NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2024

ECONOMICS

MARKING GUIDELINES

Time: 3 hours 300 marks

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SECTION A

QUESTION 1

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

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SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 Inaccurate: GDP Includes exports and excludes imports in the calculation. ✓✓

2.1.2 Inaccurate: South Africa uses a freely floating exchange rate system, the SARB can still get involved should it feel that the currency depreciates too much. ✓✓

2.2 2.2.1 (a) **Residual item** any omission or errors during the calculation of GDP. (Ensuring balance between I = E = P) ✓✓

(b) **Gross fixed capital formation (GFCF)** refers to the purchase of capital goods by firms and government. ✓✓

2.2.2 **Calculate** the value of A. (Candidates must show all calculations):

1 783 617 + 472 927 – 403 304 – 11 031 – 341 538 – 1 134 152 ✓

= **366 519 Million** ✓

2.2.3 **Calculate** the economic growth rate for 2022. (Candidates must show all calculations):

[(1 834 292 – 1 783 617) ✓ / 1 783 617] ✓ × 100

= 2.84% or (2.8%) ✓✓

2.3 2.3.1 Financial account ✓ Capital Transfer account ✓ Reserves account ✓

2.3.2 If the rand were to depreciate it would make SA exports cheaper ✓✓ to foreigners which would mean that there would be an increase in SA exports. ✓✓ Depreciation of the rand would also make imports more expensive ✓✓ OR which would discourage imports. This would help reduce the deficit in the current account. ✓✓

2.3.3 Since Jan 2023 Q1 and Q2 there has been a deficit in the current account ✓✓ Since the 2nd quarter of 2023 this deficit has gotten smaller ✓✓ With merchandise imports and exports making up the biggest part of the current account this smaller deficit ✓✓ indicates that the value of imports has decreased or that the value of exports has increased
Reasons for the decreased deficit can be the increase in mineral prices on international markets. ✓✓
Opportunities for South Africa with a lower deficit. ✓✓
More lucrative destination for investors. ✓✓ Any 4

2.4 2.4.1 Leading indicators tell us where the economy is going ✓✓

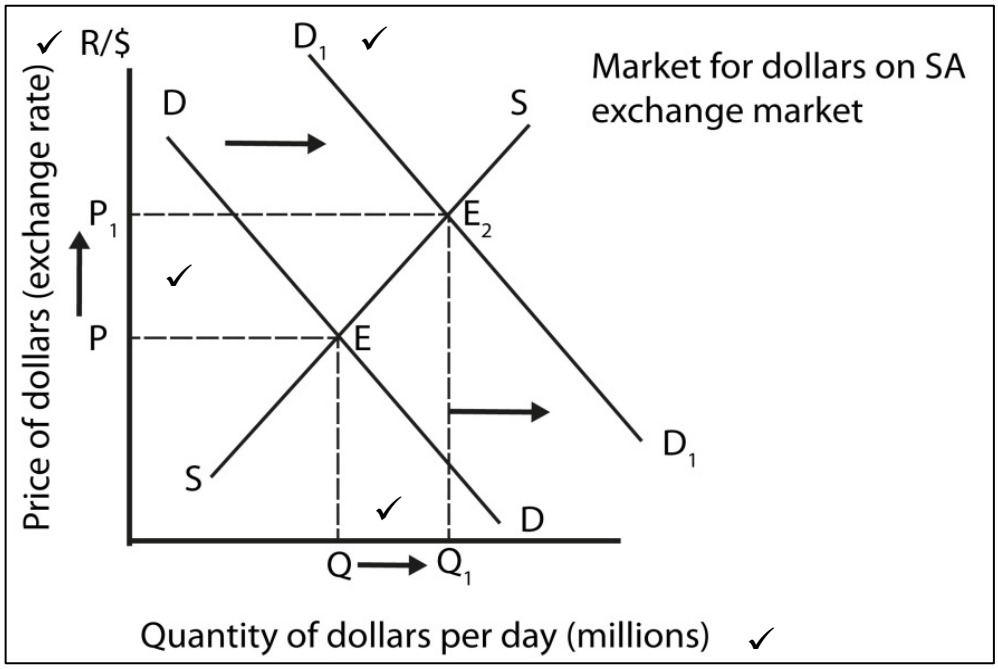
2.4.2 Number of new cars sold ✓
New companies being registered ✓
Building plans approved ✓
Share prices/stock market returns ✓
Business confidence index ✓
Product exports ✓ Any 2

