



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2021

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

SECTION B**QUESTION 2 MACROECONOMICS**

2.1 2.1.1 The total value of all final goods and services produced within a country's borders for a specific period, normally one year.

- 2.1.2
- Agriculture
 - Mining

2.1.3 South Africa was in national lockdown at the time, but the second quarter growth was due to the increase in production of and the high demand for agricultural products especially in field and horticulture crops and animal products.

Necessity / certain exports critical / essential services (supermarkets) remained open.

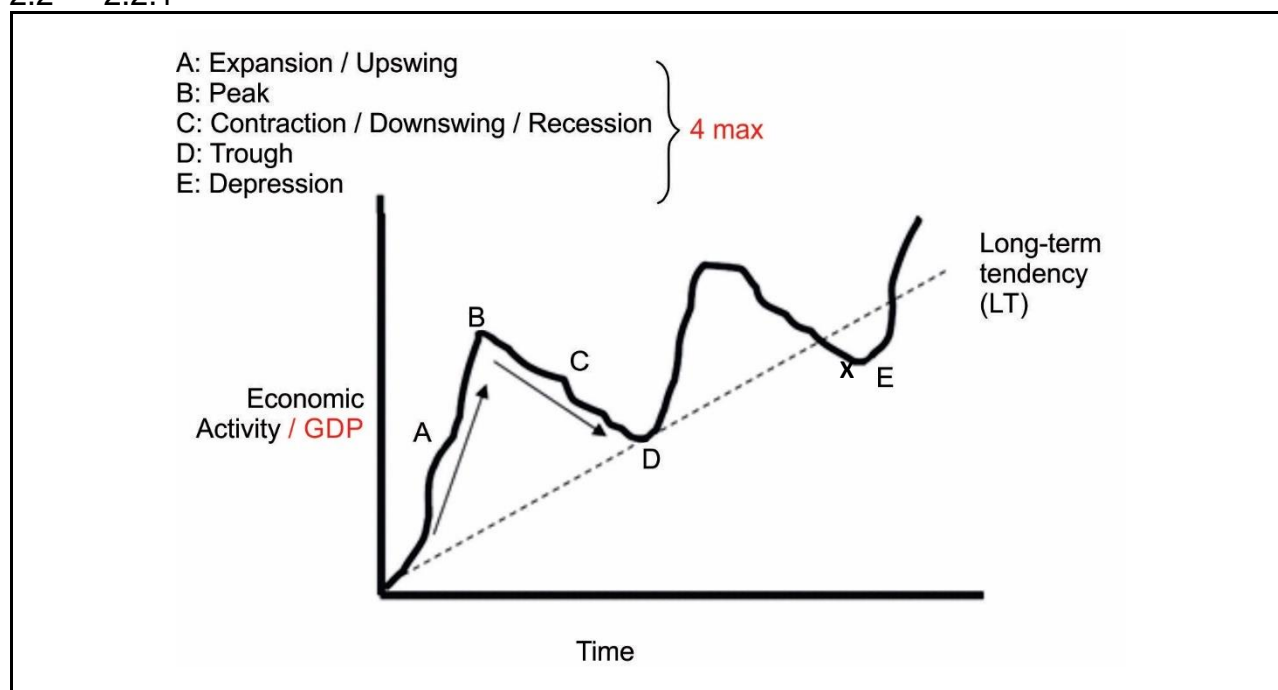
SA experienced high levels of rainfall and favourable climatic conditions

(Any other reasonable answer as long as the agricultural sector is mentioned in a Covid-19-related scenario)

2.1.4 Secondary sector

- 2.1.5
- During the time the country operated under widespread lockdown restrictions in response to COVID-19 labour force restrictions.
 - Sparked due to work stoppages and low demand in the industry.
 - The ban on alcohol sales had a heavy impact on the food and beverage division of manufacturing.
 - No exports and no production
 - (Any other reasonable answer as long as the secondary sector is mentioned in a Covid-19-related scenario)

2.2 2.2.1



- Max four labels as indicated on the graph. (Any 4 of A to E)
- Economic activity (GDP) and Time indicated on the graph
- Indicating where South Africa is according to the text above (SA is in a second phase of a downswing, recession, contraction, below the LT).

