INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2022

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

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

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 Income method.

2.1.2 GDP is determined by calculating the income earned from the factors of production within the borders of the country. If the learner got 2.1.1 wrong, i.e., said expenditure method, then 2.1.2 should work with the error from 2.1.1.

2.1.3 GDP @ factor cost = compensation of employees + net operating surplus + consumption of fixed capital R432 220 m + R273 149 m + R68 842 m = R774 211 m

2.1.4 GDP @ market prices = GDP @ factor cost + other taxes on production – other subsidies on production + taxes on products – subsidies on products = R774 211 + R70 138 m – R7 646 m + R82 390 m – R4 950 m = R914 143 m
(Please note: If GDP is incorrect from 2.1.3 and all the other entries are correct, the learner loses 1 mark)

2.1.5 GDP @ market prices + primary income from the rest of the world – primary income to the rest of the world = GNP @ market prices.

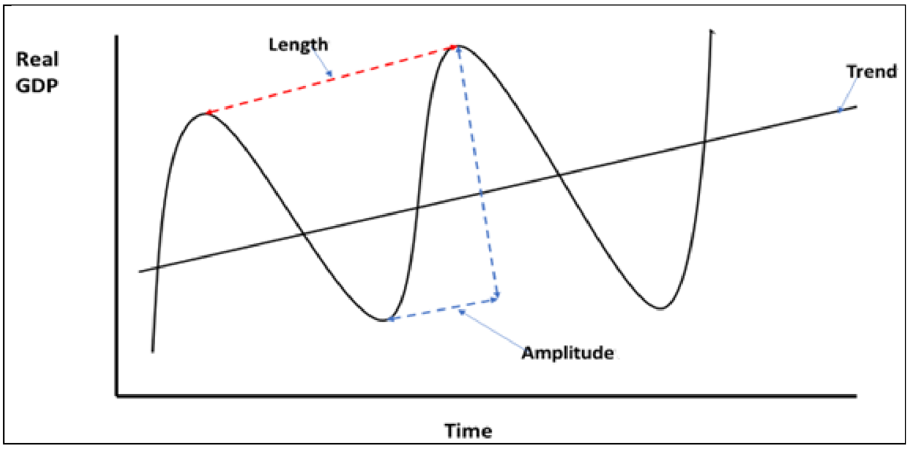
2.1.6 Y = C + I + G + (X – M)

2.2 2.2.1 The multiplier effect occurs when a small increase in consumer spending by households and/or investment spending by businesses leads to a proportionately larger increase in the national income.
(Any other relevant answer will also be accepted)

2.2.2 **Any relevant answer, for example:** The government decides to increase its spending by building new roads. This creates jobs and raises the level of employment. These newly employed people then use their income to purchase consumer goods. This stimulates the demand for goods and services and results in an increase in production, which will in turn increase the level of employment even further. This raises income and stimulates greater consumer demand, etc.

2.2.3 The multiplier is derived from the marginal propensity to consume (MPC). The marginal propensity to consume is defined as the proportion of income a household is willing to spend. The size of the multiplier is determined by this proportion of income that is spent. The lower the mpc, the lower the multiplier and the higher the mpc, the higher the multiplier. (Please note: the answer should include the relationship between the mpc and the multiplier.) The use of figures in the explanation is also acceptable.
(Any 2 descriptions.)

2.3 2.3.1



Length
Amplitude
Trend

2.3.2 Structural changes in an economy are those that are due to production methods changing over time, which changes the structure of an economy. For example, advancements in technology make production more efficient, resulting in cheaper prices of manufactured goods or changes in political leadership can result in structural changes in the economy Advancements in technology could potentially cause job losses. Also consider the transition from primary, secondary, tertiary and 4IR and the resultant structural changes in the economy.

