NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2023

ECONOMICS

MARKING GUIDELINES

Time: 3 hours 300 marks

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SECTION A

QUESTION 1

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

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SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 A **business cycle** is a time series that shows what happened to the value of the domestic output (GDP) of the economy over time. **OR** The fluctuation in growth rate and in the economic activity of a country.

2.1.2
- Exports start to increase – co. need money
- Imports start to decrease – cannot buy
- Surplus on current account
- Rate of exchange stabilise/strengthens due to increased exports
- Because of low demand, inflation decreases (interest rates thus decrease) – to attempt to help people
- Lower demand: sales decrease further, together with production volumes
- Stock levels decrease again
- Production capacity under-utilised – lots were fired
- Fixed investment/assets decrease – had to sell
- Company profits decrease further
- More liquidations + bankruptcies (more pessimism amongst consumers)
- Property prices decrease
- (Accept any correct relevant responses) (Max 8)

Questions are to be marked according to 'downswing' factors.

2.1.3 **Expansionary monetary policy:**
- Decrease interest rates
- This will leave consumers with more money to spend and it will increase borrowing
- Increased borrowing will increase demand
- Increased demand will result in more spending in the economy

(Max 8)

Expansionary fiscal policy:
- Decrease taxes
- Consumers have more disposable income
- Therefore spending and demand in the economy will increase
- Government spending can also be increased
- Resulting in more jobs, income, demand and spending

(Max 8)

ALTERNATIVE ANSWERS:
- Enhance entrepreneurship via the cutting of red tape and encouraging SMME's; better training and education of workforce, higher exports, cutting of tariffs, an increase in money supply and a stable exchange rate

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2.2 2.2.1 (a) **Current account:** records transactions for (exports and imports) trade in goods and services, primary income flows and current transfers, including income payments and receipts, service payments and receipts.

(b) **Primary income flows:** are the payments in respect of interest and dividends made between citizens and firms in different countries, including profits and net remittance flow from migrant workers.

2.2.2 (a) **Financial Account balance:**

Net direct investment + Net portfolio investment + Net other investment 36 + 94 + 114 billion

(b) **Unrecorded:**

114 – (96) – (18) = 0

(c) **Trade balance:**

Merchandise exports + Gold exports – Goods imports 504 + 53 – (554) 3 billion

2.2.3 **Impact of a surplus or deficit on the current account:**

- There is more money going out of the economy than coming into the economy (more imports than exports).
- A deficit will cause the rand to depreciate.
- or it will cause the rand to grow weaker against other major currencies.

Answers have to reflect both 'surplus' and 'deficit' impact.

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2.2.4 **Reasons why South Africa trades with the rest of the world:**

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, produced 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 correct relevant responses)

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QUESTION 3 MICROECONOMICS

3.1 3.1.1 **Coalition politics** is a form of government in which political parties cooperate to form a government. The usual reason for such an arrangement is that no single party has achieved an absolute majority after an election.

3.1.2 The cartoonist is illustrating the lack of service delivery in South Africa and the coalition politics or governments must keep it up.

3.1.3 (a) **Lack of accountability:**

- means giving an account or explanation of the actions taken and decisions and payments made.
- Accountability is not usually a problem in the private sector, as inefficient work results in customers going to another business.
- It is a problem in the public sector, because the customers often do not pay for services, so they do not get efficient service delivery.
- In recent events people living in areas lacking services have been holding demonstrations to make their feelings about poor service delivery very clear to government.
- In this year's municipal elections parties formed coalition governments, because the ruling party did not achieve an absolute majority in some parts of the country as people are holding them accountable for the lack of service delivery in the area.
- In South Africa the following mechanisms are applied to make the state more accountable to the public:
  - Ministerial responsibilities – each minister is charged with a portfolio and specific responsibilities.
  - Parliamentary questioning – written questions are submitted by members of parliament to the relevant ministers.
  - Treasury control – is responsible for managing national government's finances.
  - Audit reports – The Auditor-General of South Africa has to audit and report on the accounts of each department.