2.4.3 Leading indicators peak before the business cycle peaks and reaches a trough before the business cycle reaches the trough. ✓✓ The above indicators are telling us that the SA economy is about to reach a trough ✓ and will be going into incline thereafter in Q2.
First a decrease in demand and then an increase in demand ✓
Possible job opportunities ✓
Rand is still weak ✓
Good for exports ✓

2.5 Advantages of privatisation.

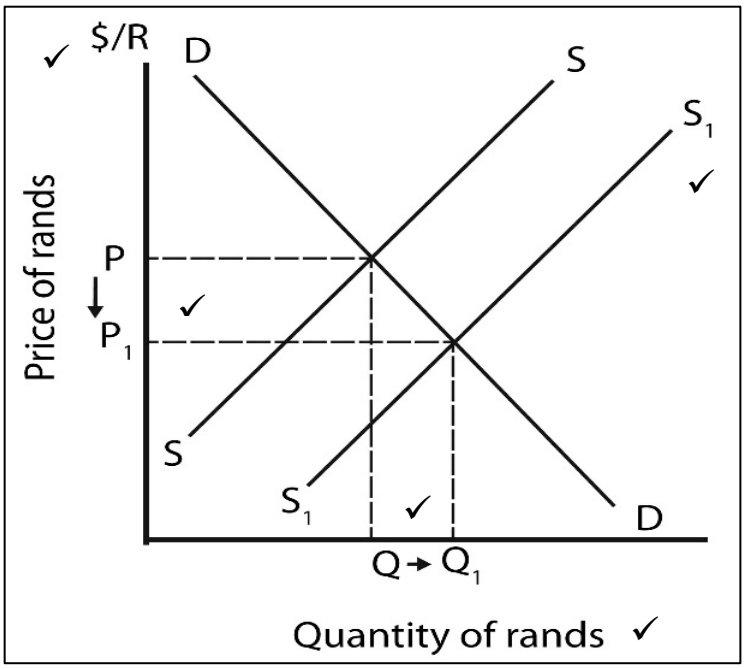
There is competition which means efficiency improves ✓✓
Competition leads to more choice for consumers ✓✓
Privatised firms produce what people want – they innovate and use new technology. ✓✓
Competition leads to better quality. ✓✓
(Accept any other relevant correct answer) Any 2

2.6 Use a graph and a short discussion to **explain** what will happen to the R/$ exchange rate if we have more imports coming from the United States of America.



Short discussion:
Increase in imports will lead to increased demand for foreign exchange, thus the demand curve will shift to the right. ✓✓
There will be a new equilibrium point, thus price of dollars increases, thus depreciation in value of the rand/appreciation of the dollar. ✓✓

OR



Short discussion:
South Africans are importing more and therefore have to sell rands to buy dollars which means there will be an increase in the supply of rands. ✓✓
This will lead to a depreciation of the rand/appreciation of the dollar. ✓✓
(Graph 5 and Discussion 4)

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QUESTION 3 MICROECONOMICS

3.1 **Complete** Table 3:

Characteristics	Oligopoly	Monopolistic
Number of firms	Few big firms ✓	Many / Several ✓
Nature of the product	Differentiated and Homogenous.✓	Differentiated ✓
Availability of market knowledge to the business	Imperfect knowledge due to competition/ marketing/ branding. ✓ / Perfect knowledge regarding pricing	Incomplete market knowledge due to branding. ✓
Barriers to entry	Free to difficult (need licences, capital formation) ✓	Freedom to entry and exit. ✓
Example	Banking industry, Cell phone companies, Petrol stations, etc ✓	Any fast-food restaurant, clothing brands, etc ✓

3.2 3.2.1 Prohibition of Vocom/Mziv merger ✓
Sasol gas fined for excessive pricing of natural gas. ✓
Commission recommends conditional approval of Takatso/SAA merger. ✓
SAPS hand sanitiser supplier fined R3,5 million for excessive pricing. ✓
Commission welcomes tribunal's approval of Heineken and Distell merger. ✓
(Accept any other relevant correct answer) Any 2

