NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2022

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

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 Expenditure method.

2.1.2 Residual items – any errors or omissions with the calculation of GDP. OR Adjustment figure to show balance between the 3 methods.

2.1.3 **Calculate** the GDP for 2020:

C+G+I – Residual item +(X-M)

3 437 068 + 1 140 111 + 703 602 – 4 335 + (1 533 645 – 1 289 107)

= R5 520 984 million

2.1.4 Real GDP is also referred to as GDP at **constant prices**, which is more useful as it excludes the effects of inflation.
Nominal GDP is also referred to as GDP at **current prices**, which includes the effect of inflation, so it is difficult to know whether the value of production increased due to more products being produced, or simply because their prices increased.

2.2 2.2.1 Open economy, foreign sector or rest of the world included.

2.2.2 **A:** Households
B: Imports
C: Factor market

2.2.3

Leakages	**Injections**
Savings	Investment
Taxes	Government expenditure
Imports	Exports

2.3

Change in indicator	**Type of indicator**	**Impact on the GDP (increase or decrease)**
Increase in retail sales	Coincident indicator	Increase
Decrease in number of new cars sold	Leading indicator	Decrease
Decrease in cement sales in tons	Lagging indicator	Decrease

2.4 2.4.1 (a) The **current account** records transactions for (imports and exports) the trade in goods and services, primary income flows and current transfers.

(b) Terms of trade is the average price of a country's exports/The average price of a country's imports. OR Ratio of a country's exports prices to import prices. OR How many units of exports are required to purchase 1 unit of imports.

2.4.2 **Trade balance** is the value of exported goods + net gold exports – the value of the imported goods.

2.4.3
- Surplus means that fewer exports are needed to buy the same imports.
- Deficit means that the country is poorer as it must produce more exports to afford the imports.
- If the value of the exported goods plus net gold exports is greater than the value of the imported goods, then the trade balance is positive, and vice versa.
- A positive trade balance is called a surplus and a negative trade balance is called a deficit.
- A surplus will appreciate the currency
- Negative impact will be that the exports will become more expensive and may lead to a decrease in tourism.
- (Candidates have to argue both sides.)

2.4.4 **Financial Account:**
- **<u>Net direct investment flows:</u>**
- are inflows of money that are used to finance the purchase of resources, either in the form of existing companies or to set up new companies.
- For example, Walmart's take-over of the local retail chain Massmart was a foreign direct investment in South Africa. (Any other relevant example)

- **<u>Portfolio investment flows:</u>**
- refers to the flow of money to or from another country, where the money is used to buy shares in companies quoted on that countries stock exchange.
- For example, when a German citizen buys shares in a South African company, or a South African citizen buys shares in an American company. (Any other relevant example)

- **<u>Net other investments, or hot money flows</u>**:
- hot money flows refer to the flow of money into and out of a country as investors seek to get the highest rate of return.
- For example, if the interest rates are relatively high in South Africa compared to those in the United States, money flows from the United Stated to banks in South Africa, as holders of money seek to earn the highest rate of return.
- Investments for returns , bonds.
  (Any other relevant example)

(x1 Name, x2 Describe, x2 Example)

QUESTION 3 MICROECONOMICS

3.1 3.1.1 To promote and maintain competition in South Africa.

3.1.2 **A cartel** is a group of producers whose goal is to fix prices and to limit supply and competition in the market like the tyre industry.

3.1.3
- **Number of businesses**
- Only a few large producers manufacturing the same product dominate the market.
- The airline companies have a few large role players such as SAA, Kulula, British Airways, FlySafair, Airlink, CemAir. It is competition amongst a few with a high concentration ration.

- **Nature of the product**
- The product may be homogeneous, known as pure oligopoly, but it is mostly heterogenous/differentiated.
- Airline companies all produce a similar service, which is transportation but, it can be differentiated by inhouse service, design and marketing.

- **Entry into the market**
- is possible but becomes more difficult as barriers to entry exist e.g., licences.
- After obtaining the licenses and liability insurance, you can acquire the equipment needed and begin marketing your airline's company.

- **Kind of competition**
- Compete in the form of non-price competition such as product development, advertising and other forms of marketing.
- Any relevant example of how airline companies use marketing and other non-price factors for example catering, points or miles, etc.