(Accept any correct relevant responses) (Max 4)

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(b) **Inefficiency:**

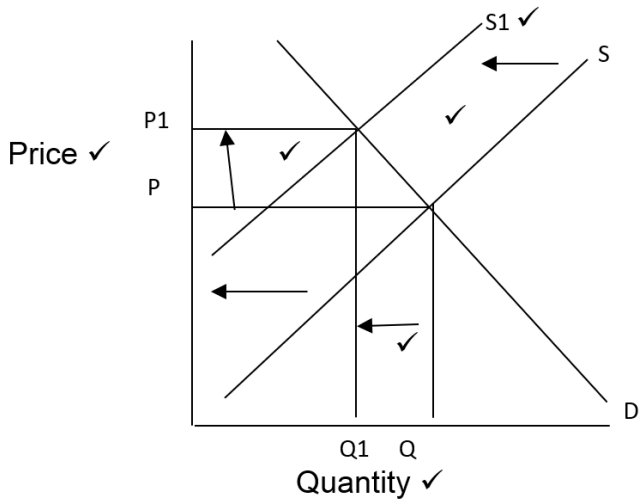
- When economists try to assess how efficient a market economy is, they make use of the concept of Pareto efficiency. An economy is said to be Pareto efficient when all resources are allocated in such a way that it is possible to make anybody better off without making someone else worse off.
- Reasons for inefficiency:
  – Bureaucracy – Official rules and procedures which are time consuming and hamper productivity and efficiency within the organisation.
  – Incompetence – Inefficiency within organisations can be the result of poor management, lack of skill, insufficient experience or inability to do the required task. (For example incompetence of civil servants).
  – Corruption – Inefficiency is sometimes the result of bad decisions being made because those in charge exploit their positions of power for personal gain.
  – (Accept any correct relevant responses) (Max 4)

3.2 3.2.1 (a) **Law of demand:** If the price increases, the quantity demanded falls, and if the price decreases the quantity demanded rises. (Inverse relationship)

(b) **Law of supply:** If the price increases, the quantity supplied increases and if the price decreases the quantity supplied decreases. (Direct relationship)

3.2.2 The decrease of the supply of oil due to the Russian invasion of Ukraine.
The role OPEC plays on the brent crude oil market.
World economies opening.

3.2.3 **Decrease in supply:**



3.2.4 **Consumers:**
Consumers will have to pay more for fuel and will have less disposable income available.
The poor will have higher transport costs, bus fares, food prices, etc.
Businesses:
Businesses will have higher input costs in producing goods and services and for some businesses this may even lead to closure.
Increased fuel prices can also lead to lower economic growth, unemployment, poverty and less tourism.
(Specific reference to Cartoon 2)
(Accept any correct relevant responses)

3.3 3.3.1 Cross-price elasticity

3.3.2 The cross-price elasticity of demand (XPED) measures the responsiveness (or sensitivity) in the quantity demanded of one good to a change in the price of another good.
Substitutes are products in competitive demand, i.e. they are consumed instead of each other/they could be used as alternatives.
Ceteris paribus an increase in the price of Good A will lead to an increase in the demand of Good B.
Complements are products in joint demand, i.e. they are consumed together/used together.
Ceteris paribus a decrease in the price of Good A will lead to an increase in the demand of Good B.

3.3.3 Allows businesses to understand the market better.
Business owner can use cross-price elasticity to analyse how much revenue a product generates in relation to another depending on the price level.
Firms can also identify any products that don't have a substitute or complementary good, which allows for greater pricing flexibility.
Firms can predict the future demand of their product in case when he has the idea of probable future price of substitute or complementary goods.

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QUESTION 4 CONTEMPORARY ECONOMICS ISSUES

4.1 4.1.1 (a) **Economic growth** is the increase in the production capacity of a country.

(b) **Economic development** is about improving the standard of living of the citizens in a country.