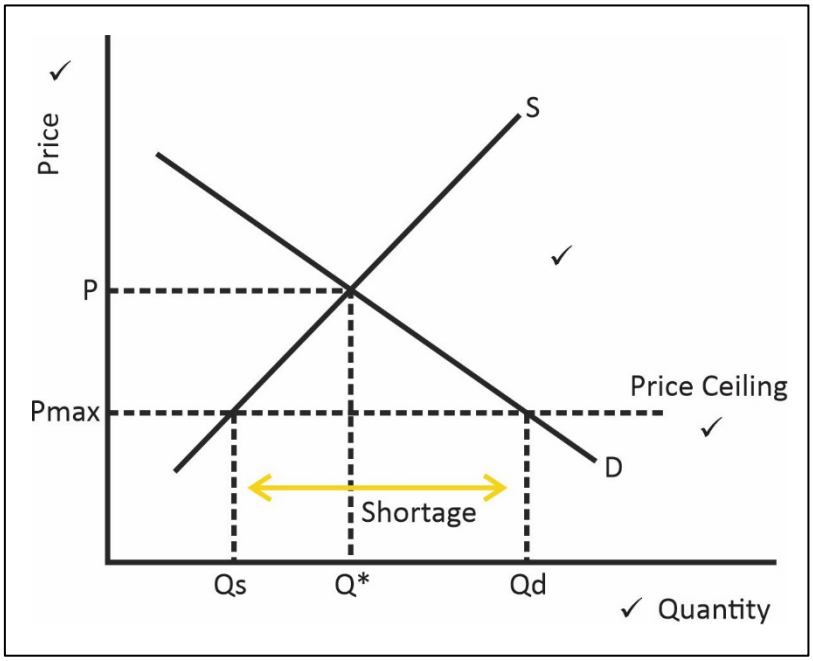
3.2.2 The government must set rules and regulations to protect consumers against unfair prices and inferior products. ✓✓

Purpose of the commission is to prevent monopolies and cartels ensuring fair prices for the consumer. ✓✓

They also have authority to decide on mergers between companies and prohibit a merger if they believe it will lead to less competition. ✓✓

Any 2

3.3 **Maximum prices graph:**
(Candidates are not required to make use of the specific prices on the graph.)



- **Graph mark allocation Max 4**
- Price ×1. ✓
- Quantity ×1. ✓
- Maximum price indicated below the equilibrium ×1. ✓
- Supply and Demand indicated as ×1. ✓

Explanation:
If the government sets a maximum price below the market price (P) at P1, the quantity demanded will increase to Q2, but the supply will drop to Q1. ✓✓
The difference between Q2 and Q1 will lead to a **shortage** ✓✓ on the market, which could lead to a black market, where the goods will trade at higher prices. ✓✓
(Graph 4 and Discussion 4)

3.4 **Characteristics of a perfectly competitive firm:**

Many buyers and sellers: ✓
Under the condition of a perfect competitive firm, buyers and sellers have no market power. ✓✓
No single seller in a perfect competitive market can change the market price by changing the quantity it supplies. ✓✓

No barriers to entry or exit: ✓
New firms can enter a perfectly competitive industry without incurring any additional costs. ✓✓
New firms have immediate access to the same technology and factors of production as the exciting firms. ✓✓
There is also freedom to exit, this means that a firm can leave a perfectly competitive industry without having to pay any additional costs. ✓✓

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Perfect information: ✓
Buyers know where they can obtain each product at the lowest possible price, and sellers know where they can obtain the factors of production and most efficient technology at the lowest cost. ✓✓

Homogeneous or identical products: ✓
All businesses in an industry produces homogeneous products, this means that that the products of each firm in the industry are identical, and are perfect substitutes for one another. ✓✓
There are no differences in packaging, service and content of the products. ✓✓

3.5 3.5.1 **Cross-price elasticity of demand (CPED)** measures the responsiveness of quantity demand for a good following a change in the price of a related good or use example to explain. ✓✓

3.5.2 **Fresh milk:** a positive relationship ✓ indicates that there are substitutes.✓
Tennis balls: a negative relationship ✓ indicating that it is a complementary good. ✓

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. ✓✓

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.

