



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2018

ECONOMICS

MARKING GUIDELINES

Time: 3 hours

300 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

SECTION A**QUESTION 1**

- 1.1 A ✓✓
1.2 D ✓✓
1.3 C ✓✓
1.4 B ✓✓
1.5 C ✓✓
1.6 D ✓✓
1.7 D ✓✓
1.8 B ✓✓
1.9 B ✓✓
1.10 A ✓✓

(10 × 2 = 20)

- 1.11 A ✓✓✓
1.12 D ✓✓✓
1.13 B ✓✓✓
1.14 B ✓✓✓
1.15 A ✓✓✓
1.16 C ✓✓✓
1.17 A ✓✓✓
1.18 C ✓✓✓
1.19 C ✓✓✓
1.20 C ✓✓✓

(10 × 3 = 30)

50 marks

SECTION B**QUESTION 2 MACRO ECONOMICS**

2.1 2.1.1 Expenditure method ✓✓ (2)

2.1.2 A – 1 867 565 ✓
 B – Residual item ✓
 C – 905 341 ✓
 D – Imports ✓ (4)

2.1.3 Formula and/or application of the formula 2 marks, answer 2 marks

$$\frac{\text{Real GDP 2016} - \text{Real GDP 2015}}{\text{Real GDP 2015}} \times 100$$

$$= \frac{3\,071\,658 - 3\,063\,101}{3\,063\,101} \times 100$$

$$= \underline{\underline{0,279\% \text{ or } 0,28\% \text{ or } 0.3\%}} \checkmark\checkmark \quad (4)$$

2.1.4 Yes – as imports are greater than exports. More money is leaving the country than coming in ✓✓
 This suggests that we rely too much on other countries' products. ✓✓
 We are consuming more than we are producing. ✓✓
 Negative impact on the trade balance/balance of payments. ✓✓
 May weaken our currency. ✓✓
 No – as a developing nation we need to import certain products to improve our standard of living. ✓✓
 We need to import capital goods and products to grow our economy. ✓✓
 Cost push inflation as a result of increased demand ✓✓
 Negatively affects macroeconomic goal of equilibrium on balance of payments ✓✓
 Any other reasonable answer (max 4 marks) ✓✓ (4)

2.2 2.2.1 The consumer spends 50c out of every R1 on the consumption of goods and services ✓✓ OR The consumer saves 50c out of every R1 OR consumer spends 50% of extra income ✓✓ (max 2 marks) (2)

2.2.2 Formula: $\frac{1}{1-\text{mpc}}$ ✓
 $= \frac{1}{1-0,5}$
 $= \underline{\underline{2}} \checkmark\checkmark$

$$2 = \frac{Y}{\text{R30 million}}$$

$$Y = \text{R60 million} \checkmark\checkmark \text{ OR } 2 \times \text{R30 million} = \text{R60 million} \checkmark\checkmark$$

$$\text{OR Value of injection}/1-\text{mpc} = 30 \text{ mill}/0.5 \checkmark\checkmark\checkmark = \text{R60 mill} \checkmark\checkmark \quad (5)$$

2.3 2.3.1 An exchange rate is the price of one currency in terms of another ✓✓/An exchange rate is the domestic price of foreign currency ✓✓ Example explained ✓✓ (max 2) (2)

- 2.3.2 Good news for importers of raw materials/semi-finished/finished products as the cost per unit decreases. ✓✓
 Bad news for exporters as the price increases making our products less competitive, based on price. ✓✓
 Any other reasonable answer (max 4 marks) ✓✓

(4)

2.3.3	Factor	Demand or supply of rands (ZAR) affected?	Increase or decrease in supply or demand of rands (ZAR)?	Effect on the exchange rate: appreciation or depreciation of the rand (ZAR)?
(a)	An increase in international tourists visiting South Africa	Demand ✓	Increase in demand ✓	Appreciation ✓
(b)	A large, persistent current account deficit	Supply ✓ OR Demand ✓	Increase in Supply ✓ Decrease in demand ✓	Depreciation ✓
(c)	Political instability and poor economic performance in South Africa	Demand ✓ OR Supply ✓	Decrease in demand ✓ OR Increase in supply ✓	Depreciation ✓