4.1.2 During the time the country operated under widespread lockdown restrictions in response to COVID-19 labour force restrictions.
No exports and no production.
(Any other reasonable answer)

4.1.3 (a) **High labour productivity:**
Government attempt to increase labour productivity and increase efficiency in the economy.
Apply migration policies to retain highly skilled workers and curb inflow of lesser skilled workers to increase productivity.
Promote quality education and training to increase labour productivity.
Reduce the power of trade unions in order to encourage greater flexibility in wage and labour practices.
(Accept any correct relevant responses) (Max 4)

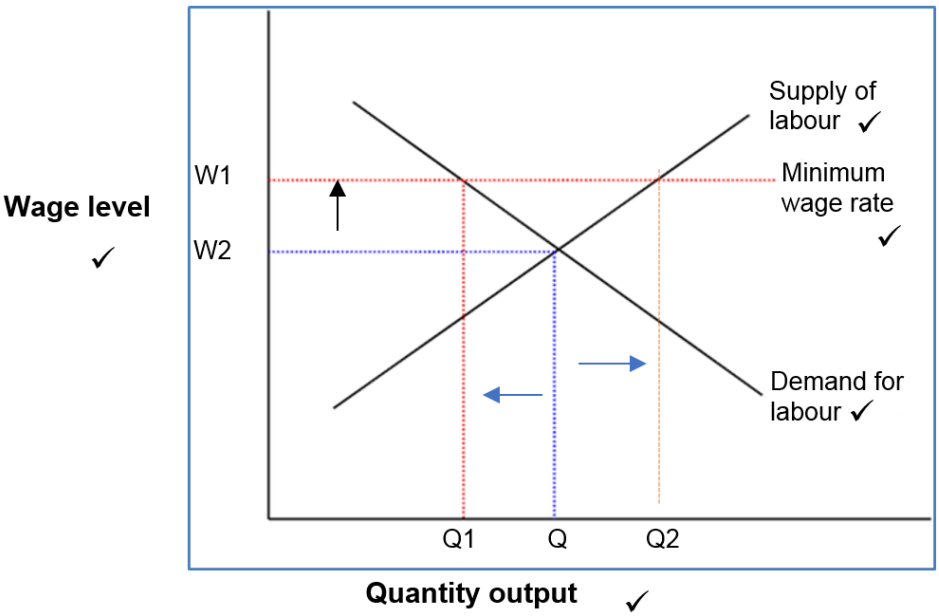
(b) **Improved technology:**
Technological progress allows for the more efficient production of more and better goods and services, which is what prosperity depends on.
Invest in research and technology to increase economic growth.
(Accept any correct relevant responses) (Max 4)

4.2 4.2.1 Its purpose is to advance economic development and social justice by ensuring to improve the wages of the lowest paid workers in the country.

4.2.2 Agriculture sector, mining industry, manufacturing industry, utilities, construction industry, trade industry, transport sector, financial sector, domestic services.
(Any other reasonable answer)

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4.2.3 **Minimum wage:**
(Candidates are not required to make use of the specific wage rates on the graph.)



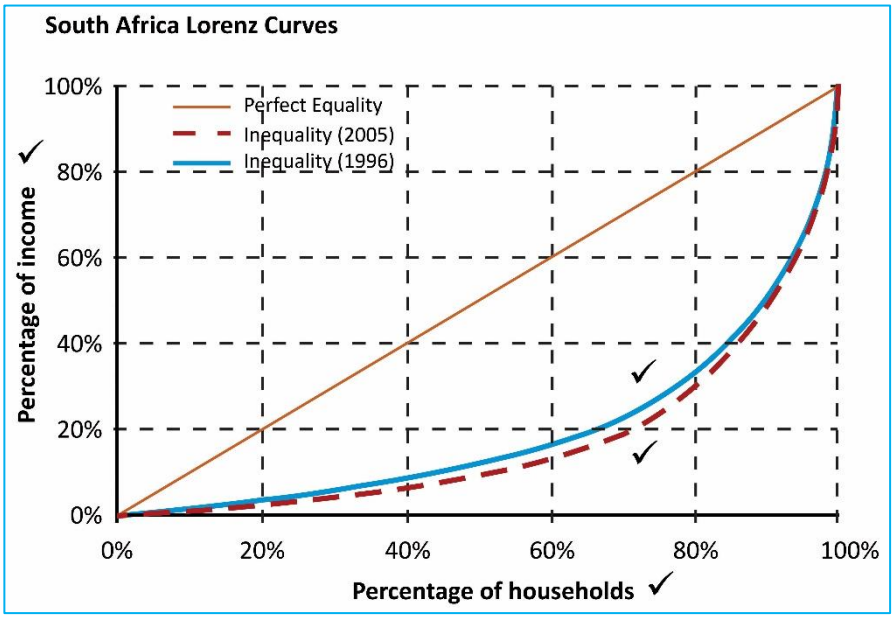
4.3 4.3.1 **Gini coefficient** measures how evenly the income of a country is distributed among the population.