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. ✓✓

Habit-forming/Life-saving substances (Addiction)
Habit-forming/addictive substances tend to have a very price inelastic demand. ✓✓

Durability of a good
Durable goods tend to more price elastic than perishable goods. ✓✓

Branding/Marketing
More marketing and branding make the product more inelastic. ✓✓

Complements
A good or service with a lot of complements 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. ✓✓

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QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 (a) **Gini coefficient** is measured between 0 and 1. The closer to 1 the figure is the more unequal the distribution of income is. SA'- 0.63 is bad because it is a very unequal distribution of income ✓✓

(b) **Budget deficit as a % of GDP** No deficit or a surplus on budget is better. The internationally accepted standard is no more than 3%, so anything within the range is positive to the South African economy. ✓✓

(c) **GDP per capita** The higher the GDP per capital the better/positive. It is an indication of general standard of living in a country. The size of the country's population could impact on GDP per capita. ✓✓

4.2 **Expansionary Fiscal policy** is controlled by the government through the Minister of Finance (Treasury) and the budget. ✓✓
By lowering taxes especially personal income tax, ✓✓ consumers will have more disposable income and will thus spend more. ✓✓
Government could also decide to spend more on capital projects ✓✓ like improving infrastructure thus stimulating demand. ✓✓

Expansionary Monetary policy is controlled by the South African Reserve Bank (SARB). ✓✓
By lowering interest rates ✓✓ or by increasing money supply ✓✓ consumers will have more money to spend or credit will be more readily available. ✓✓
This will lead to an increase in consumer spending ✓✓

Discussion of how these policies effect C + G + I + (X – M) AND
Monetary and fiscal policy must be used carefully as a sharp increase in spending will lead to an increase in demand which could fuel inflation. ✓✓ If the supply in an economy cannot adjust to the increased demand, inflation will increase leading to other problems for the economy. ✓✓

4.3 4.3.1 **Consumer Price Index** represents the average price of the goods and services bought by the average South African household each month, in order to do the calculation. ✓✓

4.3.2 Onions – 45,0% ✓✓

4.3.3 Petrol / Bacon – 5,9% ✓✓

4.3.4 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.

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Can cause bracket creep and fiscal drag, government receives more tax money (higher salaries, higher taxes).
Can cause social and industrial unrest, for example the rise in food inflation can cause looting, strikes, unrest.

4.3.5 Positive:
Moderate inflation enables economic growth. ✓✓
Inflation is better than deflation which can cause a recession. ✓✓
Moderate inflation allows for the adjustment of real wages. ✓✓

Negative:
Consumers pay more for products leaving them with less disposable income and the currency lose its value. ✓✓
South Africa can lose its competitive advantage because products will become more expensive. ✓✓

4.3.6 **Cost-push inflation** occurs when there is an increase in the cost of production caused by some of the following factors. ✓✓

Wage increases: ✓
Wages and salaries are the largest cost items of an economy and therefore any increase demanded by 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. ✓

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QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 **Arc elasticity of demand** measures the responsiveness of quantity demanded to a price between two points on a curve. OR It takes the elasticity of demand at a particular point on the demand curve, or between two points on the curve. OR In the concept of arc elasticity, elasticity is measured over the arc of the demand curve. ✓✓

5.1.2

Arc Formula (1 mark if only the formula)

Change in QD / Midpoint
Change in Price / Midpoint

QD: 15 – 10 = 5
P: 6000 – 4000 = 2000 ✓

QD Midpoint: 15 + 10/2 = 12.5
P Midpoint: 6000 + 4000/2 = 5000 ✓

5/12.5 = 0.4
2000/5000 = 0.4 ✓

= 1 Unitary ✓

5.2 (a) **Externalities:**

An externality is a cost or benefit that is experienced by a third party, who is not a party to the transaction that produced it. A negative externality is a cost experienced by someone who is not a party to the transaction that produced it. ✓✓ A positive externality is a benefit experienced by someone who is not a party to the transaction that produced it. ✓✓

E.g. 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. ✓✓

Externalities can also be positive, e.g. the effect of good education and health care services etc. ✓✓ (Accept any correct relevant answer)

(b) **Imperfect competition:**

When a firm in a market has market power, it may be able to restrict output and/or raise the price in order to make significant profits.

Monopolies and oligopolies could restrict supply in order to maximise profits.

Resources are therefore underallocated to the production of goods and services, compared to production under conditions of perfect competition.