- **Availability of market knowledge**
- Imperfect information due to competition.
- Airline companies don't have any knowledge of their competitors.

(x1 Name, x2 Describe, x2 Link)

3.2 3.2.1 **Market failure** occurs when firms do not produce the quantity of output that would have been produced (allocative inefficiency) under the conditions of perfect competition.

3.2.2 A: Imperfect competition/not enough competition.

B: Imperfect information/not enough information.

C: Immobility of factors of production/resources that can't or won't move.

3.2.3 (a) **Externalities**.
- are the costs or benefits of a transaction that affect economic agents who are not directly involved in the transaction or activity.
- A negative externality (e.g. the effects of environmental pollution) is a cost experienced by someone who is not a party to the transaction that produced it. (harm done to society)
- A positive externality (e.g. provision of education and health care) is an external benefit of consumption.

(b) **Public goods and services.**
- The two main characteristics is non-rival in consumption and 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. streetlights, defence force.
- Too few consumers are prepared to pay for the good, would rather be free-riders.
- Therefore, there is under-allocation of resources to the production of public goods and the market fails.

3.2.4 (a) **Income inequality:**
- The South African government imposes progressive taxation, i.e. the more you earn the more tax you pay.
- The government also use minimum wages to address the inequality.

(Any other relevant examples)

(b) **Merit and 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.

(Any other relevant examples)

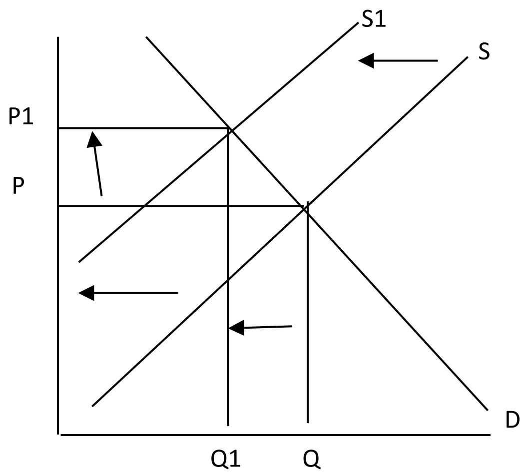
3.3 3.3.1 Organization of the Petroleum Exporting Countries.

3.3.2 Algeria, Angola, Congo, Ecuador, Equatorial Guinea, Gabon, IR Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

3.3.3 OPEC is a cartel between countries so there is little that government can do to stop them controlling the oil supply. Between these countries they control the majority of oil stock in the world.

3.3.4 Decrease in supply graph

Price



Quantity

- OPEC can decrease its production, thus the supply curve will shift to the left.
- If demand stays the same the oil price will increase.
- Discussion Max 4