4.3.2 Higher Gini coefficient is a bad thing.
A Gini coefficient close to 0 shows a fairly even distribution.
A Gini coefficient close to 1 shows an uneven distribution. Highest in Source 1 is South Africa with 63,0.

4.3.3 A host of social ills, including high levels of unrest, a sky-high unemployment rate, rampant crime and a population that is poorer.
Inequality of opportunity amongst the population.
Lack of a proper education system.
(Any reasonable answer)

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4.3.4 **Lorenz curve:**



[Source: <joshchacko.wordpress.com>]

Marks for Lorenz Curve:
*2 axes
*SA position to the right of the Lorenz Curve (dotted line)
*Line of equality
*Lorenz Curve

4.3.5 Wage income is the dominant component in overall income inequality, the South African government can increase national minimum wage for low income earners.
Invest in education – making teaching an attractive career choice. Produce higher qualified graduates and unlikely to be attracted to teaching.
Continuous professional development, increase in skills levies.
Increase in social spending, shifting resources on a large scale from previously privilege to the poor.
Increase social grants without encouraging incentives associated with the grants.
Public accountability needs to be improved/promoted.
Better law enforcement in relation to criminality given rise to corruption.
Eliminate tender fraud and corruption.
(Accept any correct relevant response) (Any 4 × 2)

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QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 (a) **Inflation:**
Is a sustained increase in the general price level of goods and services over an extended period of time.

(b) **Interest rates:**
Tells us how high the cost of borrowing is, or how high the rewards are for saving.
The interest rate is the amount you are charged for borrowing money, shown as a percentage of the total amount of the loan.

5.1.2 **Yes**, it is too close to the South African Reserve Bank's inflation target of 3% to 6%.
No, the 5,7% is within the South African Reserve Bank's inflation target of 3% to 6%.

5.1.3 **Fuel:**
If fuel prices increase it will have a knock-on effect on consumers and businesses.
It will increase input cost of production which will lead to cost push inflation.
Food Prices:
Higher food prices will also have an impact on inflation as it will cost consumers more and therefore decrease the value of their money.
(Accept any correct relevant responses)

5.1.4 (a) **TWO losers:**
Those on **fixed incomes**, such as pensioners, the unemployed, and those living on social grants as their money will be able to buy less and less.
Creditors (those who lend money), because the money they are repaid will be worth less in terms of its real value as the years go by than the amount that was borrowed.
Savings those who hold money in bank accounts or who have fixed deposits, they will lose because inflation causes a decline in real value of savings.
Negative real interest rates, those who have to live on their savings will lose when interest rates are below the inflation rate.
Wage increases, those who get wage increases below the rate of inflation. (Any 2 × 2)

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(b) **TWO winners:**
Debtors (those who owe money), such as people who are paying off a mortgage bond on property, because the money they pay back is worth less and less in real terms as the years go by.
Positive real interest rates, investors when interest rates are above the inflation rate.
Government, because it is a debtor that continually has to pay off the public debt.
Government, because it gains by means of the progressive income tax system, which ensures that a higher rate of tax is paid as income increase, this also applies to the collection of VAT, as the 15% is calculated on a larger amount.
(Any 2 × 2)

5.2 5.2.1 **Collusion** – is a formal or informal agreement between two or more firms to divide the market, set prices or limit production in order to gain an unfair advantage in the market.

5.2.2 Competition Commission of South Africa

5.2.3 (a) **Number of businesses:**
A few large firms dominate the market.
There are only a few firms in the South African banking sector and the market/market share is dominated by only a few. (Absa, FNB, Standard Bank, Nedbank, Capitec)

(b) **Type of product:**
The product may be homogeneous known as a pure oligopoly, but it is mostly heterogeneous, also known as a differentiated oligopoly.
A bank account, as a product, may be regarded as homogeneous, but the quality of service, access to banks and different banking packages makes it more likely to be heterogeneous.