(9)

- 2.4 2.4.1 A recession consists of two (or more) consecutive quarters/6 months ✓ of negative economic growth/real GDP. ✓

(2)

2.4.2 Expansionary monetary policy (max 6)

Decrease interest rates ✓✓ therefore encourage borrowing which will increase demand and there will be more spending in the economy. ✓✓

Business/consumer in debt will be paying less interest on their loans ✓✓ and have more disposable income to spend, which stimulates economic activity. ✓✓

Lower interest rates may reduce the incentive to save thereby encouraging spending. ✓✓

SARB buys securities/government bonds so more money is available to commercial banks to lend to consumers ✓✓

Expansionary fiscal policy (max 6)

The government could spend money. ✓✓ This will ensure that businesses could earn income that could lead to spending increases. ✓✓

The government could lower taxes. ✓✓ This will ensure households have more money to spend. ✓✓

Any other reasonable answer (max 12)

(12)
[50]

QUESTION 3 MICRO ECONOMICS

3.1		Perfect competition	Monopoly
3.1.1	Number of producers (sellers in the market)	Many/unlimited ✓	One ✓
3.1.2	Type/Nature of goods available for consumers	Homogeneous/same ✓	Unique/rare ✓
3.1.3	Do the firms have control over its own prices?	No ✓ or price taker	Yes ✓ or price maker
3.1.4	Are entry barriers zero, low or high?	Zero ✓	High ✓
3.1.5	Type of profit in the long run	Normal/ zero economic profit ✓	Economic ✓

(10)

3.2 The internet has made it very easy to compare prices quickly and efficiently (perfect information). ✓✓

Access to information is easy ✓✓

Easy access to each other (buyers and sellers) ✓✓

The internet has also lowered barriers to entry. For example, selling a popular product on the internet through a service like bid or buy is close to perfect competition. It is easy to compare the prices of products and buy from the cheapest. ✓✓

The internet has enabled the price of many products to fall, so that some firms selling goods on the internet are only making normal profits. ✓✓

Any other reasonable answer. (max 4 marks)

(4)

3.3 3.3.1 Cross-price elasticity measures the responsiveness of demand for a good following a change in the price of a related good or use example to explain ✓✓

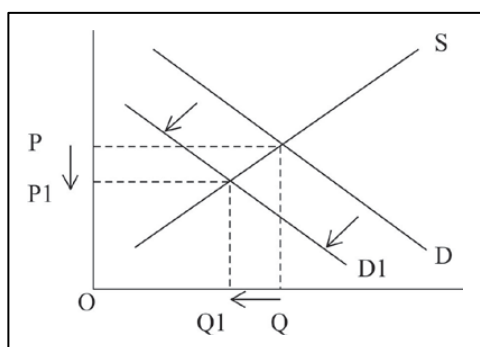
(2)

3.3.2 Positive relationship indicates that they are substitutes. ✓✓

Example coffee and tea/Accept any other relevant example. ✓✓
(max 4 marks)

(4)

3.3.3 Negative relationship indicates that they are complements. ✓✓



Label both axes. ✓

Label S and D. ✓

Label or arrow shift in demand from D to D1. ✓✓

(6)

3.3.4 Explanation 2 marks

Examples 2 marks

The range and availability of substitutes

The greater the number of substitute products available and the more easily replaceable these products are, the more we would expect consumers to switch away from a particular product when its price goes up, ✓✓ i.e. the more elastic the demand is for the product. ✓✓

For example, there are many different brands of margarine available on the market and so an increase in the price of one brand will lead to a large number of customers changing their demand to another brand. ✓✓

Oil, which has few substitutes, will tend to have a relatively inelastic demand, with demand falling relatively little as the price goes up. ✓✓ (max 4 marks)

Time period

As the price of a product changes, it often takes time for consumers to change their buying and consumption patterns. ✓✓ PED thus tends to be more inelastic in the short term and then becomes more elastic in the long term. ✓✓

For example, if the price of petrol were to rise sharply, they would carry on buying more or less the same amount of petrol. However, over time cars that use less petrol or none at all might be developed. ✓✓ (max 4 marks)

