NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 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 MULTIPLE CHOICE

1.1 A
1.2 C
1.3 C
1.4 B
1.5 A
1.6 C
1.7 A
1.8 A
1.9 C
1.10 D

1.11 B
1.12 C
1.13 C
1.14 B
1.15 D
1.16 C
1.17 D
1.18 A
1.19 A
1.20 B

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 It is a statement of a country's trade and financial transactions (all the transactions) undertaken by the citizens of a country with people and institutions in the rest of the world over a particular period of time. (Three months or a year.)

2.1.2 Merchandise exports + net gold exports – merchandise imports
R432 659bn + R37 567 bn – R389 875 bn = R80 351 bn

2.1.3 Trade balance is in a surplus.
Because a surplus will lead to the appreciation of the rand, imports will become cheaper and increase, but exports will be more expensive and decrease.

2.1.4 R21 467bn – R60 427bn + R33 472bn = –R5 488bn (no calculations required)
Discussion: The financial account is in deficit. This means investment money is leaving SA. This will depreciate the rand, so imports will decrease and exports will start to increase.

2.2 2.2.1 Government
Foreign sector

2.2.2 An increase in the interest rate will decrease demand and households will have less money to spend on goods and services.
Multiplier effect will be less and national income will decrease.
Any other reasonable answer.

2.2.3

Injections	**Leakages**
Investments R551 bn	Savings R220 bn
Exports R360 bn	Imports R349 bn
Gov spending R722 bn	Tax R533 bn
= R1 633 bn	= R1 102 bn

2.3 2.3.1 Income method

2.3.2 R378 310 bn + R640 890 bn + R223 543 bn = R1 242 743 bn
(only award mark if all 3 figures are correct)
+ R33 457 – R20 897 = R1 255 303 bn
(only award mark if both figures are correct)
+ R44 500 – R6 430 (only award mark if both figures are correct)
= R1 293 373 bn

2.4 2.4.1 Commercial vehicles: lagging
Unemployment rate: lagging
Exports: leading

2.4.2 **It shows the direction of the economy:**

In 2017, the economy showed a negative growth, recovering in 2018 and slumping again in 2019. (Very volatile, unstable BUT future growth.)

2.4.3 Expansive monetary and expansive fiscal policy
Monetary:
Lower interest rates credit will become cheaper and more people will borrow to drive demand.
Increased money supply banks will make more money available for consumers to drive demand and investment.

Fiscal:
Increased government spending to enable jobs and tenders and increase income levels.
Lower taxes to secure more disposable income and spending.

QUESTION 3 MICROECONOMICS

3.1 3.1.1 Market failure is an inefficient distribution of goods and services in the free market. **OR**
The quantity supplied does not equal the quantity demanded.

3.1.2 Considerable control over prices;
A few big companies dominate the market;
Entry or market access is free, but difficult;
Market information is incomplete;
A few firms in the market.
(3 × 2 marks)