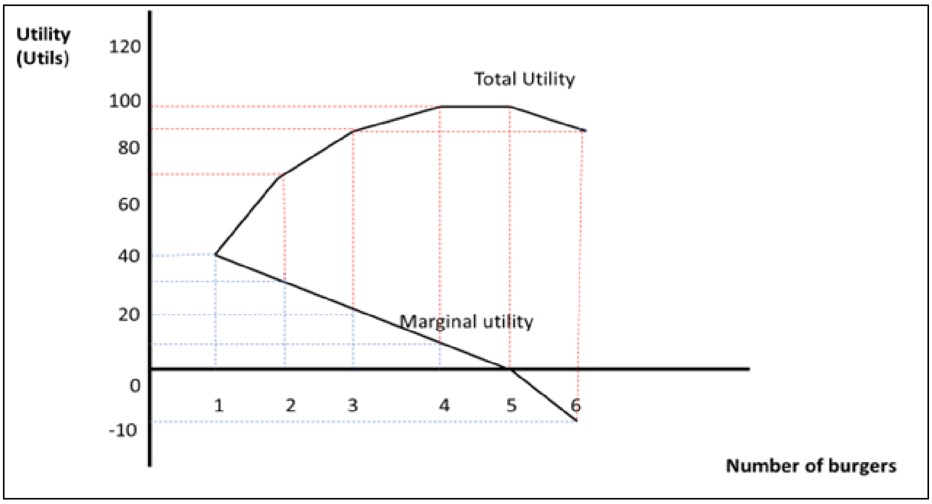
2.3.3 (a) Endogenous. The spending came from within the economy. The country can go through high economic growth as a result of high demand and this will result in high prices (inflation)
(Identification MAX 2 marks and Effect)

(b) Exogenous. This is a shock that did not come from within the economy. The external shock could have resulted in low production levels, low economic growth and a low demand for labour
(Identification MAX 2 marks and Effect MAX 2 marks) – Please credit any other relevant effects.

QUESTION 3 MICROECONOMICS

3.1 3.1.1 A = 90, B = 90, C = 30, D =10

3.1.2



X and Y axis
MU
TU

3.1.3 The marginal utility fell as more burgers were consumed. Therefore, the marginal utility curve always has a negative slope. The total utility curve rises by decreasing amounts to a maximum and then starts to fall. As the total utility curve starts to fall, marginal utility becomes negative.

3.1.4 The more units of a product one consumes, the less satisfaction one gets from consuming an additional/extra unit. Any appropriate example, i.e., the sixth or seventh unit will not give you the same satisfaction as the first or second.

3.2 3.2.1 A = 48, B = 4, C = 12, D = 4

3.2.2 The MR = MC approach and the TR – TC approach where the gap between total revenue and total cost is at its widest.

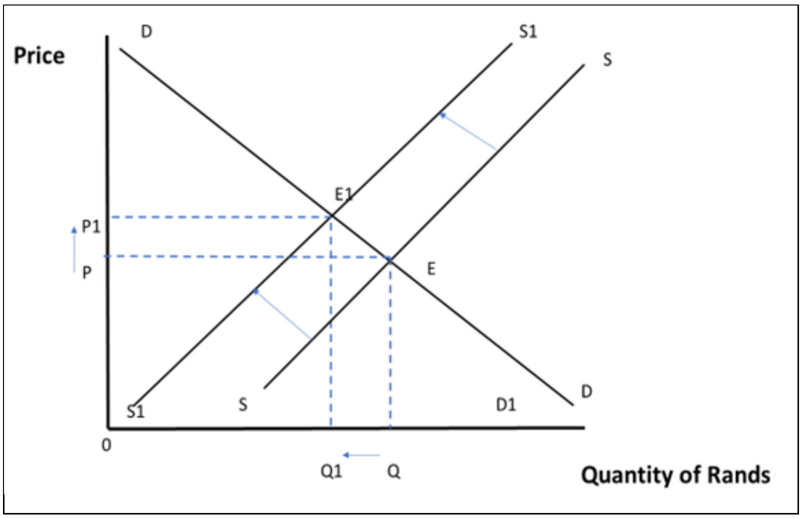
3.2.3 When we produce the **third unit** (60 – 48 = 12)

