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TOTAL MARKS

INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2023

ECONOMICS

EXAMINATION NUMBER

Time: 3 hours | 300 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 34 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. **All questions are compulsory**.
   SECTION A: Question 1
   SECTION B: Question 2, 3, 4 and 5
   SECTION C: Question 6
4. **Answer ALL the questions on the question paper and hand this in at the end of the examination. Remember to write your examination number in the space provided.**
5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.
6. It is in your own interest to write legibly and to present your work neatly.
7. Non-programmable calculators may be used.
8. Please **do not write in pencil** as work in pencil will not be marked. However, any sketches or diagrams may be done in pencil.
9. Two blank pages (pages 33 and 34) are included at the end of the paper. If you run out of space for a question, use these pages. Clearly indicate the number of your answer should you use this extra space.

Allocation of marks

Q1	Q2	Q3	Q4	Q5	Q6	Total
50	**50**	**50**	**50**	**50**	**50**	**300**

SECTION A

QUESTION 1

Select the most correct alternative and write the letter of the correct answer in the block.

1.1	
1.2	
1.3	
1.4	
1.5	
1.6	
1.7	
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1.13	
1.14	
1.15	
1.16	
1.17	
1.18	
1.19	
1.20	

1.1 The existence of scarcity in an economy implies that …

A there are too many economic goods.
B individuals must make choices.
C there are no public goods.
D there are no free goods. (2)

1.2 An expansionary economic policy could include:

A decreasing the repo rate
B decreasing government expenditure
C decreasing education subsidies
D decreasing healthcare support (2)

1.3 Study **Table 1** below and answer the question that follows.

Table 1: National Accounts

National Account Aggregates 2020	**R millions**
GDP at market prices	?
Primary income from the rest of the world	48 501
Primary income to the rest of the world	118 508
GNI at market prices	3 085 188

Calculate the value of GDP at market prices in **Table 1**.

A 3 085 188
B 3 015 181
C 3 155 195
D 2 918 179 (2)

1.4 Direct taxes can be used to …

A redistribute income from rich to poor.
B raise tax revenue without affecting the number of hours employees work.
C protect domestic industries from foreign competition.
D place the burden of tax on sellers not buyers. (2)

1.5 If the cost of flour rises and flour is a major ingredient in bread, then …

A the demand curve for bread shifts to the left.
B both the demand and supply curves of bread shift to the right.
C the supply curve of bread shifts to the right.
D the supply curve of bread shifts to the left. (2)

1.6 The extra utility from consuming one more unit of a good is called …

A total utility.
B surplus utility.
C additional utility.
D marginal utility. (2)

1.7 The essential feature of an inferior good is that its …

A price elasticity of demand is positive.
B income elasticity of demand is positive.
C income elasticity of demand is negative.
D price elasticity of demand is negative. (2)

1.8 An example of explicit collusion is …

A price leadership.
B a monopoly.
C a cartel.
D an oligopoly. (2)

1.9 The Consumer Price Index (CPI) is a measure of changes in the …

A pattern of consumer expenditure.
B average standard of living.
C effective demand for consumer goods.
D average cost of goods and services. (2)

1.10 The repo rate is defined as the …

A interest rate at which commercial banks lend to the public.
B interest yield on government bonds.
C interest rate at which the Reserve Bank lends to commercial banks.
D interest rate at which the Reserve Bank lends to the government. (2)

1.11 The most significant advantage of having a fixed exchange rate is that it …

A leads to countries having sufficient currency reserves.
B reduces currency speculation.
C leads to uncertainty for businesses.
D reduces conflict between macro-economic objectives. (3)

1.12 An increase in interest rates and an appreciation of a currency is most likely to lead to an increase in …

A unemployment.
B aggregate supply.
C the current account surplus.
D economic growth. (3)

1.13 Which one of the following distinguishes merit goods from public goods?

Table 2: Merit and Public Goods

	Merit Goods	**Public Goods**
A	Provided by governments and companies	Provided by companies
B	e.g. Lighthouse	e.g. Health
C	Free-rider problem	No free-rider problem
D	Excludability	Non-excludability

(3)

Question 1.14 is based on the statement below.

'Brazil subsidises chicken exports to Botswana, which has its own chicken farms.'