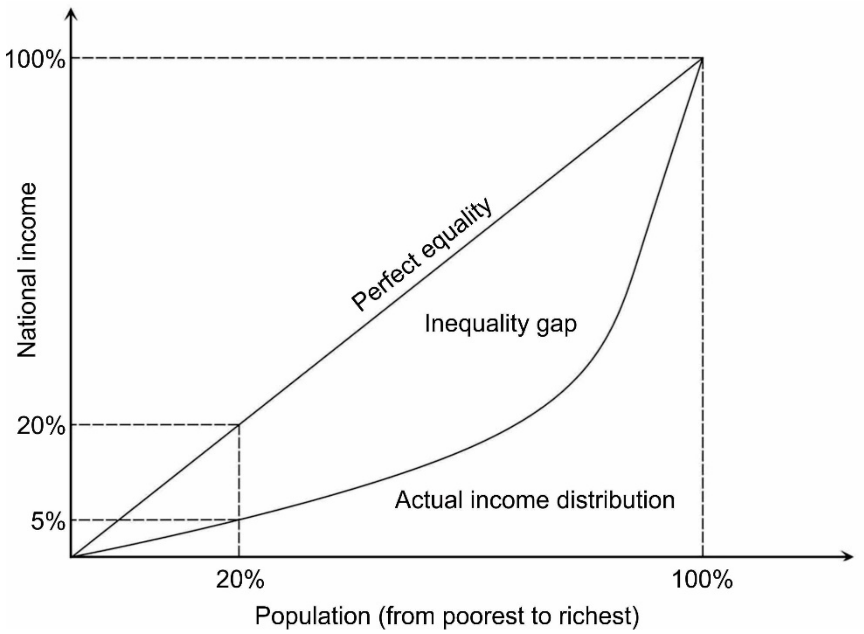
3.1.3 Because of collusion and price fixing, an oligopoly can control the prices and increase them at will. This results in inflation.
A few big companies dominate the market **and** this leads to a lack of sufficient competition and variety.
New companies will find it difficult to break into the market due to capital formation and liquid capital requirements.
The cartel members have complete market knowledge, but the consumers and other companies have incomplete knowledge. This can lead to consumer exploitation.
Due to the domination of the market, the few big companies control the supply of the good/service. This results in insufficient supply and high prices.
(Any 2 × 2 marks)

3.1.4 **Competition Commission aims:**
Protect consumers
Stop firms using restrictive practices
Stop price fixing
Ensure firms don't get market power through mergers and acquisitions
(Any 2 × 2 marks)

Analysis: No, it is a toothless organisation who issues fines, but ultimately not changing behaviour of companies.

Yes, companies have been exposed and fined.
(Max 2 marks)

3.1.5



Graph: (4 marks)
Labelling of axes % Income and % population
Labelling of curves Perfect equality and Lorenz
Indicate 0 – 100% on both axes
Indicate any inequality, e.g. 20% of population earn 5% of income
Discussion: (4 marks)
Imperfect distribution of income is negative because it causes a poverty gap and a resultant poverty cycle that perpetuates itself. Because of this form of inequality some people have access to resources like education/housing, etc. and others don't. (Income is unfairly distributed.)

3.2 **Why intervene:**
To protect the poor from high prices and to set the price below market price (especially on basic food).

Success:
It leads to lower supply and higher demand = shortage.
It may also lead to black market activity and illegal higher prices.
OR
It is successful in protecting the poor and allowing them access to basic food sources at cheaper prices.

3.3 3.3.1

A	30
B	5
C	2
D	–2
E	0

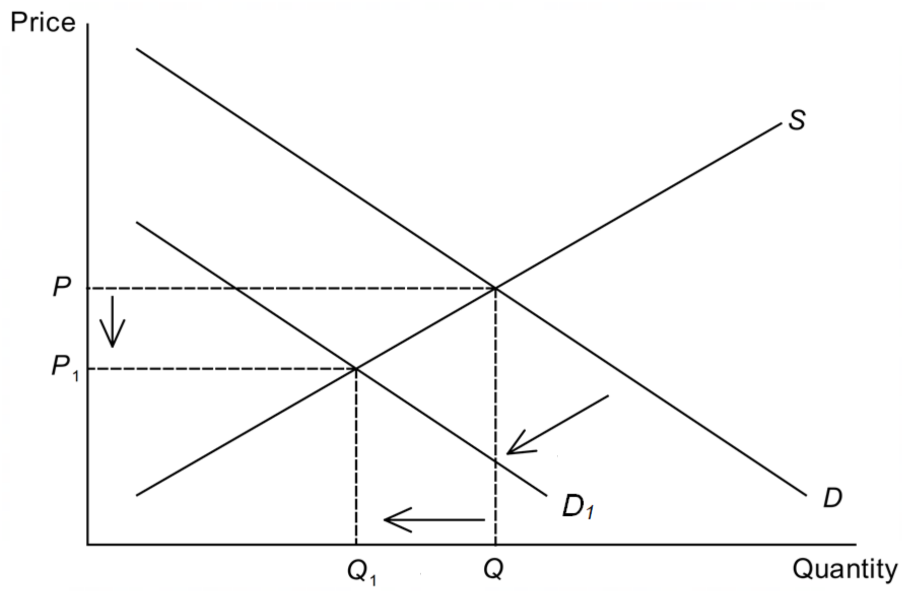
3.3.2 Normal profit/break-even.