3.3 3.3.1 **Product differentiation** – the businesses try to create variations to make homogenous products seem like heterogenous products
Advertising – this is used to try to make consumers perceive the businesses products as different from, and better than, competing brands. Advertising can be used to establish brand loyalty
Loyalty schemes – businesses encourage consumers to sign up for loyalty cards so that they are more likely to shop at their stores
After-sales services – such as repairs and maintenance build a trusting customer base
Home deliveries – this is very convenient for consumers especially if it comes at no additional cost
Guarantees – foster trust in the consumer since faulty appliances can be replaced at no additional cost

Promotions – such a buy 1 and get one free or free meals for kids/half price on certain days give consumers value for money
Packaging – packaging is as important as the product itself. Its purpose is to stand out from the shelf or website, enhance sales, provide relevant information on the product and augment interest.
Business operating hours – flexible working hours are a seller for those people who finish work late.
Location – bringing the product to the people and making it as accessible as is possible can be attractive to consumers.

3.3.2 **Many sellers with small market share**
The products are differentiated (heterogenous) sometimes very similar. Differences could be imaginary as consumers prefer one brand over another even if the products have the same basic ingredients … satisfy the same need e.g., shoes but not identical
Entry into the market is free – few barriers to entry or exit
Some control over the price, but not as much as a monopoly or oligopoly due to charging a premium which is mostly dictated by market forces of demand and supply
Information is not perfect for both buyers and seller as it is difficult to compare competitors
No collusion is possible owing to the large number of sellers
Non-price competition which includes product differentiation, advertising and branding.
KEY – **Link ALL characteristics to the Monopolistic competitor in the chicken market to get full marks. (1 mark for characteristic and 2 marks for the description of each characteristic).**

3.4



2 marks for correct labelling of axis
2 marks for leftward shift of the supply curve

The effect of sin tax on cigarettes is to make it more expensive and unattractive to purchase for consumers. The government believes that this harmful product is overproduced and overconsumed by the market and yet it poses serious health risks to consumers (negative externality). By reducing quantity supplied and using price as a deterrent, market failure can be avoided.

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 A recession is defined as two consecutive quarters of negative economic growth.

4.1.2 COVID-19 worsened the recession in 2020 because most countries, Nigeria included, went under a hard lock down with most economic activity coming to a standstill. Production stopped, all borders were shut down and movements were restricted Under such conditions, spending, which spurs economic growth, was restricted.

4.1.3 A lack of skills and work experience is the main reason why young people are more likely to be unemployed. The government of Nigeria can implement the following macroeconomic policies. Policies that encourage local industries (buy locally produced goods to create jobs). Policies that promote micro and small enterprises (entrepreneurship). Public works programmes. Improve the level of training and skills. Increase student exposure to jobs that are in demand as well as providing a better understanding of industry needs. This increases the likelihood that young people will find careers that suit their interests while making best use of their skills.
(Or any reasonable answers.)