Habit-forming goods

Some products are addictive, e.g. cigarettes and alcohol. ✓✓

A change in price has a relatively small impact on the quantity demanded. Therefore, demand is price inelastic. ✓✓ (max 4 marks)

(12)

3.4 Explanation 3 × 2 marks, with at least 2 of these marks for government response.**Externalities**

Are economic side effects that affect an uninvolved third party, someone not directly involved in the production. ✓✓

Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on those people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution. ✓✓

Taxes, subsidies and regulations are the most common ways in which the government chooses to deal with externalities. ✓✓ (max 6 marks)

Merit/demerit goods

Merit goods are goods that society feels should be consumed by its citizens, e.g. education and healthcare. ✓✓

Merit goods are under produced and under consumed under conditions of perfect competition. ✓✓

Demerit goods are goods that society feels its citizens should not consume, e.g. South Africans are not free to own as many guns as they like. ✓✓

Demerit goods are overproduced and over consumed. ✓✓

Therefore under allocation of resources to merit goods and over allocation of resources to demerit goods. ✓✓

Government can provide merit goods or subsidise the production of merit goods, e.g. government subsidy for education. ✓✓

Government uses regulations to prohibit the production and consumption of some demerit goods, e.g. gun licences. ✓✓ (max 6 marks)

Public goods

The main characteristic is non-excludability. This means that if the good or service is produced for one consumer, no other consumer can be prevented from consuming it, e.g. street lighting, defence force. So people will wait and see if someone else pays for it and then just go ahead and use it. ✓✓

It is no wonder then that public goods are under produced by the market system. Too few consumers are prepared to pay for the good and would rather be free-riders. ✓✓

Therefore there is under allocation of resources to the production of public goods and the market fails. ✓✓

To get around this the government supplies public goods and pays for them by raising taxes. ✓✓ (max 6 marks)

Imperfect competition

Monopolies and oligopolies restrict supply in order to maximise profits ✓✓

Resources are therefore under allocated to the production of goods and services produced under conditions of imperfect competition. ✓✓

One option is for government to do nothing about this and trust that large profits will attract competitors to the market. ✓✓

Can regulate through competition policy. ✓✓

Exploitation of consumers because the market can be controlled ✓✓ (max 6 marks)

Imperfect information

Under conditions of perfect competition, consumers and producers are assumed to have access to all the information that is necessary to enable them to make the most informed decisions about production and consumption. ✓✓

In the real world there is asymmetric information, e.g. seller of a used car has more information about the car than the buyer. ✓✓

In some markets the producer has information about their products that they do not make available to buyers, e.g. in cigarette industry. ✓✓

Under these conditions cigarettes are over produced and under consumed and allocative efficiency is generally not achieved. ✓✓

Government can force firms to disclose information about their products, e.g. danger of cigarette smoking. ✓✓ (max 6 marks)

Unequal distribution of income

This is caused by the fact that some people are born to wealthy parents and have access to a good education and others not. ✓✓ Therefore people vary in their skill levels and their ability to produce output. ✓✓

The market fails to ensure that everyone gets equal access to the output of the economy. Too many of the resources are used to produce output for the rich and too few for the poor. ✓✓ In the South African economy, a few people are very well off while 50% of the population lives in poverty. ✓✓

The South African government imposes progressive taxation, i.e. the more you earn the more tax you pay. ✓✓ Also minimum wages. (max 6 marks)

Immobility of factors of production

Under conditions of perfect competition the factors of production are assumed to be perfectly mobile. However, in the real world factors of production are not free to move from one area to another. ✓✓ Capital is fixed. It is not easy to move factory and machinery. The government often has strict controls on the movement of labour between countries. ✓✓ As a result of immobility of factors of production the economy's capacity to produce output is reduced. Government can introduce training schemes to ensure the unskilled acquire skills. ✓✓ Government can subsidise transport so workers can go from rural areas to the towns to work. ✓✓ (max 6 marks)

Price discrimination

Different prices are charged to different consumers for the same product ✓✓

Example – airline tickets, ladies nights, pensioner's discounts ✓✓

Government can regulate the prices of goods and services ✓✓

Accept any other relevant cause of market failure and the recommended government action. (max 12 marks)