1.14 Which of the following will be the likely effect on the market for chickens in Botswana?

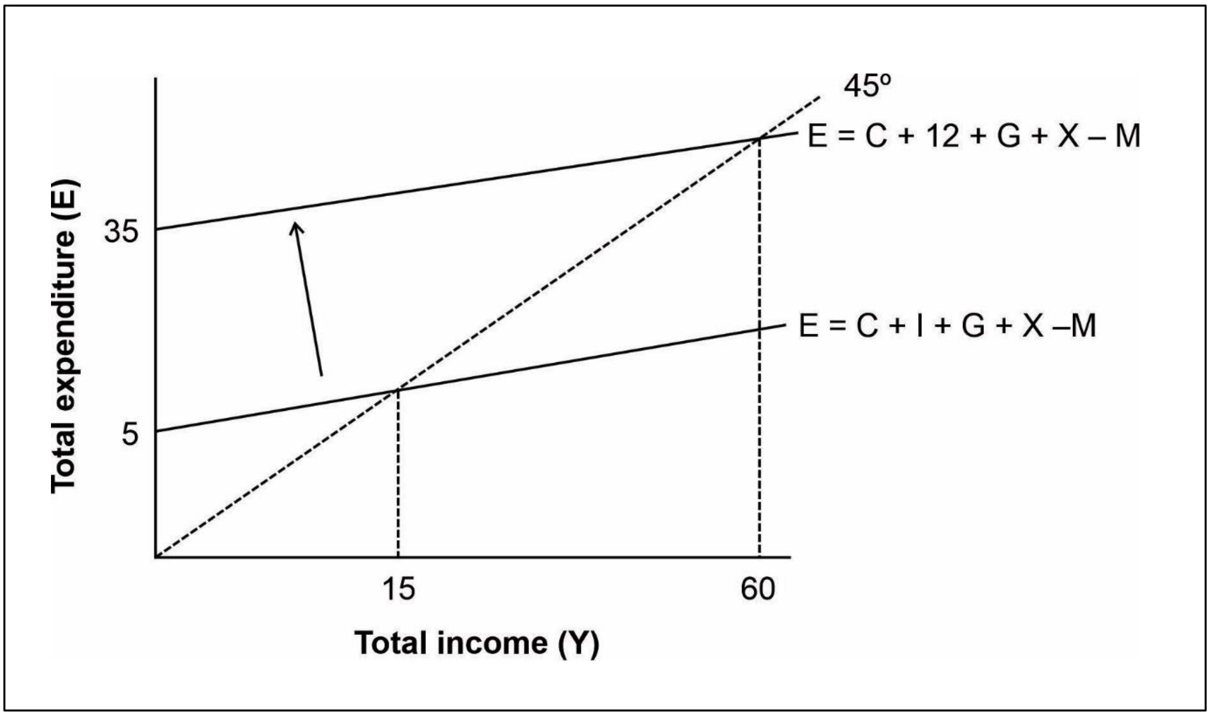
A A rise in the price of chicken.
B No change in the price of chicken.
C A fall in the price of chicken.
D An increase in demand for Botswana chicken. (3)

1.15 In the financial account, direct investment flows are …

A flows that are used to finance the purchase of resources either in the form of existing companies or the start-up of new companies.
B flows of money between countries which are used to buy shares in companies quoted on that country's stock exchange.
C money which is deposited directly into a bank account.
D money directly lent from a business in one country to a business in another country. (3)

1.16 Study **Graph 1** and answer the question that follows.

Graph 1: The Multiplier



Calculate the value of the multiplier in the above graph.