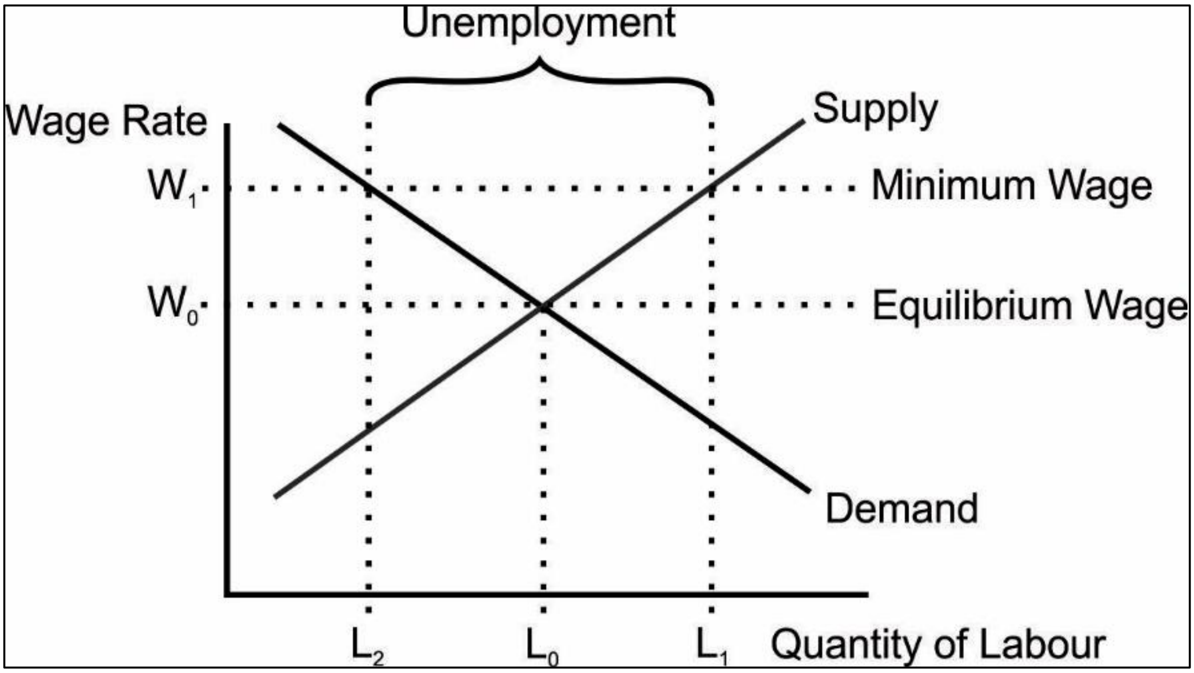
- **Graph mark allocation Max 5**
- Price/Quantity
- Demand/Supply Label
- New Supply curve labelled S1 plus arrow shift to the left.
- Price increase plus arrow
- Quantity decrease plus arrow

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 The minimum wage increase is simply not enough to provide one with the means to live.

4.1.2
- **Living wage** is determined by average costs of life, to provide a decent standard of living.
- **Minimum wage** is an amount set by law, to keep employees above the poverty level in their area.

4.1.3 Minimum wage graph:



- **Graph mark allocation Max 6**
- Rate.
- Quantity of labour.
- Minimum wage indicated above the equilibrium.
- Unemployment indicated.

4.1.4
- Households will have a higher income which can lead to higher demand for goods and services to satisfy their needs.
- Households can also overspend with an increase in national minimum wage and have greater availability of credit.
- Businesses might not be able to afford the increase in the national minimum wage and might therefore retrench some of the workers or close down.
- Businesses might have more happy workers, which can lead to increase in productivity.
- Some households won't be affected because they are already earning above the minimum wage.
- Some businesses won't be affected because they already pay above the minimum wage.

Households Max 4 and Businesses Max 4 (Positive and negative)

4.2 4.2.1 Norway

4.2.2 Anything below 0,940 or 11th after the other countries

4.2.3 (a) **Human Development Index (HDI)** is a comparative measure of life expectancy at birth, expected years of schooling for children and GDP/GNI per Capita. (Various measures of standard of living)

(b) **GDP/GNI per capita** indicates living standards of people/average income per person. The higher the GDP per capita the better or higher the average standard of living.

4.2.4
- Germany's HDI value is high at 0,947, suggesting the healthcare and education is good.
- The country's life expectancy at birth is 81,3, indicating that people life longer because of better standard of living.
- GDP per capita is much better at 55,314, suggesting the healthcare and education is better.

(Any other relevant answer)

4.3 4.3.1 **Inflation** is a sustained increase in the general price level of goods and services over an extended period of time.

4.3.2 Inflation is a threat to the consumer because prices of goods and services increases, but wages remain the same or unchanged.

4.3.3
- Price of oil is high causing increase in fuel prices which also leads to increase in cost of production.
- Worldwide shortage of food and the COVID-19 pandemic.
- Eskom's high electricity costs.
- Looting and strikes contributing to higher costs.

(Any other relevant answer)

4.3.4 **Causes**:

<u>Demand pull inflation</u>:
- When the demand for goods and services increases the production remains the same or does not increase as fast.
- E.g. increase in salaries, increase in population figures, expansionary fiscal and monetary policies (lower taxes and interest rate and increase government spending and money supply)

<u>Cost push inflation</u>:
- Caused by an increase in the cost of production.
- E.g. wages increase due to strikes, oil price increases, production slows down, climatic factors leading to droughts, floods, etc.
  (x1 Name, x2 Describe, x2 Example)

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 **Inelastic**, the change in quantity demanded is smaller than the change in price.