2.2.2 (Mark with 2.2.1)

- Text refers to the longest downward cycle (which indicates contraction in economic activity)
- New Covid-19 restrictions will likely extend this downward trend. (negative growth in South Africa)
- SA was already in a technical recession in Q1 2020; COVID prolonged and deepened the recession into a depression.
- Lockdown restrictions – created less demand in the economy and unemployment will be even higher
- (Any other reasonable answer)

2.2.3 Expansionary fiscal policy:

- Expansionary fiscal policy increases the level of aggregate demand, through either increases in government spending or reductions in tax rates.
- Decrease taxes – can do this by increasing consumption by raising disposable income through cuts in personal income taxes.
- Increasing investment spending by raising after-tax profits through cuts in business taxes.
- Increase in government spending – increasing government purchases through increased government spending on final goods and services.
- Raising government expenditure on social grants during this extended downward cycle, giving some financial relieve to the poor.

Expansionary monetary policy:

- shows us that the Reserve Bank can use its powers over the banking system to engage in countercyclical (against the business cycle) actions.
- Reduce interest rates – when the Reserve Bank lowers the interest rate, the cost of borrowing from the Reserve Bank decreases, giving commercial banks greater access to cash that can be lent in the market to the households to drive demand.
- Increase money supply – increase the money supply and increase the quantity of loans, making it easier for households and businesses to obtain cash to drive demand in the economy.
- *Also consider* cash reserve requirements, moral suasion, open market transaction. This must be discussed to show clear understanding.

Extent:

The government has a budget deficit and will not be able to apply an expansionary fiscal policy – limited funds. OR The repo and prime lending rates are already at an all-time low and the SARB will be reluctant to lower it further.

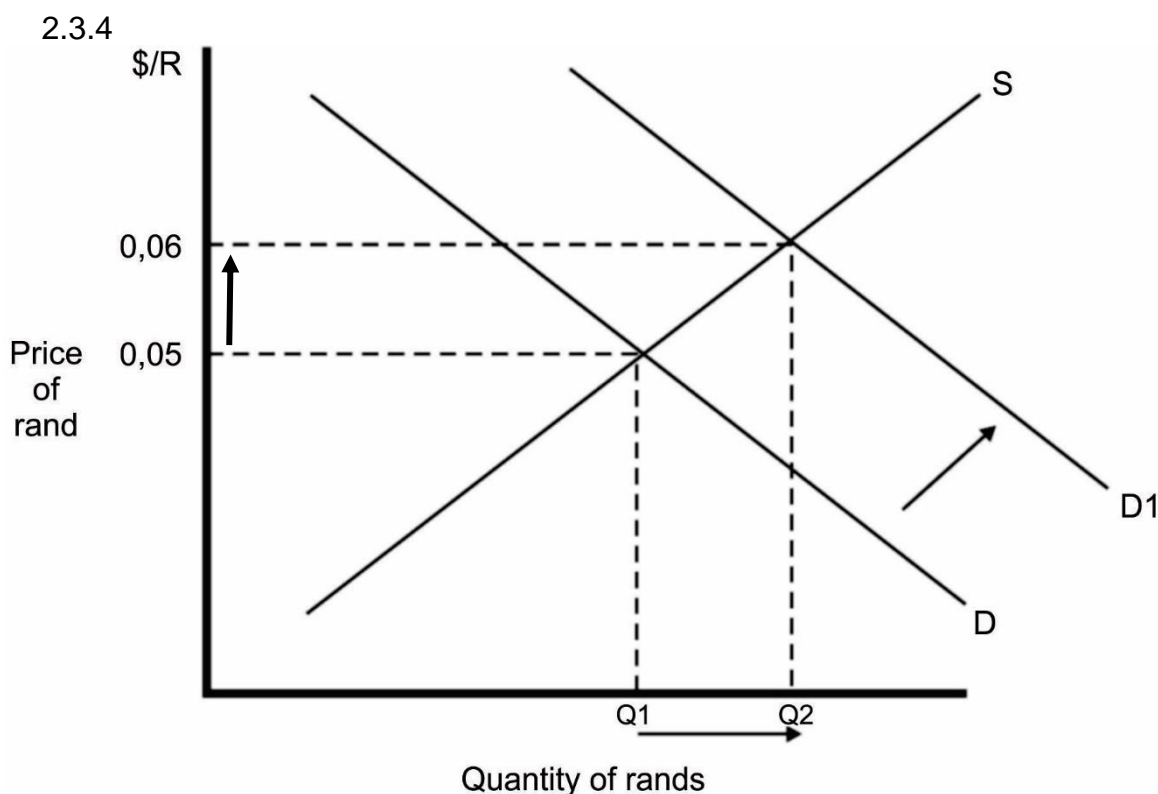
- 2.3 2.3.1
- Euro
 - British Pound
 - Yen
 - Yuan / Renminbi