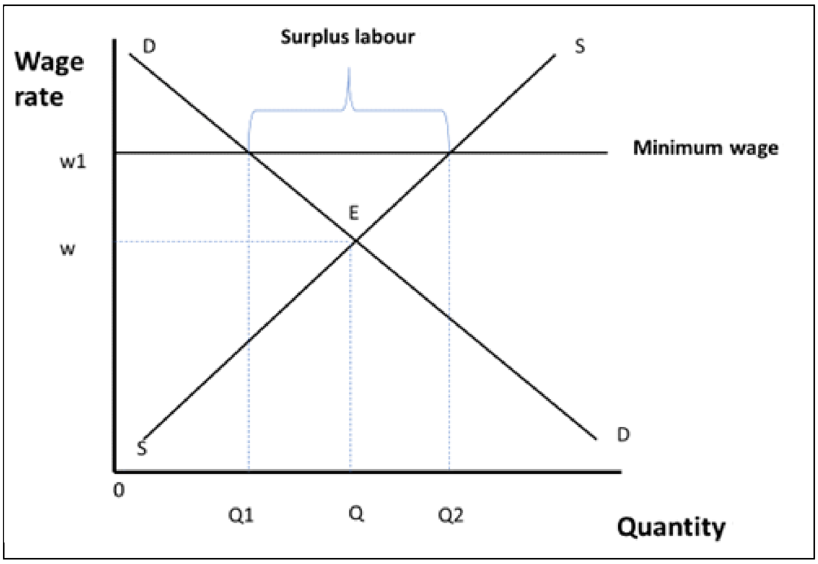
4.1.4
- Since the demand for labour is derived demand, the total demand in the economy will determine the demand for labour
- The cost of labour indirectly influences the demand for labour – labour rate, productivity, role of trade unions, collective bargaining
- If there are substitutes available for labour, e.g., mechanisation, technology, software – then the demand for labour will decrease
- Availability and cost of skilled and highly qualified workers – some workers are scarce and have to be paid more e.g., chartered accountants
- Changes to labour laws can negatively impact labour demand, etc

(Any TWO relevant answers.)

4.1.5
- There is an inverse relationship between inflation and unemployment
- As the economy grows, the demand for workers grows, and unemployment drops
- Companies now have to compete for fewer workers thus wage rates increase
- Company costs increase and this leads to increased costs for the consumer and inflation
- The government must therefore accept that if the economy is stimulated, inflation will increase
- Reduction in unemployment can cause increased inflation and the price to pay for lower unemployment
- This happens because as the economy grows, the government can create lower unemployment by stimulating total demand which however increases inflation, etc.

(Any 2 descriptions.)

4.2



ONE mark each for the following:
Labelling of both axes
Minimum wage curve
Surplus labour

A minimum wage is the lowest wage that an employer is allowed to pay an employee per week or month. The main reason for setting minimum wages is to improve welfare and ensure that wage earners are able to provide for the basic needs of their households. Poor, unskilled workers find it hard to negotiate with their employers and some employers exploit these workers by paying very low wages. The minimum wage of W1 above equilibrium W and the effect is a fall in the demand for workers from q to q1. The surplus workers who will be unemployed are represented by q1 – q2. The government, though well meaning, has increased the unemployment rate since employers will see the minimum wage as an additional cost. **(Diagram MAX 4 marks, Explanation MAX 8 marks)**

4.3 4.3.1 Positive economic growth, Full employment, Price stability, Exchange rate stability/B.O.P equilibrium and Economic equity.

4.3.2 Economic growth is the increase in the productive capacity of an economy over a period of time. Economic development is the improvement of the standard of living of a country's citizens.

4.3.3 Income (GDP per capita), Education and Life expectancy.

4.3.4 The Gini coefficient represents the income distribution of a country's citizens, and therefore measures the inequality of income and wealth in a country. It shows how wide the gap is between a country's highest earning and lowest earning people. Gini coefficients are expressed as values between 0 and 1. A Gini coefficient of 0 shows that all the people in the country have the same income. A Gini coefficient of 1 shows that a country has the highest possible income difference, meaning that all the country's income goes to one person and nothing to anybody else. South Africa has the highest Gini coefficient in the world at 0,63.

(MAX 4 marks for explanation and 1 mark stating SA's position)

4.3.5
- Negotiating with employers regarding working conditions, pay, benefits, job terminations, training, etc.
- Grievances of employees are brought to the attention of management and addressed.
- Monitoring physical circumstances of workers, especially safety at work.
- Ensure compliance with labour laws.
- Monitoring wage and work benefit agreements with management.
- Influence government policy, general socio-economic circumstances.
- Supply social services to workers.
- Fighting for the poor especially in SA, etc.

(Any four points.)