3.4 3.4.1 **Income elasticity of demand:** It indicates the sensitivity of the quantity demanded of a product to a change in income.

3.4.2 **Petrol:** Positive income elasticity. This means that the demand for petrol will increase as income increases and vice versa.
OR This is a normal good.

Diesel: Negative income elasticity. This means that the demand for diesel will drop as income increases and vice versa.
OR This is an inferior good.

3.4.3 Demand and Supply curves
Demand curve shifts to the left + arrow
X and Y-axes: Price and Quantity
Quantity demanded decreases from Q to Q1 + arrow and Price decreases from P to P1 + arrow



QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 Inflation is a continuous increase in the general price level of goods and services over a period of time.

4.1.2 **Yes:** at an average of 3,99% SA's inflation is within the target bracket of 3–6%.
No: the rather low inflation is a sign of low demand in SA, which is not positive for growth and job creation.
OR
No: the steady increase indicates higher prices and more consumer pressure; it may also be an indicator that the SARB will have to consider restrictive measures.

4.1.3 When deflation sets in, it can cause an even deeper and more severe crisis than inflation.
As prices fall, production slows and inventories are liquidated. Demand drops and unemployment increases.
Any other reasonable answer.

4.2 4.2.1 A depreciating rand that makes the import of Brent crude oil more expensive.
Increasing fuel and RAF levies in SA.
Decrease in supply from OPEC countries, causing international oil prices to increase. (any 2 × 2 marks)
Any other reasonable answer.

4.2.2 It becomes more expensive for labour to get to work; less disposable income = lower demand/increased poverty.
They demand higher salaries.

It may lead to lower demand/production/growth in the economy.
It may also cause higher inflation.

It makes the input cost/production cost higher = lower profits.
They may want to retrench workers/decrease supply. (Max 8)
Any other reasonable answer.

4.3 **4 marks for a discussion of each factor and 1 mark for the example.**

Strikes: Strikes cause supply shortages, higher input cost, lower profits and resultant higher prices.
Although necessary to bargain for better wages, working conditions, etc. it potentially harms the economy.
Employers tend to retrench and replace manual labour with technology.
E.g. mining strikes; municipal worker strikes; farm workers (fruit industry); textile industry strikes. (Max 5)

Labour laws: SA has stringent labour laws that protect workers to a large extent. Because of the stringent laws, SA production cost is more expensive than other emerging competitors. This results in lower production, lower employment figures and a reluctance to hire in SA.
E.g. Basic Conditions of Employment Act; minimum wages. (Max 5)

Technology: Many firms mechanise and employ the latest technology. The problems: the majority of the SA labour force is not skilled to operate in a 4IR environment.
These high-tech firms do not need as many workers as before.
E.g. automated fruit picking and sorting machines on farms; online shopping, banking. (Max 5)

4.4 4.4.1 October 2018

4.4.2 It could be because of uncompetitive prices (compared to other BRIC countries).
It could be because of a global economic slow-down and less demand from foreign countries.
A stronger/appreciated rand could lead to SA exports being too expensive. (Max 4)
Any other reasonable answer.