2.3.2 The strong rand can be beneficial to inflation, as the cost of importing goods remains very low. or Low inflation means that interest rates can remain low for longer, which benefits consumers and particularly the poor, as it preserves savings and spending power. Low interest rates and low inflation are beneficial to consumers.

(Important to note that imports can be cheaper but must **explain how it benefits the consumers**)

Any other reasonable answer. **Must explain impact on consumer.**

- 2.3.3
- An increase in the value of imports.
 - An increase in the outflow on the capital transfer and financial accounts. (SA citizens emigrating from SA; SA citizens investing in offshore businesses, buying shares on foreign exchanges or buying property in other countries.)
 - An increase in the sale of rands by the South African Reserve Bank.
 - An increase in South African tourists visiting other countries.



Graph mark allocation: (Candidates may use an increase in the demand for rands or decrease in the supply of rands)

- Price of rands or \$/R and Quantity of rands
- New demand curve shifting to the right labelled D1 plus arrow. or New supply curve shifting to the left labelled S1 plus arrow
- Price of rands shifts upwards from 0,05 to 0,06 (increases) plus arrow. (Must add correct values for this mark.)
- Quantity demand of rands shifts to the right (increases) /quantity supply of rands shifts to the left (decreases) plus arrow

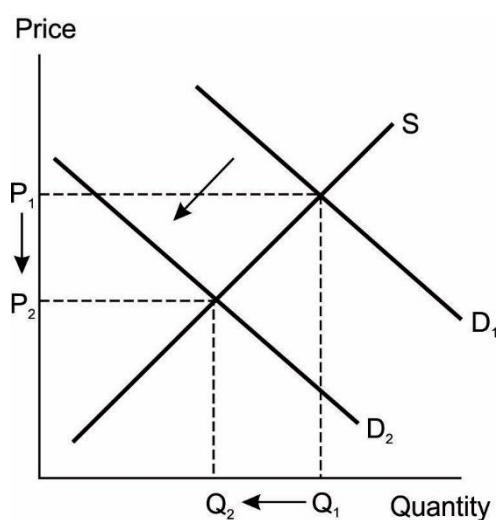
If the direct method is used MAX 2 marks may be allocated, **but it must show a appreciation of the Rand. The direct method must show the R19 and R15.**

QUESTION 3 MICROECONOMICS

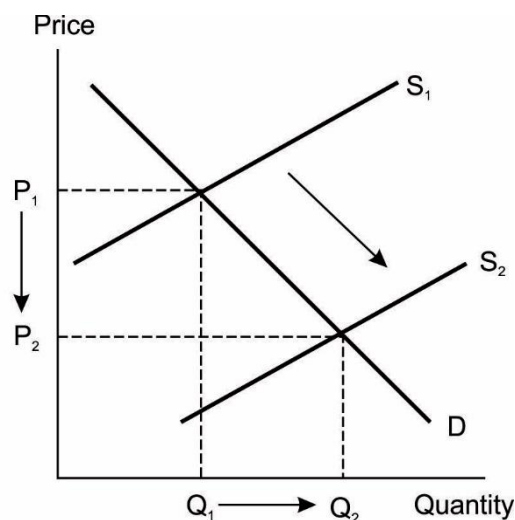
- 3.1 3.1.1 • **Demand** is the amount of **goods and services** that the households and businesses plan and are **willing and able to buy**.
- **Supply** is the quantity of a **good or service that a seller** plans to sell at each possible price during a certain period of time.

- 3.1.2 • Oil producers were paying buyers to take the commodity off their hands over fears that storage capacity could run out. (Over supply of oil.)
- Demand for oil all but dried up as lockdowns across the world kept people at home.