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 An inflation-targeting policy is put in place by a central bank that is committed to making the country's inflation rate stay within a particular range. This policy is made public to encourage the public to have faith in the central bank's commitment to price stability and in this way encourage saving and investment. The inflation targets in SA are (3%–6%).
(2 marks for explanation, 2 marks for inflation targets)

5.1.2 Yes, they should be concerned. The latest data shows an inflation rate of 5.7%, which is close to breaching the 6% target. In this case the SARB can increase interest rates, which will discourage borrowing and reduce pressure on prices. If the 3% target is in danger of being breached, interest can be reduced to encourage borrowing and spending. Increasing interest rates has the effect of reducing the amount of money in circulation (Money supply) which can also be achieved by using other monetary policy instruments such as increasing the reserve ratio requirement, Open Market Operations (Selling bonds to mop up excess liquidity) and Moral Suasion.
Please note: 2 marks for response to 'concern' and 2 marks for the options available to reduce inflation. If the learner says "No" they should also provide a reason for their response.

5.1.3 This was at the height of the hard lockdown due to Covid-19 when almost all businesses were closed and the few that remained open just sold basics. The reduced demand for goods and services reduced pressure on prices.

5.1.4 **GDP deflator**
This is a measure of inflation since a specific base year, and is used to convert nominal GDP to real GDP. GDP deflator = nominal GDP/ real GDP × 100.

Hyperinflation
Often referred to as runaway inflation, it is when the inflation rate is very high (above 50% per month). During these extreme conditions the national currency is worth almost nothing. Occurs mainly during times of war and political conflict as in Germany in the 1920s and Zimbabwe in the 2000s.

Deflation
(The reverse of inflation) is a sustained decline in the general price level of goods and services in an economy over time. It is when prices are falling and the inflation rate is negative (below zero).

Producer Price Index
Inflation at the factory gate. It is a continuous increase in the general price level of the inputs that businesses must pay for in the production process.

5.2 5.2.1 Occurs when the market system is unable to achieve an efficient allocation of scarce resources and is therefore not able to achieve the best available outcome. It is when the required production levels are not achieved, or resources are not efficiently allocated.

5.2.2 **Monopolies**

In the case of monopolies there are barriers to entry or exit so that new businesses do not enter a market even when supernormal profits are being made on the sale of a particular good or service. The resulting lack of competition prevents the price of the product from falling. The output level is then also not high enough to ensure that the whole market is satisfied and the prices are higher than in a perfect market. The quality of the products is also compromised due to lack of competition and thus the market fails.

(2 marks for description and 2 marks for how the market fails)

Merit and Demerit goods

Merit goods like healthcare and education, sports, inoculations are considered to be good for us and are needed for the general welfare of the people. People often underestimate the benefits of these goods and are therefore not willing to pay market-related prices for them or simply choose not to consume them. If these goods are provided at market prices only, consumption would be below the desired level and this leads to market failure. Examples of demerit goods are alcohol, cigarettes, gambling, guns and drugs. They are considered bad for us and in a free-market economy people tend to over-consume them, because they do not realise the true cost of consuming them. Demerit goods are overproduced as there is an over-allocation of resources to produce them and thus the market fails.

(2 marks for description and 2 marks for how the market fails)

Public goods

Public goods (also called community or collective goods) are not privately owned and can be consumed by many people without causing a decrease in quality. Businesses do not normally supply such goods because it is difficult to charge for them. This is because people automatically benefit from them if they are provided. Because people can effectively catch a 'free ride', they are unlikely to pay for the use of these goods. This free-rider problem leads to missing markets and therefore market failure.