(12)
[50]

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

- 4.1 4.1.1 United States ✓ Euro Area ✓ Japan ✓ United Kingdom ✓ (max 2 marks) (2)
- 4.1.2 Brazil ✓ China ✓ India ✓ Russia ✓ Nigeria ✓ South Africa ✓ (max 2 marks) (2)
- 4.2 4.2.1 GDP per Capita indicates living standards of people/average income per person. ✓ The higher the GDP per capita the better/higher the average standard of living. ✓✓ (3)
- 4.2.2 The Gini coefficient is a measure of equality or inequality/income or wealth distribution. ✓ The higher the number, the greater the degree of income inequality. ✓✓ (3)
- 4.2.3 The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education, standards of living, and quality of life for countries worldwide. ✓ A country scores higher HDI when the lifespan is higher, the education level is higher, and the GDP per capita is higher/the higher the HDI the higher the level of economic development. ✓✓ (3)
- 4.2.4 Under-five mortality indicates the number of deaths in a country before reaching the age of 5. ✓ The lower the number, the better OR an indication of a good health system and good nutrition. ✓✓ (3)
- 4.3 **Argument for developed economies:**
The source indicates that developed economies' contribution to real global GDP growth is positive and increasing. ✓✓
Developed economies on the whole have greater stability and pose less risk than emerging economies. ✓✓
Three emerging economies, Russia, Nigeria and Brazil had a negative growth rate in 2016/Emerging markets can be more volatile or risky. ✓✓
(max 4)
OR
Argument for emerging economies:
Emerging economies, on the whole, have much higher growth rates, therefore increasing the chance of higher investment returns. ✓✓
China and in particular India, have very high growth rates and this leads to a significant increase in the overall size of their GDP. ✓✓
Developed economies are not offering a very high growth, which does not yield a very good return on investment. ✓✓
Less regulation and therefore easier to get into the market
Higher interest rates attract hot money flows (max 4)

Any other reasonable answer

(4)

4.4 4.4.1 South Africa's crippling unemployment rate along with its poor standards of education are a toxic mix that affect society in many negative ways. ✓✓

Poor education/standard of education leads to a lack of skills/low literacy levels. ✓✓

Educated people have the skills to create their own businesses and generate work for themselves or others outside the formal job market, thereby reducing the unemployment rate. ✓✓

Labour with lack of skills/poor education are unemployable/no demand for employees without sufficient skills levels. ✓✓

With regard to aggregate demand, better education results in greater employment opportunities boosting consumption and investment, thereby increasing the overall economic growth. ✓✓

With regard to aggregate supply, better education and training can improve labour productivity and increase aggregate supply. ✓✓

Any other reasonable answer. ✓✓ (max 6 marks)

(6)

4.4.2 Explanation must be linked to employment, 4 marks

Newly established industries find it very difficult to compete with the cheaper costs of production of long-established firms in developed countries. ✓✓

They are also sometimes exposed to dumping when other countries sell goods at below cost. ✓✓

Older industries that struggle to compete can also be protected. ✓✓
(max 4)

A reduction in imports and promotion of exports can help to improve the balance of payment. ✓✓

Import controls help to prevent the value of imports increasing at a faster rate than exports, contributing to the economy expanding. ✓✓

A surplus on the balance of payments has a positive effect on the exchange rate. ✓✓ (max 4)

Charging tariffs on imports contribute to the income of the government, especially in developing countries where the tax base is sometimes limited. ✓✓ (max 4)

The protection of local industries is an important mechanism to protect job opportunities in a country. ✓✓

It is reasoned that if local industries are not protected, they would not be able to compete, with the subsequent loss of vital jobs. ✓✓
(max 4)

Dumping occurs when goods are sold on foreign markets at below the cost in the original country. ✓✓

Imported cheap goods could be disastrous for local competitors and local job opportunities. ✓✓

Sometimes these imported cheap goods are of inferior quality. ✓✓
(max 4)

Countries don't want to depend on imports from certain countries, and prefer to supply their own needs for example, US and oil. ✓✓