3.1.3

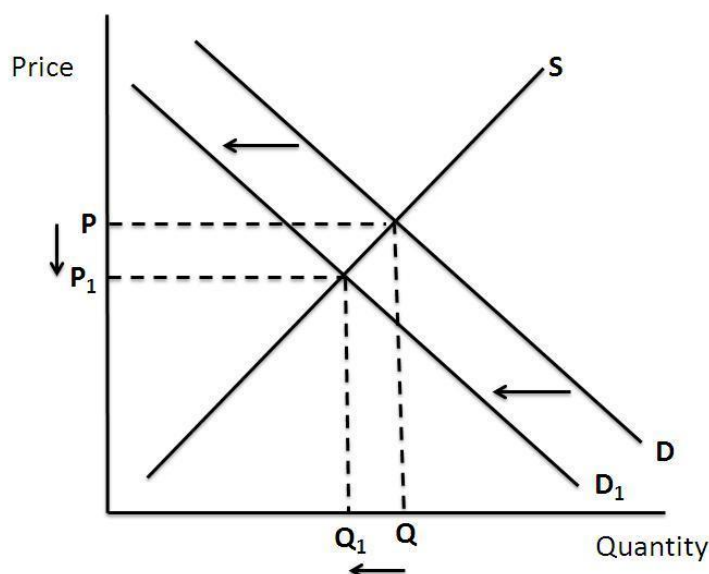


OR

**Graph mark allocation:**

- Price Quantity
- Demand / Supply Labels
- New Demand curve labelled plus arrow $D_1/2$ OR Supply curve labelled $S_1/2$ plus arrow
- Price decrease plus arrow
- Quantity increase/ decrease plus arrow

3.2 3.2.1

**Graph mark allocation:**

- Demand / Supply Labels
- New Demand Curve labelled D1
- Price decrease plus arrow
- Quantity decreases plus arrow

- 3.2.2 • **(To avoid double penalising candidates, accept supply curve of hard-copy books to shift to the left in explanation only not for the graph)**
- An increase in the demand for e-books indicates a decrease in the demand for hard-copy books.
 - Substitute products
- Accept if candidates justify the graph by saying the increase in the demand for e-books has resulted in an increase in the price of e-books and this has resulted in an increase in the demand for hard-copy books.*

3.3 Table 4: Market structures

Characteristic	Monopolistic	Monopoly
Number of producers	Many enterprises.	One (dominant) enterprise or producer only.
Nature of the products	Differentiated/ differences thanks to marketing/ branding.	Unique – no close substitutes.
Consumers' access to market knowledge	Imperfect knowledge due to competition.	Imperfect knowledge.

3.4 3.4.1 To promote and maintain competition in South Africa

3.4.2 The Competition Commission is a statutory body that investigates, controls and evaluates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in South Africa.
(Any relevant answer accepted)

3.4.3 **Bread cartel:**

- Competition Commission against Pioneer Foods.
- Pioneer Foods' bread-baking division (Sasko and Duens) Tiger Brands (Albany Bakeries), Premier Foods and Foodcorp (Sunbake Bakeries) formed a bread-manufacturing cartel that fixed prices and divided the market.

Telecoms prices:

- Vodacom and MTN
- Concerns expressed by the public about the high level of data prices and the importance of data affordability for the SA economy and consumers.
- Still expensive

Bank charges:

- Major banks charged high bank charges to the South African consumers.
- Bank charges are still very high and expensive to the consumer.

Recent cases:

- Any relevant recent case mentioned in the text bubble can be mentioned.

Evaluate: Success of Competition Commission: Candidates have to show insight (in general) that the Commission is 'toothless'; doesn't have the power to shut down big businesses that transgress (due to low fines, etc.)

3.5 3.5.1 Price elasticity of demand measures the responsiveness or sensitivity of the change in the quantity demanded by consumers when there is a change in the price of a goods or service.

3.5.2

- PED for both products is below 1, making it **inelastic**.
- PED is greater than zero but less than one, the demand for both products is relatively unresponsive to changes in price.

3.5.3 **Substitutes**

- The more substitutes a good or service has, the more price elastic it will be or the fewer substitutes, the more inelastic,
- e.g., There are limited vaccines of the Johnson and Johnson, AstraZeneca, Novavax, so the PED for vaccines is inelastic.