4.4.3 An increase in exports may mean a higher total demand.
Higher demand may encourage firms to increase their output to produce more products. Firms may take on more workers reducing cyclical unemployment. (Max 4)

4.5 C + I + G + (X – Z)
Government can increase consumer spending via government spending on infrastructure to increase disposable income through jobs. This will create demand and the multiplier = growth.
Exports can be stimulated through the cutting of red tape and subsidies to producers. This will lead to an inflow of foreign currency to stimulate growth.
Lower taxation on local and foreign companies will lead to increased investment. This will create jobs, income and more demand to grow the economy. (Max 4)
Any other reasonable answer.

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 It is a credit ratings agency

5.1.2 **Risk to SA:**
If Moody's reduce SA to junk status, it will make the country riskier for investors and loans will cost the country more (due to risk status). (Max 4)

Eskom is SA's only power utility. The country's economy is hugely dependent on power and potential investors look at a country's power utility as a determinant for investment. Government has to continuously bail Eskom out and this puts strain on the fiscus. (Max 4)
Any other reasonable answer.

5.1.3 (a) **Two reasons:**
This is to protect the producer and ensure a price higher than the market price.
The producer will thus continue to supply and will stay in business.
Jobs will be secured (according to government) and the lights will stay on. (Max 4)
Any two reasonable answers.

(b) **Positive impact on Eskom:**
Eskom will receive more revenue and will supply more. **OR**
They will also avoid retrenchments and black-outs.
Negative impact on Eskom:
As the price increases, Eskom will supply more power, but the demand for power will decrease as consumers and businesses find alternatives. **OR**
This will lead to an over-supply. (Max 6)

5.2 More USA exports to SA
More SA citizens invest in USA
More SA citizens visit the USA
More SA citizens speculate with the US dollar (any 2 × 2 marks)

5.3 5.3.1 **Free-floating:** the value of a country's currency is determined by the forces of demand and supply. The value of the currency can change from day to day. Government plays no role.

Fixed: the forces of demand and supply do not determine the value of the currency. The local currency is fixed against another currency. The government intervenes and manipulates the value of the currency via devaluation and revaluation.

5.3.2 **Import quotas:** this is when a government wants to reduce imports by limiting the amount or quantity of certain goods entering the country.

Import deposits: a sum of money paid to the government by importers of a specified good on arrival of the good in the country prior to its eventual sale. Import deposits are used primarily to discourage imports.

5.4 Brexit: UK breaking away from the EU.
Positive impact: UK may renew SA trade links or even increase its trade with SA once it has broken away from the trade constraints of the EU.
Negative impact: SA companies with branches across Europe and UK may be affected negatively. (Max 6)
Any other reasonable answer.

5.5 5.5.1 **Service receipts:** from foreign tourism (spending on hotels, restaurants, etc.) transportation (like the levy that must be paid when a ship docks in SA harbours), engineering, business service fees (from lawyers or management consulting, for example).

Income receipts: when SA citizens earn money overseas and pay tax in SA. Tax on dividends on foreign investments that are paid back to SA accounts.

5.5.2 **Nominal GDP:** is GDP evaluated at current market prices. Therefore, nominal GDP will include all of the changes in market prices that have occurred during the current year due to inflation or deflation.

Real GDP: is an inflation-adjusted measure and is often referred to as "constant-price." Unlike nominal GDP, real GDP can account for changes in price level and provide a more accurate figure of economic growth.

5.5.3 Total imports have increased.
That may be positive in terms of capital formation (import of capital goods). **OR**
It is negative in terms of the trade balance that will turn negative into a deficit. This will depreciate the rand (which will eventually increase exports).

SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 **Budget deficit:** occurs when government expenditure exceeds revenue over a specific period of time.
According to Source 1, SA has a 4,2% or R210,2 bn budget deficit.

6.1.2 **Calculation:**

$$\frac{\text{Real GDP of current year – Real GDP of previous year}}{\text{Real GDP of previous year}} \times 100 = \%$$

Satisfied:
Yes: There is still growth over 1% which is positive and the trend is upwards.
No: SA needs 5% growth to dent the huge unemployment rate.