Countries also consider certain industry of national importance like energy, food, water and steel. ✓✓

Countries also want to increase the base of its exports and don't want to depend too much on certain goods, like South Africa with minerals. ✓✓ (max 4)

Credit mention of import duties, import quotas, import deposits and subsidies

(8)

- 4.5 4.5.1 Price deflation is when the rate of inflation becomes negative/the general price level is falling. ✓✓ Prices of a wide range of goods and services decrease continuously over a long period of time. ✓✓ (max 2)

(2)

- 4.5.2 Deflation is worse than inflation, because when prices are falling continuously firms find it hard to survive. ✓✓

They produce goods and services, but by the time they sell them the prices might be lower than their costs. ✓✓

By postponing consumption, the lower demand may mean that businesses might have to lay off workers or cut wages. ✓✓

Borrowers are also affected negatively, because their debt will increase in real value. ✓✓

Total production, income and employment tend to fall. ✓✓

Share prices of companies adversely affected will decline, negatively impacting on investors' wealth and pensions. ✓✓

Monetary policy may become ineffective as interest rates fall or even become zero. ✓✓

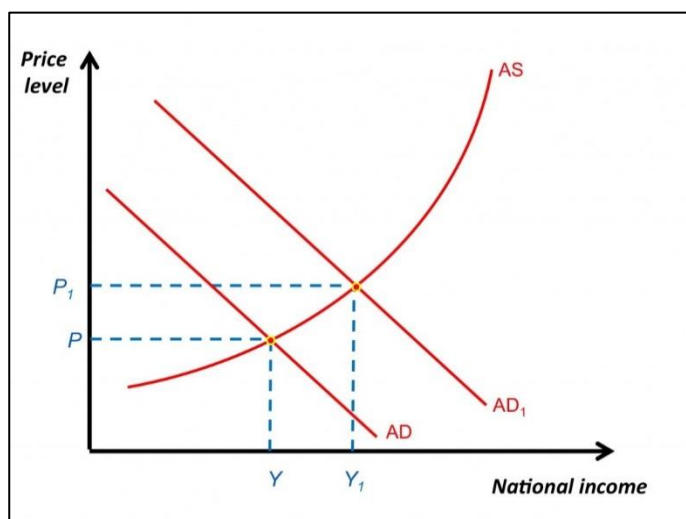
Foreign investment discouraged because of low growth experienced during deflation. ✓✓

Currency depreciation occurs which makes imports more expensive ✓✓

Any other reasonable answer (max 6)

(6)

4.5.3

**Mark allocation for aggregate demand diagram:**

Shift in demand curve up and to the right. ✓✓

Indicating the increase in price ✓ and increase in output. ✓

Correct labelling of axes ✓ (price level and NI/output/total production/Real GDP) and curves. ✓ (max 6 marks)

Explanation:

Domestic demand recovery will cause aggregate demand to shift to the right.

This will lead to an increase in the level of output and a rise in prices. ✓✓ (max 2 marks)

(8)
[50]**QUESTION 5 MIXED QUESTIONS**

- 5.1 5.1.1 An open economy is one that is involved in international trade. ✓✓ (2)
- 5.1.2 Leading economic indicators are indicators that change before the economy changes./A leading indicator is a factor that changes before the economy starts to follow a particular pattern or trend. ✓✓(max 2) (2)
- 5.1.3 A free-floating exchange rate system is a system where the exchange rate is determined by supply and demand. ✓✓ (2)
- 5.1.4 A trade union is an association of workers created to gain better pay, benefits or working conditions for its members. ✓✓ (2)
- 5.1.5 Hyperinflation occurs when a country experiences very high rate/accelerating rate of inflation. ✓✓ (2)
- 5.2 5.2.1 Collusion takes place when rival companies cooperate for their mutual benefit. ✓✓/When two or more parties act together to influence production and/or price levels, thus preventing fair competition. ✓✓ (max 2) (2)
- 5.2.2 Oligopoly ✓✓ (2)