Period of time under consideration

- Good or services tend to become more price elastic as the time period increases or very inelastic in the short term.
- The reason for this is that with time more substitutes become available.
- E.g., vaccines are needed immediately to curb the spread, making the PED inelastic.

Proportion of income spent on good or service

- The higher the proportion of a person's income being spent on a good or service, the more price elastic the good tends to be.
- E.g., if vaccines are going to be expensive, it will take a large proportion of the consumer's income making it elastic. If cheaper/ inexpensive, it will have little impact on the consumer's income making it inelastic.

Habit-forming/ Life-saving substances (Addiction)

- Habit-forming/addictive substances tend to have a very price inelastic demand.
- E.g., irrelevant with regard to habit forming, but inelastic because it is a necessity.

Durability of a good

- Durable goods tend to more price elastic than perishable goods.
- E.g., vaccines last a long time making it elastic.

Branding / Marketing

- The more marketing and branding make the product more inelastic.
- E.g., worldwide coverage of different vaccines makes it more inelastic.

Compliments

- A good or service with a lot of compliments tends to be more price inelastic compared to a good or service with few or no compliments.

Definition of a product

- The more specifically a product is defined, the more price elastic it tends to be.

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES**4.1 4.1.1 SARB**

- South African Reserve Bank

FED

- Federal Reserve

4.1.2 Distinguish between the following inflation concepts:

Deflation: occurs when prices of a wide range of goods and services decrease continuously over an extended period of time. **Below zero**

Disinflation: An increase in the rate of inflation at a decreasing rate.

4.1.3 Wage increases:

- Wages and salaries are the largest cost items of an economy and therefore any increase demanded from trade unions will lead to cost-push inflation.

Increase in price of imported goods:

- This cost item is especially important in the manufacturing business, for example an increase in price of imported items such as oil and machinery will increase the cost of local production and this will lead to price increases.

Increased profits:

- When profit margins are increased, it leads to an increase in the prices. This occurs when firms use their market power to push up prices.

Decrease in productivity:

- When workers become less productive and still receive the same wages or when wages are increased but productivity does not improve, the cost of production will go up.

Natural disasters:

- Natural disasters such as droughts and floods will increase production cost, for example in times of drought the price of meat will increase as meat will become scarcer.

An increase in tax:

- Tax levied on goods and services, for example VAT and excise duties, will increase the production and production cost.

4.2 Direct tax: a tax that is levied on the income or capital of an individual or business.

- E.g., income tax – PAYE and capital gains tax – SITE.

Indirect tax: tax levied on the sale of goods and services.

- E.g., VAT, excise taxes and customs duties.

4.3 4.3.1 The number of units of one country's currency that gives the holder the same purchasing power as one unit of another country's currency.

4.3.2 **BRICS Countries**

Brazil, Russia, India, China, South Africa

Developed Countries

Switzerland, United States, United Kingdom, South Korea, Japan

- 4.3.3
- A McDonald's Big Mac burger, which is sold in about 120 countries, is used to create the Big Mac index.
 - The index is based on the price of the Big Mac around the world as compared to its price in the United States.
 - The index shows which currencies are under-valued and which are over-valued in terms of the US dollar.
 - Meaning that a burger in South Africa will cost \$2,15, showing how undervalued the South African currency is compared to the currencies of the rest of the world.

4.4 4.4.1 Medium-term Budget Policy Statement (Speech)

- 4.4.2
- Personal Income Tax
 - Company Tax
 - Value Added Tax
 - Customs and Excise
 - Fuel levy
 - Sin tax
 - Capital gains tax

- 4.4.3
- Budget deficit is when the government spends more than it collects from revenue.
 - Budget surplus is when government collects more through revenue than it spends.

- 4.4.4
- Slowdown in economic growth: lockdown nationwide caused production to decrease.
 - Demands for support from state-owned enterprises: as indicated in Source 1, Eskom, SAA, etc. needing financial assistance from the government.
 - Decrease in net exports.
 - Extended Temporary Employer Relief Scheme (TERS)
 - Rising debt-servicing costs starting to exceed other spending.
 - Decrease in tax revenue
 - (Any other reasonable answer)

- 4.4.5
- Debt level of GDP is the ratio of a country's public debt to its gross domestic product (GDP).
 - The higher the debt-to-GDP ratio, the less likely the country will pay back its debt to foreign countries and the higher its risk of default.
 - South Africa's debt level at 81,8% of GDP.