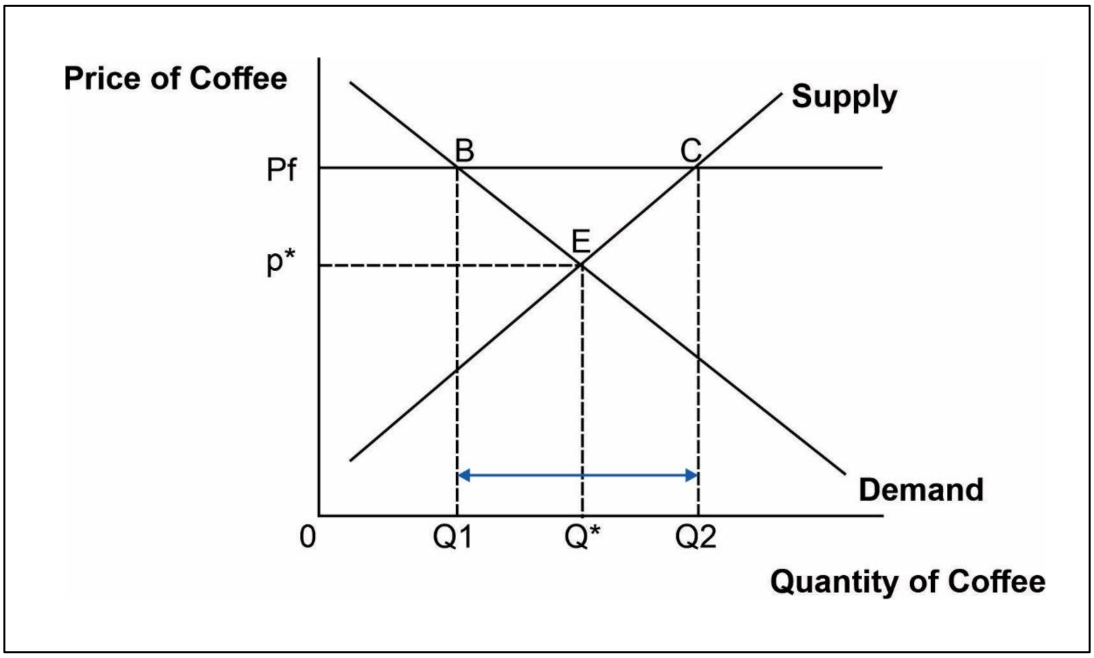
A 12
B 0.5
C 0
D 1.5 (3)

1.17 Which one of the following is most likely to lead to greater productivity in an industry?

A An increase in market demand.
B A fall in wages in the industry.
C An increase in the number of firms in the industry.
D An increase in capital investment in the industry. (3)

1.18 **Graph 2** below shows the supply of and demand for coffee with the market equilibrium at E. A government decides to impose a minimum price of Pf.

Graph 2: Minimum Prices



The most likely outcome would be …

A an excess supply of coffee of BC.
B a shortage of coffee of BC.
C the equilibrium price E being maintained.
D a reduction in price from Pf to P* (3)

1.19 All other things being equal, which one of the following is most likely to lead to an increase in imports?

A A fall in the exchange rate.
B A fall in national income.
C A fall in government expenditure.
D A fall in the unemployment rate. (3)

1.20 Deflation is most likely to …

A cause consumers to increase their spending.
B lead to the value of debt decreasing.
C lead to an increase in unemployment.
D lead to an increase in investor confidence. (3)

50 marks

SECTION B

QUESTION 2 MACROECONOMICS

2.1 Use the information in **Table 3** below and answer the questions that follow:

Table 3: Balance of payments accounting figures

Items	**Rands millions**
Current transfers (net receipts +)	–7 689
Net gold exports	26 667
Net portfolio investments	20 557
Payments for services	50 534
Goods: Exports	302 559
Net direct investments	-4 227
Income receipts	24 456
Service receipts	62 997
Income payments	46 546
Goods: Imports	299 875
Net other investments	30 472

2.1.1 Explain why it is necessary for a country to compile a balance of payments statement.

(4)

2.1.2 Calculate the balance on the current account. Show all calculations.

(4)

2.1.3 Calculate the balance on the financial account. Show all calculations.

(4)

2.1.4 Briefly discuss your findings from question 2.1.3 above.

(2)

2.1.5 Name two accounts which do not appear in the above balance of payments.

(2)

2.1.6 Calculate the trading balance. Show all calculations.

(3)

2.2 Use the information provided in **Table 4** to answer the following questions.

Table 4: National accounting figures.

Items	**Rands billions**
Exports	420
Investments	268
Donations	42
Government spending	832
Imports	378
Savings	236
Consumer spending	518
Indirect and direct taxes	566

2.2.1 Use the information in **Table 4** to calculate the total injections and leakages. Show all calculations and identify each injection and leakage.

Leakages	**Injections**

(4)

2.2.2 Briefly explain the difference between GDP and GNP.

(4)

2.2.3 Briefly describe the *real flow* in the circular flow of income.

(2)

2.2.4 Differentiate between a balance of payments (B.O.P) surplus and a budget surplus.

(4)

2.2.5 Name any THREE factors that influence the demand for US dollars.

(3)

2.2.6 Explain how the managed floating exchange rate works.

(4)

2.2.7 Discuss TWO disadvantages of a free-floating exchange rate system.

(4)

2.2.8 Discuss THREE measures that are available to restore equilibrium in the balance of payments if it is in deficit.

(6)
[50]

QUESTION 3 MICROECONOMICS

3.1 Study **Table 5** and answer the questions that follow.

Table 5: Marginal and total utility of chicken slices

Number of chicken slices	Total utility (Utils)	Marginal utility (Utils)
0	0	0
1	60	60
2	110	**C**
3	**A**	40
4	180	30
5	200	**D**
6	**B**	0

3.1.1 Briefly explain any FOUR factors, **other than the price of the product**, that influence the demand for a product.