6.1.3 The trend line is upwards, i.e. debt service cost is to increase.
SOE's in SA have ongoing financial trouble and need continuous lifelines from the government. This expense increases the budget deficit and forces the government to borrow more money.
Interest rates may also increase (due to SA's increasing risk).
Any ONE reasonable argument.

6.1.4 Net loan debt to GDP indicates the overall debt situation of a country. It compares a country's sovereign debt to its total economic output for the year.

Impact: the net loan debt to GDP is increasing. This means SA will have to pay 52% of its total production value back to service its debt. It is very negative and leaves only 48% of production value to spend within the country.

6.2 6.2.1 **Successful:**
Higher revenue for fiscus = increase in government spending.
The higher cost of these items may show a decrease in demand or change behaviour.

Unsuccessful:
These items are inelastic due to their habit-forming nature and behaviour and demand will not change (change marginally).
Higher inflation, less disposable income, less demand for other items.
Both successful and unsuccessful arguments have to be discussed.
(Any 3 × 2 marks).

6.2.2 **Education:** 21% (Max 2)
Why?
SA has critical skills and qualified labour shortages. Improving education will enable scholars to join institutions of higher learning to obtain these skills.
An educated workforce will lure investors.
An educated workforce will be more productive = higher growth.
An educated workforce is more likely to get employed. (Max 4)
Any other reasonable answer.

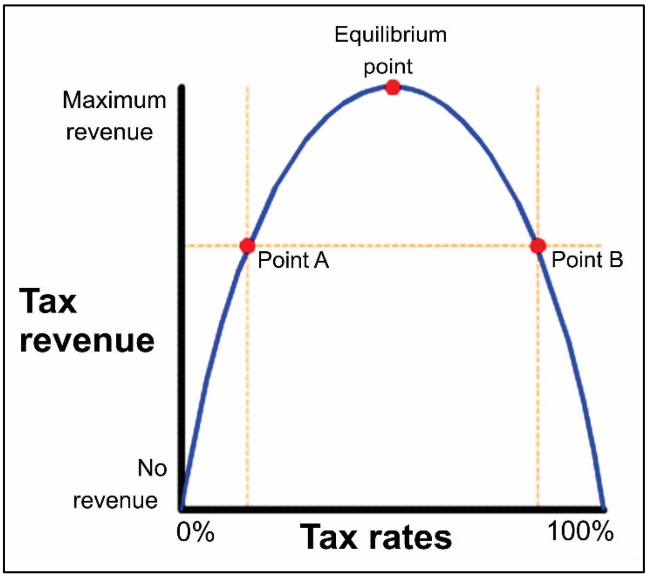
6.2.3 **Fiscus:**
Positive: Higher revenue for the fiscus/government.
OR
Negative: Tax evasion or lower demand due to less available cash and lower spending.
Multiplier:
Negative: taxes are leakages and will reduce the mpc and the multiplier resulting in a lower increase in national income.

6.2.4 **Why?**
VAT is a regressive tax that affects everyone – the poor is the hardest hit by this kind of tax. To alleviate the impact of the higher VAT rate on the poor, government included more essential items.

E.g. (any 2) brown bread, vegetables, sanitary pads, dried beans, samp, maize meal, mealies, rice, fruits, vegetable oil, bread/cake flour, eggs, milk, pilchards in tins.

6.2.5 Progressive: the more you earn, the more tax you pay.

6.2.6



Graph: (4 Marks)
Labelling of axes: Tax revenue and Tax rate
The Laffer curve with tax at its maximum indicated

Explanation: (4 marks)
It shows the relationship between tax rates and the amount of tax revenue collected by governments.
The curve is used to illustrate that the more an activity such as production is taxed, the less revenue is generated.
The higher the tax rate the less likely people are to work and therefore tax revenue will decrease. (Max 4)

Total: 300 marks