- 4.4.6 Yes, they should be concerned. Concern about the very high debt-to-GDP level and excessive government debt levels can impact economic stability with ramifications for the strength of the currency in trade, economic growth and unemployment.

QUESTION 5 MIXED QUESTIONS

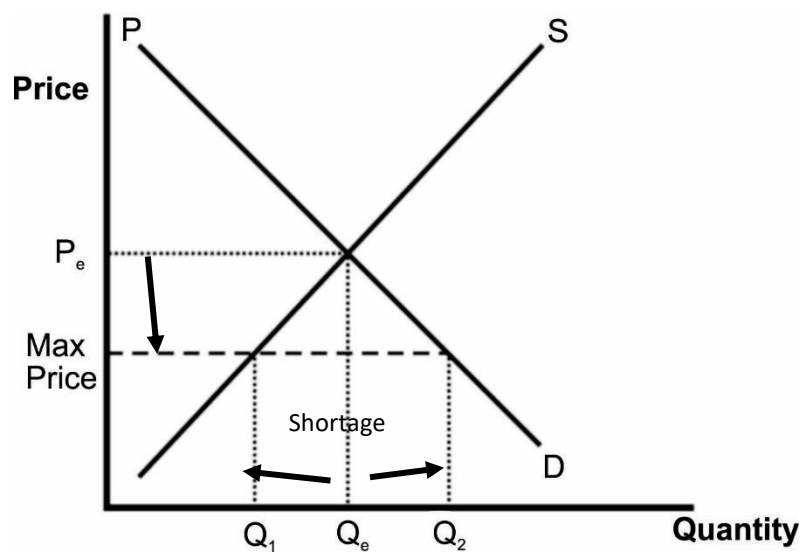
- 5.1 5.1.1 **A:** 22
- B:** 105
- C:** 30
- D:** 14
- E:** 15
- 5.1.2 Example: Water and Electricity bill increases as more is produced.
(Any relevant example)
- 5.1.3 Marginal cost – is the cost of producing an additional unit.
- 5.2 5.2.1 • **Import substitution:** goods that were previously imported are replaced by locally manufactured goods whenever possible.
- **Export promotion:** any program or incentives provided by the government to encourage firms to increase their exports.
- 5.2.2 **Export subsidies:**
- The government can pay the motor producers of export goods a certain amount to compensate for some of their expenses.
- Tax concessions:**
- South African Motor Industry producers can get a reduction in taxes on profits and volumes exported and also refunds of the taxes exporters have to pay on their goods in the foreign country.
- Tax-free grants:**
- these grants can compensate the motor industry exporters for the extra costs they incur in exporting.
- Identifying markets:**
- The state can supply the motor industry with information about possible markets, setting up trade shows, and making trade agreements with other countries.
- **(Candidates not to discuss measures to discourage imports)**

- 5.2.3
- The size of the foreign market is much bigger than our domestic markets, this enables our local motor industry to produce larger quantities of output.
 - More jobs are created in the country, and also more secure employment can be offered with increased opportunities in training in the industry.
 - Economic growth is promoted, as the GDP increases as motor industry producers increase their output.
 - Exports earn the country foreign currency; this is an injection into the circular flow that adds to the national income.
 - **Assess:**
 - If currency is too strong, then South Africa is non-competitive and export promotion has no impact on the economy.
 - If South Africa's quality of products is low, that will also have no impact if you apply export promotions.

5.3 **Table 6: Market failures**

Type of market failure	Consequence of market failure	Example of government intervention
Imperfect competition	Monopolies and oligopolies restrict supply in order to maximise profits.	Can regulate through competition policy. (Competition Commission)
Unequal distribution of income	Caused because some people are born to wealthy parents and have access to a good education and others not.	Progressive tax system Minimum wage Maximum prices BBBEE
Immobility of the factors of production	F.o.p are not free to move from one area to another, and mismatch of f.o.p.	Government can introduce training schemes, subsidise transport.
Public goods	Under-allocation of resources to the production of public goods, with non-excludability.	Government supplies public goods and pays for them by raising taxes.

