

SMARTWIZ

GRADE 12 ECONOMICS EXAM

MARKS: 100

TIME: 2 HOURS

SCHOOL _____

CLASS (eg. 4A) _____

SURNAME _____

NAME _____

MARKS	
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Instructions for Learners:

- Read all instructions carefully before you begin the exam.
- Write your full name and student number clearly on the answer sheet/book.
- Answer all questions unless otherwise instructed.
- Show all your work/calculations where necessary.
- Write neatly and clearly.
- Use only a blue or black pen. Do not use correction fluid or tape.
- Electronic devices (calculators, cell phones, etc.) are not allowed unless explicitly permitted.
- Raise your hand if you have any questions.
- Do not talk to other learners during the exam.
- Any form of dishonesty will result in immediate disqualification from the exam.

This exam consists of Five pages, including the cover page.

◆ **SECTION A: MONEY AND BANKING (25 MARKS)**

QUESTION 1: Money, Banking & Financial Markets (25 marks)

1.1 Define **liquidity** in the context of money. (2)

1.2 Explain TWO characteristics of fiat money. (4)

1.3 What is the role of commercial banks in an economy? (3)

1.4 Describe the process of **credit creation** by banks. (4)

1.5 Explain how a **central bank** controls inflation using interest rates. (4)

1.6 Discuss TWO advantages of using electronic banking over cash transactions. (4)

1.7 Identify TWO types of financial markets and briefly explain their functions. (4)

◆ **SECTION B: PRODUCTION AND COSTS (25 MARKS)**

QUESTION 2: Business Economics (25 marks)

2.1 Define **fixed costs** and **variable costs**. (4)

2.2 Explain the concept of **economies of scale** and provide TWO examples. (4)

2.3 What is the difference between **accounting profit** and **economic profit**? (3)

2.4 A firm's total cost is R50 000 and total revenue is R65 000. Calculate the profit or loss and state whether it is a profit or loss. Show working. (4)

2.5 Describe the law of diminishing marginal returns with an example. (4)

2.6 Explain TWO reasons why a firm may experience diseconomies of scale. (4)

2.7 Discuss the importance of innovation in business production. (2)

◆ SECTION C: GOVERNMENT INTERVENTION (25 MARKS)

QUESTION 3: Role of Government in the Economy (25 marks)

3.1 Define **taxation** and explain its main purpose. (3)

3.2 Explain TWO types of taxes and give an example of each. (4)

3.3 Discuss the concept of **subsidies** and how they can benefit producers. (4)

3.4 What are **externalities**? Explain the difference between positive and negative externalities. (4)

3.5 How can the government address negative externalities? Provide TWO examples of policies. (4)

3.6 Describe TWO disadvantages of high taxation on businesses. (4)

3.7 Explain how government regulations can improve market outcomes. (2)

◆ **SECTION D: INTERNATIONAL ECONOMICS (25 MARKS)**

QUESTION 4: Exchange Rates and Trade Policies (25 marks)

4.1 Define the term **exchange rate**. (2)

4.2 Explain TWO factors that can cause exchange rate fluctuations. (4)

4.3 What is meant by **protectionism**? Give TWO examples of protectionist policies. (4)

4.4 Discuss TWO advantages and TWO disadvantages of free trade. (6)

4.5 A country's currency depreciates. Explain TWO effects this might have on its economy. (4)

4.6 Explain the role of the World Trade Organization (WTO) in international trade. (3)

End of Exam

TOTAL : 100

◆ SECTION A: MONEY AND BANKING (25 MARKS)

QUESTION 1: Money, Banking & Financial Markets (25 marks)

1.1 Define liquidity in the context of money. (2)

Liquidity is the ease with which an asset can be converted into cash without loss of value.

1.2 Explain TWO characteristics of fiat money. (4)

- It has no intrinsic value (not backed by a physical commodity).
- Its value is based on government decree and public trust.

1.3 What is the role of commercial banks in an economy? (3)

- Accept deposits from the public.
- Provide loans and credit facilities.
- Facilitate payments and money transfers.

1.4 Describe the process of credit creation by banks. (4)

Banks lend out a portion of deposits they receive, creating new money in the economy through multiple rounds of lending, less the required reserves.

1.5 Explain how a central bank controls inflation using interest rates. (4)

By increasing interest rates, borrowing becomes more expensive, reducing spending and investment, which lowers inflation.