(Accept any correct relevant answer)

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5.3 5.3.1 **Marginal revenue** is the change in TR ✓ when one extra unit of output is sold. ✓

Marginal cost is the change in TC ✓ when one extra unit of output is produced. ✓

5.3.2 **A:** 24 ✓

B: 60 ✓

C: 26 ✓

D: – 5 ✓

E: 12 ✓

5.4 **Levels of income differ from country to country: ✓✓**
Higher income results in a change in needs, especially of 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. ✓✓

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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. ✓✓

(Accept any other relevant correct answer)

5.5 5.5.1 S & P Global Ratings ✓
Moody's ✓

5.5.2 **Fitch** refers to a Credit Rating Agency. ✓✓

5.5.3 Positives:
South Africa's 'BB-' outlook reduces the risk of South Africa being rated to a lower junk status (sub-investment grade).
Will attract more investors into the country.
The government can take out loans at a lower interest rate.

Negatives:
If Fitch reduces South Africa to a lower junk status, it will make the country riskier for investors.
Loans will cost the country much more, due to the risk factor of South Africa not being able to pay it back.

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SECTION C

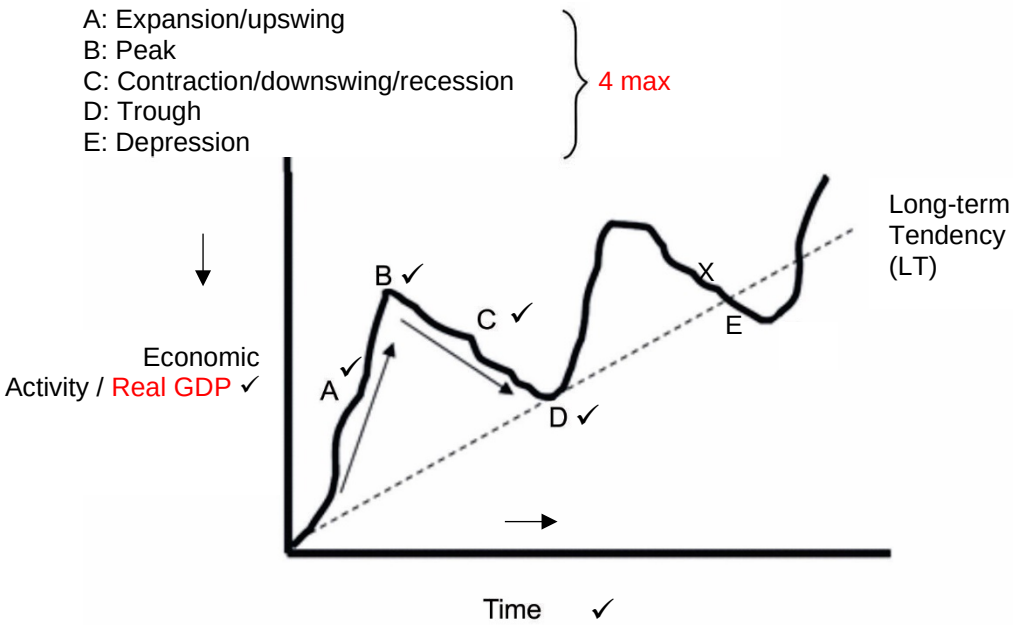
QUESTION 6 DATA RESPONSE

6.1 6.1.1 Statistics South Africa/Stats SA ✓

6.1.2 (a) **Business cycle:**
Is a time series that shows what happens to the value of the domestic output (GDP) of the economy over time. ✓✓

(b) **Economic indicators:**
Statistics that show general trends in the economy. They are used to analyse economic performance and predict future performance in the economy. ✓✓

6.1.3 Business cycle:



Graph mark allocation 6 marks
Labels on the business cycle max 4 marks
Correctly labelled horizontal and vertical axes 2 marks (1 each)

6.1.4 Positives:
A positive growth rate in Quarter 3 2022 of 4.1% can reduce unemployment and generate more income for households which can increase the multiplier on the economy. ✓✓
Economic growth generates job opportunities and hence stronger demand for labour. ✓✓
With more jobs the average households have an income and can increase their standard of living by providing for basic needs. ✓✓

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Negatives:
There is no guarantee that economic growth will ultimately lead to economic development. ✓✓
In order for economic development to take place, the 4,1% economic growth in Quarter 3 of 2022 must lead to an improvement in the living standards of the majority of people. ✓✓
Candidates must evaluate therefore look at both positives and negatives. (Accept any correct relevant answer)