5.1.2 **Price elasticity of demand** (PED) measures the responsiveness (or sensitivity) of quantity demanded to a change in price.

5.1.3 **<u>Substitutes</u>**

- The more substitutes a good or service has, the more price elastic it will be.
- The fewer substitutes a good or service has, the more price inelastic it will be.

<u>Compliments</u>

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

<u>Period of time under consideration</u>

- Goods or services tend to become more price elastic as the time period increases. The reason for this is that with time more substitutes become available.

<u>Proportion of income spent on good or service</u>

- The higher the proportion of a person's income being spent on a good or service, the more price elastic the good tend to be.

<u>Definition of a product</u>

- The more specific a product is defined, the more price elastic it tends to be.
  E.g. chicken is less price elastic than chicken breasts.

<u>Habit forming/Life-saving substances (Addiction)</u>

- Habit forming/addictive substances tend to have a very price inelastic demand.

<u>Durability of a good</u>

- Durable goods tend to be more price elastic than perishable goods.

<u>Branding/Marketing</u>

- The more marketing and branding make a product more inelastic.

5.2 5.2.1 **Free trade** occurs where there are no barriers to the importing and exporting of goods and services between countries.
Russia and Ukraine stopped free trade policies between the two countries, because of the conflict.
(Must mention Russia and Ukraine conflict/war/disagreements for Max marks)

5.2.2 **Prevention of dumping**
- 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 as the intention is often to put local firms out of business.
- Protect South African industries against cheap inferior quality products.

To protect the home industries against cheaper competition.
- It is difficult for young & older enterprises to compete with established international enterprises that offer cheaper costs of production.
- Government can protect them by restricting trade through import tariffs.

Employment is encouraged
- 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.

Encourage Economic Growth
- The more local production, the more jobs are created.
- The more jobs that are created, result in bigger income.
- A bigger income leads to a greater demand and greater spending.

Diversifying the industrial base and striving for national independence
- Countries do not want to depend on imports from certain countries and prefer to supply their own needs.
- Countries also consider certain industries of national importance like energy, food, water and steel and do not want to become dependent on foreign countries to supply these.

Positive influence on balance of payments
- A reduction in imports and promotion of exports can help to improve the balance of payment.
- By restricting the value of imports, government can improve the balance of payments.
- 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 BOP has a positive effect on the exchange rate.

Create (revenue) income for the government
- Charging tariffs on imports contribute to earn income for government.
- In developing countries it can supplement government's limited income from other taxes.

(Accept any other relevant answer)

5.3 5.3.1 Base year = 2021

5.3.2 **Calculate** the real GDP for 2019 labelled letter **A**:

1 190 000/117 × 100 = R1 017 094 million

5.3.3 **Calculate** the nominal GDP for 2020 labelled letter **B**:

1 077 577 × 122/100 = R1 314 644 million

5.3.4 **Calculate** the economic growth rate for 2021:

$$\frac{\text{Capital Real GDP} - \text{Previous Real GDP}}{\text{Previous Real GDP}} \times \frac{100}{1}$$

$$\frac{1\,577\,572 - 1\,077\,577}{1\,077\,577} \times \frac{100}{1} = 46{,}39\% \text{ OR } 46\%$$

5.4 5.4.1 A macroeconomic conflict can come between high economic growth, which is very positive in creating jobs etc. and inflation.
If there is a rapid economic growth, it is more likely that inflationary pressures will increase. Which can exceed the inflation target bracket which is 3%–6% and that is negative.

5.4.2 There is often a trade-off (at least in the short run) between unemployment and inflation. High inflation is a result of high demand and economic growth which is not good.
In a period of high growth, jobs are created, causing unemployment to fall.
But as unemployment falls, it can put upwards pressure on wages, leading to inflation of a cost-push nature.