(8)

3.1.2 Describe the term marginal utility.

(2)

3.1.3 Calculate the missing values A, B, C and D. You do not have to show your calculations.

(4)

3.2 3.2.1 Describe the economic term price elasticity of demand.

(2)

3.2.2 Complete **Table 6** by indicating what you expect the value of price elasticity of demand to be for:

Table 6: Price elasticities and values

Type of price elasticity of demand	**Value**
Perfect elastic	
Perfect inelastic	
Inelastic	
Elastic	
Unitary elastic	

(5)

3.2.3 Assume you are the managing director of a company and you are considering a decrease in the price of your product. Based on your research about the demand for the product, you have estimated that the price elasticity of demand is equal to 0,5. Explain how this information will influence your decision.

(3)

3.2.4 Given the following information, calculate the cross elasticity and indicate whether the products are substitutes or complements: A 5% increase in the price of good B causes a 10% decline in the demand for good A. Show all calculations.

(4)

3.2.5 Briefly discuss FIVE factors that influence the price elasticity of demand. In your answer, list and discuss each of the five factors.

(10)

3.3 Discuss the following causes of market failure and assess what the government can do about each one.

3.3.1 Imperfect competition

(4)

3.3.2 Unequal distribution of income and wealth

(4)

3.4 Discuss how the government can encourage positive externalities and discourage negative externalities.

(4)
[50]

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 Study **Source 1** and answer the following questions.

Source 1: Fiscal and Monetary policy

	Fiscal Policy	**Monetary Policy**
Primary Aim	Manage economic growth by influencing demand and unemployment	Manage economic growth with stable prices (inflation) and sustainable high employment
Authority	Government	Central Bank
Tools	Spending, Taxation	Money Supply (Interest rates, quantitative easing)
Target	GDP 2%-3%. Natural employment rate	Inflation Target Rate, Full Employment
Consumer Impact	Can create jobs and increase wages, inflation	Rates on loans for houses, cars, education
Political Influence	Extremely high	Generally low or independent

[Source: <prosperityadvisors.com>]

4.1.1 Explain how monetary policy can be used to dampen an overheating economy. Use **Source 1** as a reference.

(4)

4.1.2 Explain how fiscal policy is used to stimulate a depressed economy. Use **Source 1** as a reference.

(4)

4.1.3 Differentiate between demand side policies and supply side policies.

(4)

4.1.4 Describe how any FOUR supply side policies would be used to stimulate economic activity in the smoothing of business cycles.

(8)

4.1.5 Briefly discuss TWO possible reasons why policymakers prefer demand side policies over supply side policies.

(4)

4.1.6 Name the method of predicting future business cycles based on the patterns of previous ones.

____

____ (2)

4.2 Study **Source 2 and Source 3** and answer the questions that follow.

Source 2: Civil unrest in South Africa

Following the civil unrest in South Africa after the arrest of Former President Jacob Zuma; GlobalData has marginally lowered its 2021 GDP growth rate forecast for South Africa from 4.2% in July 2021 to 4.1% in August 2021. The turmoil following Zuma's arrest has cost South Africa a loss of $3.5bn and has put approximately 150,000 jobs at risk.

The unemployment rate surged to the highest level in the world in the second quarter of 2021 at 34.4%. The outlook for the labour market remains poor on the back of an uncertain and subdued business environment. The upheaval, driven by politics and persistent disparities, is most likely to impel the economy to contract in Q2 and Q3 2021.

[Source: <globaldata.com>]

Source 3: The Rand exchange rate

The rand depreciated due to increased uncertainty exacerbated by the unrests. Between 9 and 19 July 2021, the rand depreciated by 2,4% from R14,22 to R14,57 to the US dollar. Over the same period, the Emerging Markets (EM) currency index was unchanged at 0,0%, suggesting rand declines which were unusually large and driven by idiosyncratic risks related to the unrest. The rand however had recovered since then bolstered by the US Fed indicating they are keeping their interest rate stable even as US inflation is increasing.