1.6 Discuss TWO advantages of using electronic banking over cash transactions. (4)

- Convenience and faster transactions.
- Reduced risk of theft and loss of money.

1.7 Identify TWO types of financial markets and briefly explain their functions. (4)

- Capital market: facilitates long-term funding through shares and bonds.
- Money market: deals with short-term borrowing and lending of funds.

◆ SECTION B: PRODUCTION AND COSTS (25 MARKS)

QUESTION 2: Business Economics (25 marks)

2.1 Define fixed costs and variable costs. (4)

- Fixed costs are costs that do not change with output (e.g., rent).
- Variable costs change with the level of production (e.g., raw materials).

2.2 Explain the concept of economies of scale and provide TWO examples. (4)

Economies of scale occur when increasing production lowers the average cost per unit. Examples: bulk buying of inputs, specialized machinery.

2.3 What is the difference between accounting profit and economic profit? (3)

- Accounting profit = total revenue minus explicit costs.
- Economic profit = total revenue minus explicit and implicit costs.

2.4 A firm's total cost is R50 000 and total revenue is R65 000. Calculate the profit or loss and state whether it is a profit or loss. Show working. (4)

Profit = TR – TC = R65 000 – R50 000 = R15 000 profit.

2.5 Describe the law of diminishing marginal returns with an example. (4)

As more units of a variable input are added to fixed inputs, the additional output produced eventually decreases. Example: adding more workers to a fixed-size factory will eventually reduce additional output per worker.

2.6 Explain TWO reasons why a firm may experience diseconomies of scale. (4)

- Management inefficiency due to large size.
- Communication problems causing delays.

2.7 Discuss the importance of innovation in business production. (2)

Innovation can improve productivity, reduce costs, and create competitive advantage.

◆ **SECTION C: GOVERNMENT INTERVENTION (25 MARKS)**

QUESTION 3: Role of Government in the Economy (25 marks)**3.1 Define taxation and explain its main purpose. (3)**

Taxation is the compulsory payment to government used to finance public goods and services.

3.2 Explain TWO types of taxes and give an example of each. (4)

- Direct tax (e.g., income tax): paid directly by individuals or businesses.
- Indirect tax (e.g., VAT): included in the price of goods and services.

3.3 Discuss the concept of subsidies and how they can benefit producers. (4)

Subsidies are financial support from the government to lower production costs and encourage production.

3.4 What are externalities? Explain the difference between positive and negative externalities. (4)

Externalities are unintended side effects of economic activities on third parties. Positive externalities benefit others; negative externalities impose costs.

3.5 How can the government address negative externalities? Provide TWO examples of policies. (4)

- Imposing taxes on polluting firms (pollution tax).
- Setting regulations or limits on emissions.

3.6 Describe TWO disadvantages of high taxation on businesses. (4)

- May reduce profits and investment.
- Can discourage entrepreneurship and expansion.

3.7 Explain how government regulations can improve market outcomes. (2)

Regulations prevent market failures, protect consumers, and ensure fair competition.

◆ SECTION D: INTERNATIONAL ECONOMICS (25 MARKS)

QUESTION 4: Exchange Rates and Trade Policies (25 marks)

4.1 Define the term exchange rate. (2)

The exchange rate is the price of one country's currency in terms of another currency.

4.2 Explain TWO factors that can cause exchange rate fluctuations. (4)

- Changes in interest rates affecting capital flows.
- Changes in demand and supply for currencies due to trade.

4.3 What is meant by protectionism? Give TWO examples of protectionist policies. (4)

Protectionism involves government measures to restrict imports to protect domestic industries. Examples: tariffs, import quotas.

4.4 Discuss TWO advantages and TWO disadvantages of free trade. (6)

Advantages: access to larger markets, lower prices for consumers.

Disadvantages: domestic industries may suffer, loss of jobs in uncompetitive sectors.

4.5 A country's currency depreciates. Explain TWO effects this might have on its economy. (4)

- Exports become cheaper and more competitive internationally.
- Imports become more expensive, potentially increasing inflation.

4.6 Explain the role of the World Trade Organization (WTO) in international trade. (3)

WTO promotes free trade by regulating trade agreements, resolving disputes, and reducing trade barriers.

TOTAL: 100 MARKS