(2 marks for description and 2 marks for how the market fails)

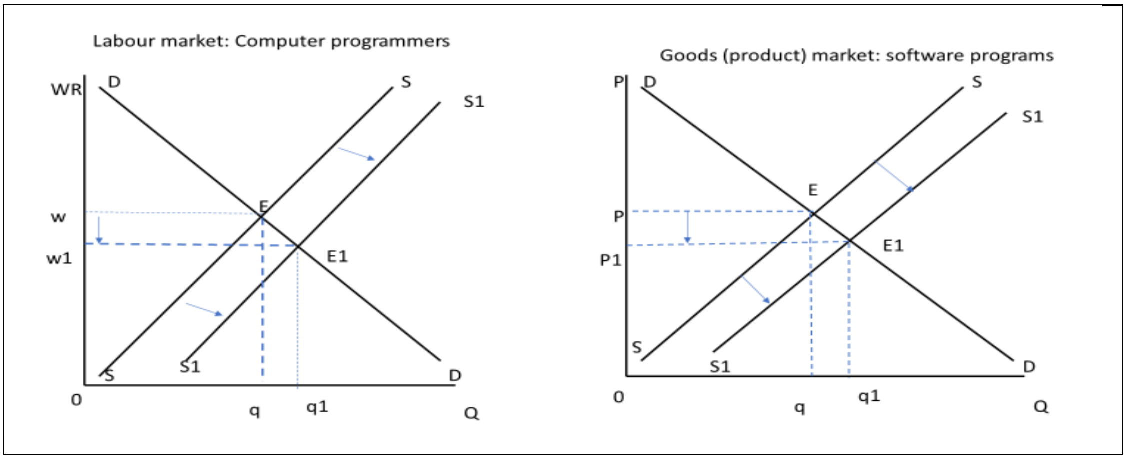
Asymmetric information

This means that buyers and sellers do not have access to the same information. For example, the seller of a used car has more information about the car than does the buyer. This is a common problem in the market for second-hand goods, from houses to cell phones. For example, cigarette manufacturers may have information about their products that they do not make available to buyers (cancer). Under these conditions, cigarettes are likely to be over-produced and over-consumed compared to the outcome under conditions of perfect competition. This gives rise to the principal-agent problem where the agent has more information than the principal and may use this to benefit from the transaction, for example doctor/patient, lawyers/clients, teachers/learners, company managers /shareholders. Under such conditions, allocative efficiency is not achieved and the market fails.

(2 marks for description and 2 marks for how the market fails)

5.3 The cross-price elasticity of complimentary goods is negative. This is because, as the price of good A goes up, the demand for the related compliment (good B) goes down and the opposite is true.
(Please note: credit should also be given to reference to the products in Source 5)

5.4



3 marks for each diagram e.g. axes and shift of the supply curves. **(1 mark wage rate, 1 mark for quantity and 1 mark for the shift of the supply curve in the labour market. In the goods market, 1 mark for price, one mark for quantity and 1 mark for the shift of the supply curve)**

4 marks for explanation.

An increase in the supply of computer programmers decreases the wage paid to computer programmers and the cost of producing software consequently decreases **OR** As the supply of computer programmers has increased, the cost of developing software has decreased leading to an increase in demand for software programmes.