[Source: <globaldata.com>]

4.2.1 Describe the relationship between economic growth and economic development.

(6)

4.2.2 Discuss whether **investors should be concerned** about the information about 'the upheaval, driven by politics and persistent disparities' mentioned in **Source 2**.

(4)

4.2.3 Explain the difference between a developing economy and an emerging economy with reference to **Source 3**.

(2)

4.2.4 Draw a diagram and explain the **effect on the rand if the US Fed increases interest rates,** with reference to **Source 3**.

(8)

4.2.5 Briefly discuss the differences in how Human Development Index (HDI) values and Gini coefficients are expressed.

(4)

[50]

QUESTION 5 MIXED QUESTIONS

5.1 Study **Source 4** and answer the following questions.

Source 4: Impact of the Russia/Ukraine conflict

The Russia/Ukraine conflict has sent shockwaves throughout the world economy. Commodity prices, including energy, have increased sharply as uncertainty about supply disruptions has grown … The war is likely to have increased economic uncertainty around both expected demand and inflation as well as creating concerns about supply chain disruptions.

[Source: <voxeu.org>]

5.1.1 With reference to **Source 4**, determine whether the inflation referred to is cost-push or demand-pull inflation? Justify your answer.

(4)

5.1.2 Define the economic term *exchange rate*.

(2)

5.1.3 Explain using an appropriate example, the difference between the direct method of quoting the exchange rate and the indirect method of quoting the exchange rate.

(6)

5.1.4 Economists often talk about a strong or weak currency or say that the currency has strengthened or weakened. Discuss THREE advantages of a weak currency.

(6)

5.1.5 Draw a diagram **ONLY** to illustrate demand-pull inflation.

(8)

5.1.6 Give THREE causes of cost-push inflation.

(6)

5.1.7 Explain why it is difficult for Central/Reserve Banks to combat cost-push inflation.

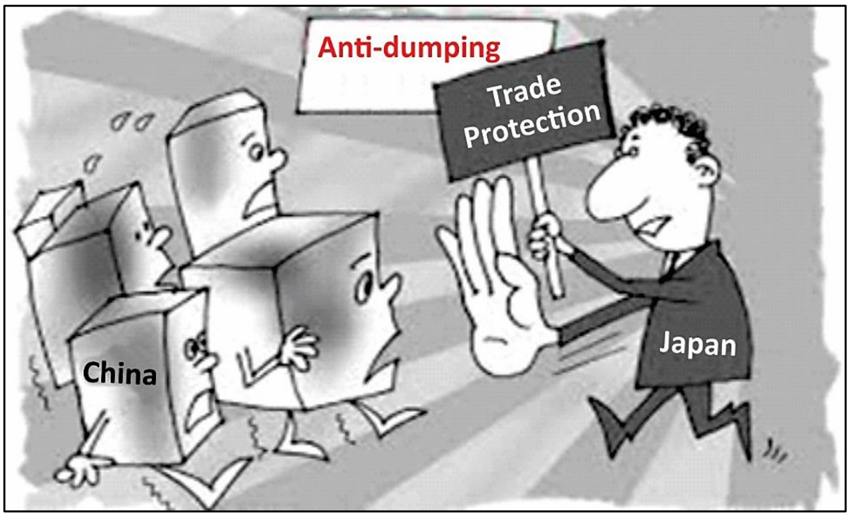
(4)

5.1.8 Discuss FOUR effects that inflation has on the current account of a country's balance of payments (BOP).

(8)

5.2 Study **Cartoon 1** and answer the following questions.

Cartoon 1: Anti-dumping and Protectionism



[Source: <saurenergy.com>]

5.2.1 Describe the economic term *dumping.*

(2)

5.2.2 Discuss any TWO negative consequences of a protectionist policy on consumers in the domestic economy.

(4)
(50)