5.4

**Graph mark allocation:**

- Demand / Supply Labels
- Maximum price clearly indicated below market price (P_e).
- Shortage indicated on the graph

SECTION C**QUESTION 6 DATA RESPONSE****6.1 6.1.1 Candidates must indicate benefits and drawbacks:****Benefits:**

- Many jobs will be created if produced within the country of origin.
- Economic growth increases, higher production.
- BOP will improve if there are more exports
- Mutual trade brings better quality and more variety into the country.

Drawbacks:

- Depends on what the poorer country exports, if it is raw materials, you leave the country of origin poorer. (Exploitation)
- Local infant industries can be exposed and forced to close down.
- Can lead to dumping
- For example, the poorer country will be much richer exporting shoes than leather.

(Any other relevant answer)

6.1.2 Levels of income differ from country to country:

Higher income results in a change in needs, especially for luxury goods.

Consumer preferences and tastes change:

People are exposed to more and more products every day.

Religious, cultural and social lifestyles differ from one country to another:

This influences the demand for certain products.

Development of communications and transport:

Countries and products are within easy reach of one another.

Different levels of economic development:

Poor countries will have a demand for basic food and wealthy countries for luxuries.

Natural resources and products differ from one country to another:

Countries import what they don't have and export what they do have.

Increase in population and their income:

Demand and needs change – countries cannot meet the need.

Natural resources are not evenly distributed:

E.g., S.A.'s mineral riches enable us to produce more cheaply to export.

Climatic conditions differ from one country to another:

Some products can be produced cheaper than in other countries, e.g., coffee in Brazil.

Labour resources:

Quality, quantity and cost differ between countries, e.g., labour supply in Malaysia is high and cost is low. Other countries have high levels of sophistication of labour – more productive.

Technology & Specialisation:

Some countries have access to technological resources to produce at low cost. Japan specialises in electronic equipment, produces in mass and sells at lower prices.

Access to capital differs:

Some countries have more capital and can produce better and cheaper products.

6.2 6.2.1 Is the percentage / rate of unemployed workers in the labour force.

6.2.2 **Strict / Official unemployment:**

- regards a person as unemployed only if they have taken active steps to look for work.

Expanded unemployment:

- unemployed person actively looking for a job or not.

- 6.2.3
- The official unemployment rate includes the people actively looking for a job.
 - During lockdown we had no movement so people could not look for jobs and businesses were closed.
 - The significant changes in the numbers of persons in these two categories resulted in a significant decrease of 6,8 percentage points in the official unemployment rate from 30,1% in quarter 1: 2020 to 23,3% in quarter 2:2020.

- 6.2.4
- Yes, they should be worried, SA's unemployment number is very high, as it stands right now at 2.5 million.
 - Discouraged people who stopped looking for jobs.
 - Negative because strict definition ignores discouraged work seekers and it doesn't reflect in the unemployment figures.

6.3 6.3.1 South Africa's Current account is in a deficit for Q2 2020 and in a surplus for Q3 2020.

6.3.2 **Trade in goods / Exports and Imports:**

- The country's imports and exports.
- When a country exports goods, foreigners demand the local currency and sell their own currency. This is shown as a plus on the balance of payment.
- When a country imports goods, the people of that country sell their own currency and buy the foreign currency. This is recorded as a minus on the balance of payments.

Trade in services/ Service receipts and Service payments:

- Countries can import and export services.
- For example, a tourist from Germany sells euros and buys rands in order to pay for a range of services, such as accommodation, transport, meals, etc.
- Other services can be insurance and shipping.

Primary income flow / Income receipts and Income payments:

- The payments in respect of interest and dividends made between citizens and firms in different countries.
- For example, a British citizen owns shares in a South African company, and has some money deposited in a South African bank account.
- Each year, she receives dividends and interest from these holdings of South African assets.
- Primary income inflows are recorded as a plus on the balance of payments account and primary income outflows are recorded as a minus.

Current transfers:

- Transfer payments, such as pensions, grants and gifts.
- For example, a South African pensioner living in the US will continue to receive their pension.
- The pension money must be sent from South Africa to the US; rands must be sold to buy US Dollars.

Total: 300 marks