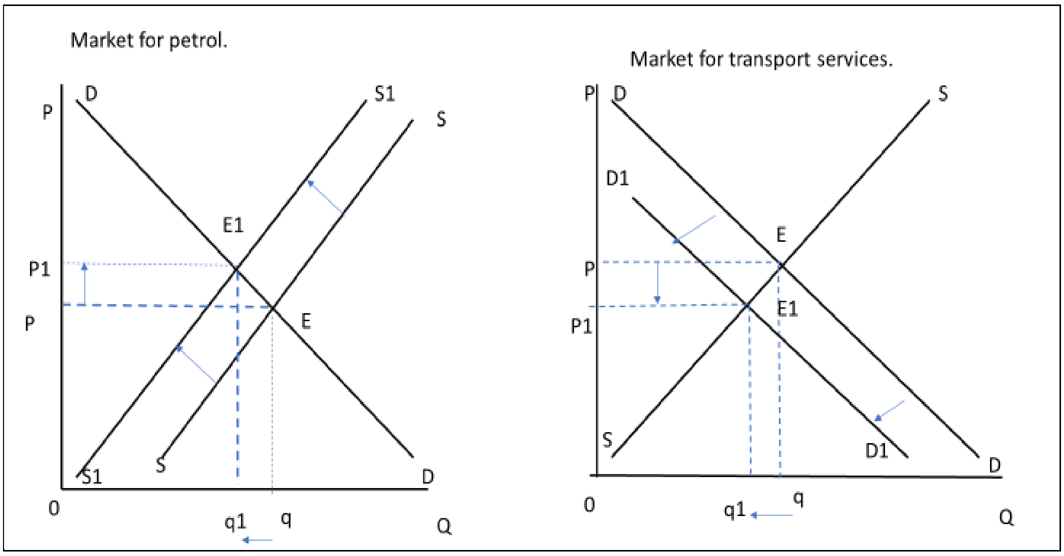
SECTION C

QUESTION 6 DATA RESPONSE

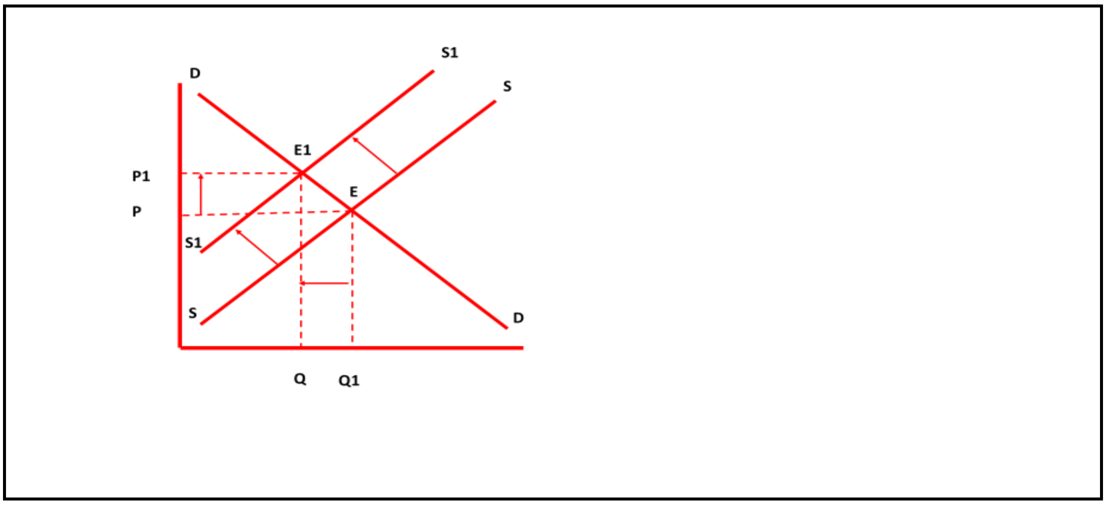
6.1 6.1.1 The consumers will welcome such a move as it gives them much-needed relief seeing that people are just getting out of the worst effects of the Covid-19 pandemic. However, the move by the government is only temporary and thus the consumers will not enjoy any real economic gains.
(Or any other reasonable answer)

6.1.2 Effective implementation of the African Continental Free Trade Agreement will be an important step in enabling African farmers and agribusinesses to increasingly meet the region's growing demand for food.
To realize these opportunities for intra-African agricultural trade, though, Sub-Saharan African countries will need to focus on improving agricultural productivity to compete effectively against low-cost imports from the international market. To compete at this level requires investments in agricultural R&D and extension services. African states will also have to reduce the costs of trade, by removing tariff and non-tariff barriers, streamlining customs procedures and improving regional transport links in order to realise the full potential of the AfCFTA. **(Or any reasonable answer. Please include 5 clear points of discussion.).**

