a much lower price than they could be produced in other countries. ✓✓
This often results in mass production because of division of labour automation and mechanization. ✓✓
Cost differences occur, because goods and services can be produced at lower costs in one country than another, due to the theory of comparative advantage. ✓✓
Capital: ✓
Cannot be obtained as easily in some countries as in others. ✓✓
Developed countries usually enjoy an advantage over undeveloped countries. ✓✓
Due to a lack of capital some countries cannot produce all the goods they require themselves, or they may not have the favourable conditions of other countries. ✓✓
In many countries there is a lack of physical infrastructure and this inhibits local production of goods and services. ✓✓   (Max 26)

ADDITIONAL

• An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign market. ✓✓
• There will be an increase in exports that lead to an inflow of foreign exchange. ✓✓
• The value of rand appreciate. ✓✓
• Mass production create more job opportunities. ✓✓
• Increase in demand for foreign goods that may facilitate international trade. ✓✓
• that leads to an access to greater variety of goods and services. ✓✓
• Manufacturing products require large-scale production in order to be affordable and profitable. ✓✓   (Max 10)

CONCLUSION
By developing their domestic resources, countries can produce a surplus and trade this for the resources they need in return. ✓✓   (Max 2)