(c) **Availability of market knowledge to consumer and the banks:**
Complete information is not available due to competition.
While there is a lot of information available for the different banks, it remains incomplete to consumers and the banks.

(d) **Barriers to enter and exit the market:**
Entry to the market is possible but becomes more difficult as barriers to entry exist.
There are significant barriers to starting a bank, e.g. banks need substantial amounts of capital and require licences to operate.

5.3 5.3.1 **Financial rand** was the currency used by non-residents to invest in South Africa. The Financial rand abolished in 1995.
Commercial rand – South African citizens/permanent residents used commercial rands for ordinary current transactions.

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5.3.2 **Free floating rand** – the value of a country's currency is determined by the forces of supply and demand. The value of the currency can change from day to day, it can appreciate or depreciate.
With inflation targeting the central bank allows the currency's value to be determined by the forces of supply and demand, but it intervenes in the foreign exchange markets to manage the process. Central banks get involved by changing the interest rates to influence the exchange rate.

5.3.3 (a) **Fixed exchange rate system:**
The value of a country's currency is fixed in terms of another currency. The value of the currency can be changed only by the central bank, and this happens infrequently.
Demand and Supply play no role, the currency can be devalued and revalued.

(b) **Managed/Controlled floating exchange rate system:**
The exchange rate can fluctuate between certain limits as set by the central bank. Central banks intervene if the exchange rate moves outside the set limits. They buy and sell foreign exchange to smooth out short-term fluctuations in the exchange rate.

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SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 **A fuel levy** is charged for every litre of fuel sold, carbon tax or fuel levies are annually adjusted taxes used to fund general government expenditure programmes.

6.1.2 Indirect tax

6.1.3 Personal income tax
Company/Corporate tax
Value Added Tax (VAT)
Customs duties
Excise duties/Sin Tax

6.1.4 To reduce the fuel levy will decrease the government tax revenue by almost R6 billion for two months.
Relief measures are in place for example the sale of strategic oil reserves.
South African consumers will be relieved and pay less on fuel levies, having more disposable income available.
Businesses have no need to increase costs due to higher fuel prices, making products cheaper to produce.
Can lead to the increase in demand and increase in VAT or other tax revenue for the government.
(Accept any correct relevant response)

6.2 6.2.1 **Leading indicator:**
Tell us where the economy is going, and change before the economy changes.
Lagging indicator:
Tell us where the economy has been, do not change direction until after the business cycle has changed its direction.

6.2.2 **Indicators:**

Leading indicators	Lagging indicators
Number of new cars sold	Number of hours worked in construction
New companies being registered	Number of commercial vehicles sold
Building plans approved	Real investment in manufacturing and equipment
Share prices/stock market returns	Cement sales in ton
Business confidence index	Unemployment rate
Product exports	Relation of stock to sales

(Any 3 × 3)

6.2.3 The leading indicator is positive indicating economic growth.
The effects of lockdown improving, more exports.
New companies being registered/building plans approved starting to take place again.

6.3 6.3.1 (a) **Gross fixed capital formation:**
Refers to the purchase of capital goods by a firm or the government.

(b) **Changes in inventories:**
Firms hold inventories, or stock of raw materials and intermediate goods, the value of which changes from year to year. A positive value for changes in inventories means that the value of inventories has increased, and vice versa.

(c) **Gross domestic expenditure:**
Is the expenditure by domestic sectors (households, firms and the government) on final output (goods and services) produced both at home and abroad within a given period, which is usually one year.

(d) **Current prices:**
Also referred to as Nominal GDP, 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.

6.3.2 Income method
Production/Value Added/Output method

6.3.3 GDE figures increase from 2020 5 276 537 million to 2021 5 824 926 million.

6.3.4 $$\frac{\text{Current Real GDP 2021} - \text{Previous Real GDP 2020}}{\text{Previous Real GDP 2020}} \times \frac{100}{1}$$

$$\frac{5\,824\,926 - 5\,276\,537}{5\,276\,537} \times \frac{100}{1}$$

$$= 10,4\%$$

6.4 Positive economic growth
Balance of Payments Equilibrium/Exchange rate stability
Low unemployment or full employment
Fair/Equitable distribution of income
Low inflation or price stability

Total: 300 marks

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