6.1.3

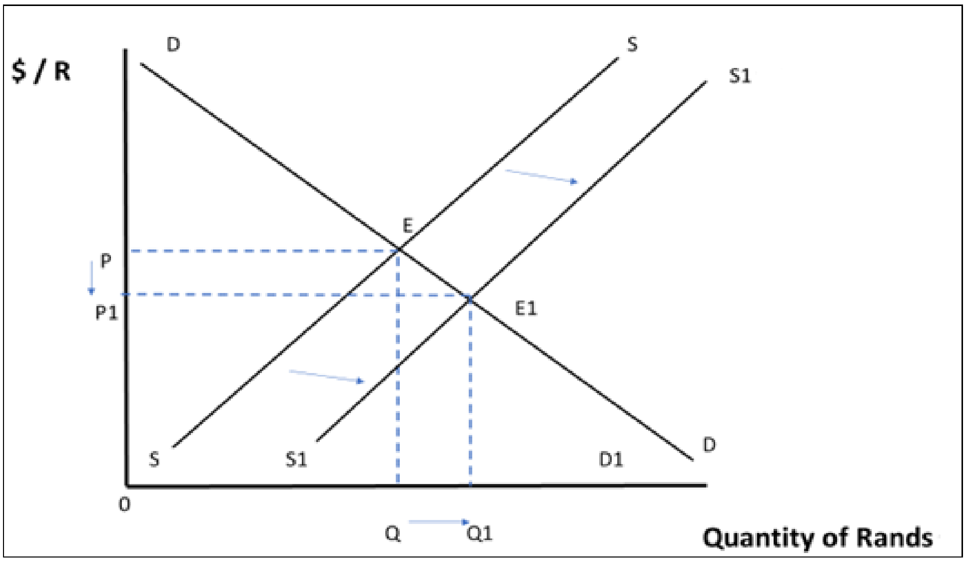


OR



Due to the increase in fuel prices, production costs go up and service providers will be forced to reduce the amount of transport services that they offer hence the supply curve shifts inwards and to the left.
6 marks for diagrams e.g. labelling of axes and shift of the curves **(1 mark for price, 1 mark for quantity and 1 mark for the shift of the supply curve in the petrol market. In the market for transport services, 1 mark for price, one mark for quantity and 1 mark for the shift of the demand curve)**
4 marks for explanation.
A decrease in the supply of oil will result in supply shocks in the market for petrol. The resultant shortages will push up petrol prices. Petrol dealers will have no choice but to pass on this burden to ordinary consumers and transport service providers. When transport costs go up, we are likely to see a decrease in demand for that service.

6.1.4



4 marks for diagram e.g. axes and shift of the supply curve ✓
4 marks for explanation
The bulk of international trade is conducted using the US dollar. The increase in the supply of rands in the market to buy dollars will depreciate the rand and thus weakening the rand in the process.

6.2 6.2.1 The message of the image is that in reality we (the world) all need each other. No country can survive in a vacuum.

6.2.2 The difference between the two policies is that export promotion is an outward-looking government strategy to encourage economic growth, where domestic producers are helped (given incentives) to make products for foreign markets. Import substitution on the other hand is an inward-looking strategy that restricts imports (using tariff policies for example) in order to allow domestic businesses, the opportunity to supply similar goods, which only works when domestic businesses are able to supply goods of a similar quality.

6.2.3 **Interest rates** (raise interest rates in order to reduce aggregate demand)
This works the same way as when they are trying to influence business cycles. When demand decreases, so will spending on imported goods, and at the same time foreigners will increase their investment (hot money flows) as they get higher returns when interest rates are high.

Exchange rate control
The SARB is allowed to ration or limit foreign exchange. Only critical imports and those products not available at all in the country will be allocated forex. That way, the SARB is able to monitor what comes into the country.

6.3 A strong rand means you need fewer rands to buy a foreign currency and a weak rand means you need more rands to buy a foreign currency. For importers a strong rand is better because the goods that they import will be cheaper, for exporters a weak rand is better because they can sell more goods at an attractive (cheaper) price. The downside is that inputs/capital goods needed in the production process become more expensive thus cutting down the gains from the exported products. A weak rand is therefore favourable for encouraging exports and the growth of industry which creates jobs, spending and economic growth. However, imported intermediate goods become very costly.

(2 × 3 points for evaluation)

Total: 300 marks