- 5.2.3 Competition Commission/Competition Tribunal/Ombudsman ✓✓ (2)
- 5.2.4 It forces consumers to pay more than they should. ✓✓
 High prices on essential goods, like bread and medicine, has a negative impact on consumers, especially poor people. ✓✓
 It has a negative impact on the rate of inflation, affecting the income and standard of living of consumers. ✓✓
 It prevents fair competition. ✓✓
 Any other reasonable answer (max 4) (4)
- 5.3 5.3.1 Congress of South African Trade Unions ✓✓ (2)
- 5.3.2 **Disadvantages:**
 Any increase in VAT could lead to an increase in prices, which could be a direct cost to consumers. ✓✓
 Any increase in VAT will fall heaviest on the poor and middle class. This will have a negative effect on the standard of living/affordability of goods and services. ✓✓
 Civil unrest or protests could break out. ✓✓
 VAT is likely to cause higher inflation, reduced GDP growth and some job losses. ✓✓
 Any other reasonable answer (max 4)
- Advantages:**
 An increase in VAT will generate more revenue for the government. ✓✓
 An increase in revenue will help the government reduce its budget deficit. ✓✓
 An improvement in the budget deficit will reduce the risk of being downgraded to junk status. This could improve our competitiveness in the long term. ✓✓
 There are now more zero-rated goods which benefit the poor. ✓✓
 Any other reasonable answer (max 4) (8)
- 5.4 5.4.1 Bad news, as cost of food is increasing. ✓✓ (2)
- 5.4.2 3%–6% ✓✓ (2)
- 5.4.3 The CPI is calculated by constructing a basket of goods and services that best represent the average consumer in South Africa. ✓✓
 The CPI better reflects the lives of the middle to upper income earners than the poor. ✓✓
 The goods and services that poor people spend the majority of their income on increase at a much higher rate/percentage than the CPI. ✓✓
 It is more a reflection of the population living in the urban areas (based on CPI calculation) than those in the rural areas ✓✓
 Any other reasonable answer (max 4) (4)

5.4.4 Name: 2 × 2 marks, explanation 2 × (2 × 2)**Demand pull inflation ✓✓**

This occurs when the demand in the economy increases quicker than supply, leading to price increases. ✓✓

Stimulating monetary and fiscal policy leads to consumers spending more. These policies include lower interest rates and lower taxes. ✓✓

Credit being more easily available will also cause demand to increase. ✓✓

Excessive government spending can also lead to demand inflation. ✓✓

Any other reasonable answer (max 6)

Cost push inflation ✓✓

This is when production costs increase, leading to higher prices. ✓✓

Increase in costs is caused by higher wages and salaries, decrease in productivity, depreciation of the exchange rate and natural disasters increasing food prices. ✓✓

Increase input costs, supply shocks such as an increase in the price of oil or electricity has a knock-on effect on the price of other goods. ✓✓

Any other reasonable answer (max 6)

(12)

[50]

200 marks

SECTION C**QUESTION 6 DATA RESPONSE**

- 6.1 6.1.1 "Junk status" is a term used to describe a country that has dropped below an acceptable investment grade in the eyes of the internationally recognised ratings agencies. ✓✓ or a risky investment ✓✓
(max 2) (2)
- 6.1.2 Expropriate land without compensation ✓
Nationalisation of SARB ✓
Poor families to receive free higher education ✓ (3)
- 6.1.3 **Cost of borrowing increases** ✓
If South Africa's ability to repay loans is seen as risky, the cost of borrowing will increase, resulting in a greater cost of debt to the Treasury. ✓✓
Every additional rand that the Treasury pays in interest payments is a rand that cannot be used for social services. ✓✓ (max 3 marks)
- The rand weakens, goods cost more** ✓
Under junk status, the rand comes under additional pressure. ✓✓
All of these measures result in less disposable money being available in society as fewer people are working, and those with jobs earn less. ✓✓ (max 3 marks)
- Taxes increase** ✓
As the Treasury finds itself squeezed, it is forced to take measures to increase the amount of money available to service its debts. ✓✓ If fewer people are employed, it receives less taxes. ✓✓ (max 3 marks)
Any other reasonable answer (max 6)
- Decrease in foreign investment** ✓
As foreigners see SA as a risky investment which leads to lower economic growth ✓✓ (6)
- 6.1.4 **Explanation of two subheadings. Max 6 per subheading**
Expropriate land without compensation
Increase in land ownership for previously disadvantaged citizens/
Land is unaffordable for the poorest of the poor and this is for some people the only way in which they can access land. ✓✓
This will, however, threaten economic stability and food security. ✓✓
It could also scare off investors, as property rights are under threat. ✓✓
Zimbabwe is good example of how this policy has failed. ✓✓
- Poor families to receive free higher education**
Increase in living standards/Improved employment opportunities for those who are unable to afford higher education. ✓✓
Greater pressure on government spending and an increase in the budget deficit. ✓✓
Higher education needs a significant amount of funding for research. If these funds are cut, the quality of education decreases. ✓✓
Taxes might increase to fund free higher education which then leads to less disposable income and therefore less spending in the economy ✓✓