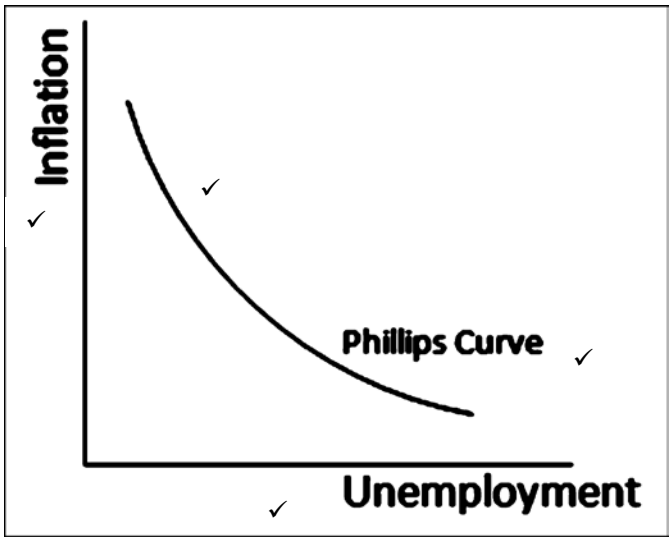
6.2 6.2.1 Excise duty

6.2.2 **Sin tax** taxes imposed on demerit goods which the government deem to be harmful to the general population to consume. The intention is to reduce demand. ✓✓

6.2.3 Positives:
The government will raise a significant amount of tax revenue which will increase the fiscus. ✓✓
Promoting a healthier lifestyle, since these are demerit goods which are overconsumed and harmful to society. ✓✓

Negatives:
These goods are easily accessible and are habit-forming products, which are likely to be relatively inelastic (PED), so the increased taxes will not deter consumption. ✓✓
Increasing prices of these goods can lead to businesses increasing their prices to cover the cost and lead to cost-push inflation. ✓✓
Success of the increase in sin tax can't really be seen as consumers are still consuming the demerit goods. ✓✓

6.2.4 **Phillips curve**



Graph 4 Marks Explanation 4 Marks
Axes labelled Y-axis: Inflation and X-axis: Unemployment ✓✓
Downwards sloping curve ✓
Curve labelled as the Phillips curve. ✓

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Explanation:
As unemployment decreases, more people are earning an income and are therefore able to spend because they will have more disposable income. ✓✓
In so doing increasing aggregate demand and leading to demand pull inflation. ✓✓

6.3 6.3.1 Group of seven (G7) an informal grouping of seven of the world's advanced/developed economies including Canada, Germany, Japan, France, United Kingdom, Italy and United States. ✓✓

6.3.2 Countries are ranked Number 1 is the best and Number 10 is the worst SPI ranking. ✓✓
Countries get scored out of 100 and the closer to 100 the better your score. ✓✓
Canada is scored and ranked the highest. ✓✓

6.3.3 The Social Progress Index (SPI) is a tool designed to assess the well-being and quality of life of citizens in various countries by examining a wide range of social and environmental indicators. In 2020, the United States was the only G7 country with a negative SPI score. Several factors contributed to this negative assessment:

Income Inequality: The United States has one of the highest levels of income inequality among developed nations. The gap between the rich and the poor has widened over the years, which has a significant impact on social progress. ✓✓

Healthcare System: The U.S. healthcare system has been a source of concern for many years. While it has world-class medical facilities and research, access to healthcare is uneven, with a significant portion of the population lacking adequate health insurance. This was especially evident in 2020 during the COVID-19 pandemic, where access to healthcare became a critical issue. ✓✓

Education: While the United States has some of the world's top universities and educational institutions, disparities in the K-12 education system are pronounced. Unequal access to quality education can hinder social mobility and lead to unequal opportunities for different segments of the population. ✓✓

Environmental Sustainability: The U.S. has been criticised for its environmental policies and its high levels of greenhouse gas emissions. Environmental sustainability is a crucial component of the SPI, and the U.S.'s poor environmental performance can drag down its overall score. ✓✓

Political Polarisation: The deep political polarisation in the United States can hinder effective governance and policy-making, making it challenging to address social issues comprehensively.✓✓

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Infrastructure: In 2020, the United States faced significant infrastructure challenges, including aging roads, bridges, and public transportation systems. Infrastructure is essential for social progress as it supports economic growth and quality of life. ✓✓
Any 3

Total: 300 marks

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