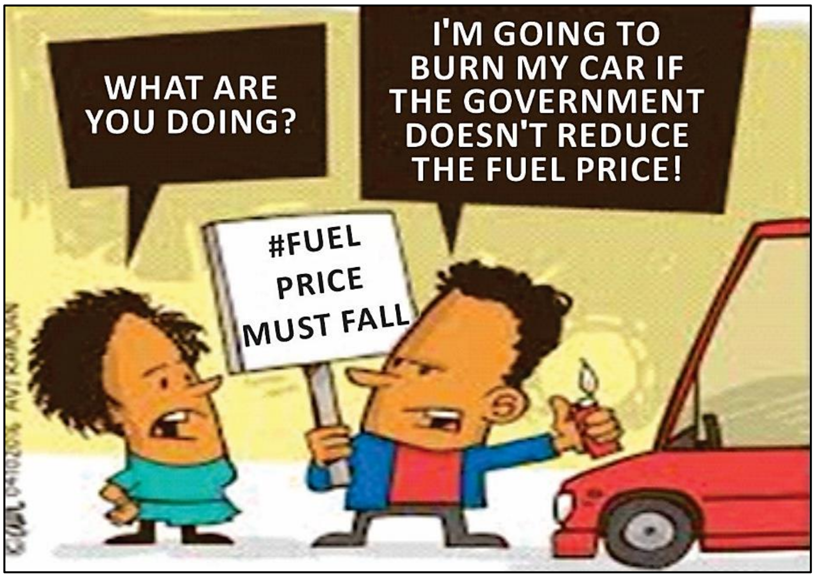
200 marks

SECTION C

QUESTION 6 DATA RESPONSE

6.1 **Study Cartoon 2 and Source 5 below and answer the questions that follow.**

Cartoon 2



[Source: <Sapeople.com>]

Source 5: South Africa's petrol market

Automobile Association warns of 'the biggest increases to fuel prices in South Africa's history'

[Source: <Businesstech.co.za>]

6.1.1 Discuss TWO economic challenges facing Southern African governments because of the rising cost of petrol. Use **Cartoon 2** as a reference.

(6)

6.1.2 Draw a diagram and **evaluate the usefulness** of the government imposing a price ceiling on petrol. Use **Cartoon 2** and **Source 5** as a reference.

(10)

6.1.3 The market for petrol in Eswatini is regarded as an example of an oligopoly. Justify how this example corresponds with FOUR characteristics of oligopolies.

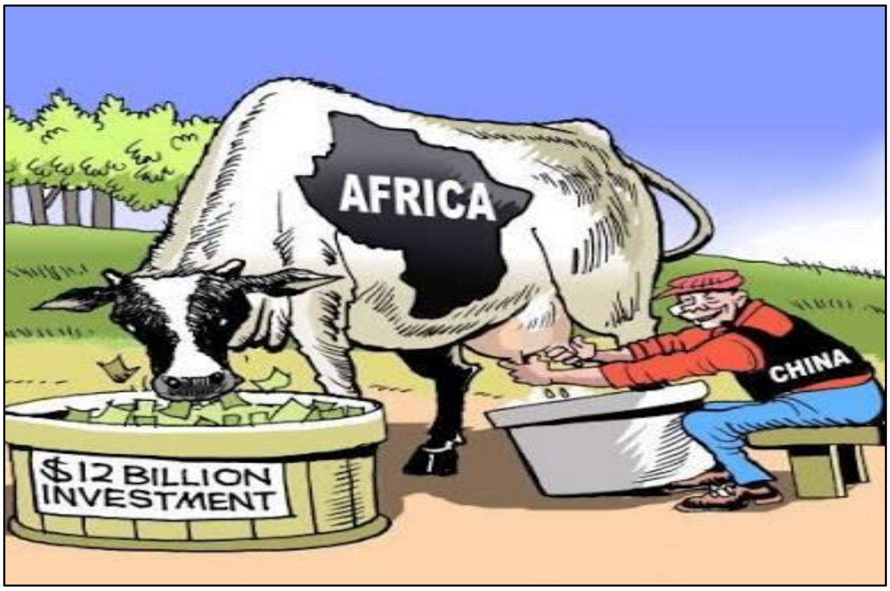
(16)

6.1.4 Discuss, with the use of THREE examples, how oligopolies normally compete with each other.

(6)

6.2 Study **Cartoon 3** below and answer the following questions.

Cartoon 3: Africa/China trade



[Source: <finance.yahoo.com>]

6.2.1 Briefly discuss TWO disadvantages of an export promotion policy.

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____

____

____ (4)

6.2.2 With reference to **Cartoon 3**, should African governments be concerned about cheap imports from China flooding the African market? Justify your answer.

____

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____

____

____ (4)

6.2.3 Discuss TWO reasons why lack of competition leads to inefficiency.

(4)

50 marks

Total: 300 marks

ADDITIONAL SPACE (ALL QUESTIONS)

REMEMBER TO CLEARLY INDICATE AT THE QUESTION THAT YOU USED THE ADDITIONAL SPACE TO ENSURE THAT ALL ANSWERS ARE MARKED.