Nationalisation of SARB

This could raise the level of risk and uncertainty for the country in both a financial and economic policy sense. ✓✓

It will cost the government a lot of money to buy out shareholders. This money could be used for more pressing needs in the economy. ✓✓

No clear benefit for the government of nationalising SARB, as they cannot change the mandate without changing the constitution. ✓✓

Any other reasonable answer. (max 12 marks) (12)

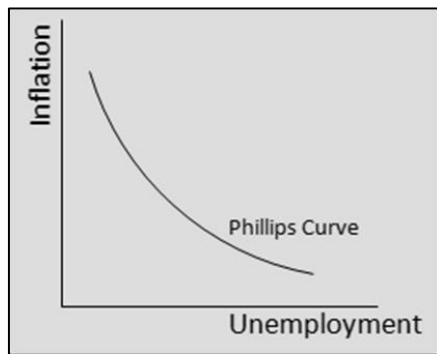
6.2 6.2.1 The National Minimum Wage is the minimum pay per hour/per day workers are entitled to by law. ✓✓ (2)

6.2.2 Domestic work ✓
Retail and Trade ✓
Agriculture ✓ (3)

6.2.3 Skills levels – the higher the skill levels, the higher wage and vice versa. ✓✓
Demand for labour – where the demand for labour is greater than the supply, the wage will be higher. ✓✓
Influence of Trade Unions – workers in unions may be able to get higher pay because the union can put pressure on the employer to increase wages. ✓✓
Competitiveness and profitability of the sector will affect the number of workers earning below the minimum wage in a particular sector ✓✓
Any other reasonable answer ✓✓ (max 4 marks) (4)

6.2.4 Higher costs for firms, because of an increase in minimum wages can lead to cost-push inflation. Firms may become less competitive. ✓✓
Higher costs for exporting firms and they will have to increase their prices. The demand for exports may reduce, causing a worsening of the balance of payments. ✓✓
Higher minimum wages could reduce foreign direct investment, as there are countries with cheaper labour, again worsening the balance of payments position. ✓✓
Source 7 suggests that other emerging markets have higher minimum wages than South Africa, so it could have less of an impact than anticipated. ✓✓
If the increase in minimum wages leads to an increase in efficiency, it could improve the balance of payments position. ✓✓
Purchasing power may increase which will lead to an increase in demand in the economy ✓✓
Any other reasonable answer. (max 8 marks) (8)

6.3

**Mark allocation for Phillips diagram:**

Correct labelling of axes. ✓✓

Correct labelling and shape of the Phillips Curve. ✓✓

Explanation (6 marks)

There is an adverse/negative relationship between unemployment and inflation. ✓✓

In a period of high growth – jobs are created, causing unemployment to fall. ✓✓ But, as unemployment falls, it can put upward pressure on wages, leading to inflation. ✓✓

If an economy experienced inflation, then the Central Bank could raise interest rates. ✓✓ Higher interest rates will reduce consumer spending and investment leading to lower aggregate demand. ✓✓

This fall in aggregate demand will lead to lower inflation. ✓✓ However, if there is a decline in Real GDP, firms will employ fewer workers leading to a rise in unemployment. ✓✓

Any other reasonable answer. (max 10 marks)

(10)

50 marks

Total: 300 marks