SECTION C

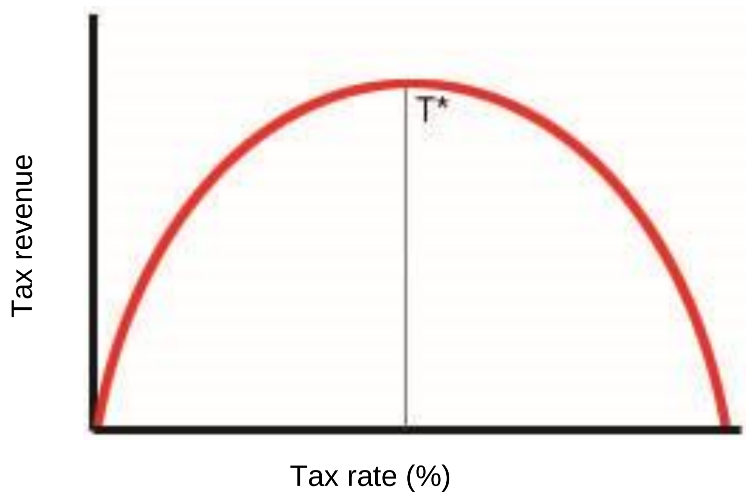
QUESTION 6 DATA RESPONSE

6.1 6.1.1 Budget deficit

6.1.2 **Government budget** a list of expected government revenue and government expenditure.

6.1.3
- Personal Income Tax
- Company Tax
- Value Added Tax
- Customs duties
- Excise duties (Sin Tax)
- Fuel levy

6.1.4 **The Laffer curve**



- **Graph mark allocation Max 4**
- Tax revenue
- Tax rate
- T*/Optimum point/Max tax/Tipping point
- Curve

6.2 6.2.1 Yes/No

6.2.2 If YES: It is within the South African Reserve Bank inflation targeting of 3%– 6%.
OR
If NO: It is too high and close to the inflation targeting of 3%–6% and therefore they might not be too happy.

6.2.3
- A decrease in the buying power of the currency – the consumer can buy less with his/her money.
- Negative influence on savings and investments – have to compare inflation rate with the returns on investments.
- People who are dependent on a fixed income are influenced negatively, e.g. pensioners.

- It benefits debtors at the expense of creditors. Debtors pay back less over time.
- If the inflation of a country is higher than that of other countries, it will lose its competitive advantage.
- Can cause bracket creep and fiscal drag – government receives more tax money (higher salaries, higher taxes).
- Can cause social and industrial unrest, for example, as a result of food inflation. (Any other reasonable answer)

6.2.4 **Restrictive monetary policy**

- refers to interest rates and money supply and can be controlled by the South African Reserve Bank (SARB).
- To curb inflation the government has increased the repo rate on several occasions.
- This has forced banks to increase their interest rates, thus credit has become more expensive.
- This has forced consumers to spend less, thus decreasing demand in the economy, which will lower the inflation rate.
- The SARB could also decrease the money supply using open-market transactions by selling government bonds.

Restrictive fiscal policy

- refers to taxation and government spending and can be controlled by National Treasury.
- to reduce inflationary pressures the government can increase tax and/or reduce government spending. This will reduce aggregate demand.
- If taxes are increased (or government spending decreased) it will lead to a reduction in real disposable income.
- This will lead to lower demand and output, which will then lead to lower inflation.

Extent:

- The government has a budget deficit and will increase government revenue by increasing taxes.
- The South African reserve bank might increase the repo and prime lending rates to also curb inflation and the increase in aggregate demand.
- The SARB might not do anything and keep the repo rate unchanged, because the inflation targeting bracket is not exceeded and consumers are already struggling.

(Work with restrictive and expansionary)

6.3 6.3.1 **Calculate** the missing values labelled A to E.

A: –7 or 0
B: 30
C: 32
D: 15
E: 75

6.3.2 **Normal profit** is the profit a firm makes when the total cost of production (implicit plus explicit) is equal to the total revenue from the sale of its output (break-even).
Economic profit occurs when a firm makes more than a normal profit, that is the level of output at which total revenue is greater than total cost (implicit plus explicit costs)

6.3.3
- Freedom of entry and exit to the market for businesses.
- Products are homogenous i.e. they have the same characteristics.
- Large number of buyers and sellers, so neither are able to control the market.
- Buyers and sellers have perfect information on all products and markets.
- Collusion is not possible because there are many buyers and sellers.
- Buyers and sellers are price takers and cannot determine the market price.

Total 300 marks