INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2023

ECONOMICS

MARKING GUIDELINES

Time: 3 hours 300 marks

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SECTION A

QUESTION 1

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

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

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SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 GDP is the total value of final goods and services produced within the borders of a country within a given period of time (usually one year)

2.1.2 The national accounts are used by government and society to understand how the economy is performing and also to make informed decisions. OR any other relevant answer. MAX 2 marks.

2.1.3 Primary sector + Secondary sector + Tertiary sector = GDP @ basic prices + Taxes on products – Subsidies on products = GDP @ market prices. $208 673m + $297 168m + $389 125m = $894 966 + $34 470m – $5 422 = $924 014m

2.1.4 $352 664m + $389 120m + $234 786m = $976 570m + $57 678m – $110 234m = $924 014m

2.1.5 $542 790m + $268 212m + $119 345m = $930 347m + $22 557m – $11 789m = $941 115m

2.2 2.2.1 Nominal GDP = Real GDP × CPI / 100. 2 786 239 × 100 / 100 = 2 786 239 = A
Real GDP = Nominal GDP × 100 / CPI. 3 8 47 386 × 100 /105 = 3 664 177.143 = B

2.2.2 New – Old / Old × 100. 4 145 823 – 3 664 117.143 / 3 664 177. 143 × 100 = 13.15 % (Mark with error in 2.2.1 for (B).

2.3 2.3.1 Diagram 1 is an open economy because it involves the foreign sector.

2.3.2 A – Factors of production
B – Goods and services
C – Savings
D – Export income / Import tax

2.3.3 The real flow is the flow of factors of production and goods and services. The money flow is the flow of income and expenditure

2.4 2.4.1
- Exports decrease or increase at a lower rate – Our products are less attractive due to high prices.
- Imports increase – Imported products become more attractive because they are cheaper.
- Deficit on current account – When we import more than we export there more capital outflows than inflows.
- Rate of exchange becomes weaker – An increase in the demand for imported products weakens / depreciates our currency.
- Inflation increases – An increase in the demand for goods and services pushes up the general price level.
- Interest rates also increase – High demand for credit pushes up the cost of credit.
- Tax revenue increases – An increase in business profits and a decrease in unemployment means more tax revenue for the

government.

- Sales and production increase – as production capacity is used optimally.
- Fixed assets increase – more production capacity formation.
- Strong demand for bank credit – To finance spending.
- Great optimism, tremendous increase in profits – The future looks bright during this phase.
- Stock levels increase – In anticipation of further increases in demand. Any FOUR economic indicators and a brief explanation. MAX 8 marks. *(If the explanation includes the economic indicator award the 2 marks)*

2.5 2.5.1 Open market operations
The central bank can sell bonds. This decreases the supply of money as it does not have to spend the money it gets from the sale of the bonds. The central bank can also buy bonds. This increases the amount of money in circulation as economic agents now hold money rather than bonds.

2.5.2 Reserve ratio requirement
The central bank can increase the cash reserve requirements of commercial banks. This means that commercial banks can lend less, and so the money supply decreases. Alternatively, the central bank can lower the cash reserve requirements of commercial banks, and the money supply increases.

2.5.3 Moral persuasion
The governor of the central bank can try to persuade commercial banks to lend less in booms and more in recessions. The governor may argue that commercial banks should follow the recommended action for the good of the economy.

2.5.4 Interest rates
The decrease in the interest rate makes it cheaper for firms to borrow money thus increasing the supply of money. An increase in interest rates makes it costly to borrow money and thus decreases the money supply. *(An explanation including an increase OR decrease in money supply is acceptable for the above instruments)*

QUESTION 3 MICROECONOMICS

3.1 3.1.1 A perfectly competitive market has many buyers and sellers selling an IDENTICAL / HOMOGENOUS product while the monopolistic market also has many buyers and sellers but the product is DIFFERENTIATED / HETEROGENOUS OR Information for buyers and sellers is not complete in a monopolistic market and because the product is differentiated, they make use of branding and advertising to gain a competitive edge. MAX 4 marks.

3.1.2 Control over the price of the product

- A perfectly competitive business has no control over the price and is therefore regarded as a price-taker. Prices are set by the natural forces of demand and supply.
- It will price its product according to what is happening in the market. The agriculture industry corresponds with this market since they do not have any control over the price of their products

Ease of entry into and exit from the market

- There are no barriers to entry that stop new businesses entering the market, and there is freedom of exit from the market, because sunk costs are low.
- In the Agriculture industry, businesses can enter or exit as and when they see fit. There are no financial, technological, legal or other barriers to entry.

Availability of information

- Just like in the agriculture industry, all the customers and businesses have perfect information
- (complete knowledge) about the product, its price and the existence of alternatives

The number of businesses

- There are thousands of businesses offering a large quantity of the products, so customers can choose who to buy from and there are no shortages.
- This is true in a perfectly competitive market as shown in Source 1. (Credit any other reasonable response)

3.1.3 Collusion occurs when businesses in the same industry work together to limit competition in the industry and maximise profits.

3.1.4 Discuss any THREE types of non-price competition in an oligopoly market.

- Product differentiation – the businesses try to create variations to make homogenous products seem like heterogenous products
- Advertising / Promotion / Branding / Packaging – 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

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- Free / subsidised delivery – this is very convenient for consumers especially if it comes at no additional cost
- Unique selling points – products are customised to suit consumer preferences, for example, healthy foods which cater for healthy living. Such products have gluten free options, sugar free options as well as low carb alternatives.
- After sales services – such as repairs and maintenance build a trusting customer base
- Accumulation of positive reviews – many large companies rely on positive reviews from previous customers in order to get positive feedback from others. This creates a certain level of trust from the amount of positive feedback received.
- Guarantees – foster trust in the consumer since faulty appliances can be replaced at no additional cost. Any THREE types and a brief explanation. MAX 6 marks.

(If the explanation includes the type of non-price competition award the 2 marks)

3.2 3.2.1 Income elasticity of demand measures the responsiveness of the change in the quantity demanded to a change in the consumers income.

3.2.2 Normal goods are goods for which demand increases as consumer income rises. An inferior good is one that has a negative income elasticity of demand.

3.2.3 Discuss any FIVE factors that influence the price elasticity of demand.

- Proportion of income spent on the good – the greater the proportion of the consumer's income spent on the product the more price elastic the demand for the product is.
- Advertising – advertising is meant to create brand loyalty. The effect of brand loyalty is to make the demand for the product more price inelastic.
- Habit forming substances – the demand for habit forming products is price inelastic because of their addictive nature.
- Availability of substitutes – products with good substitutes are more price elastic in demand
- Durability – the more durable the good, the more a change in price will change the quantity demanded. (The more durable the good the more price elastic it is)
- Time period under consideration – the longer the time period involved, the more price elastic the demand is.
- Degree of necessity or luxury – Necessities have price inelastic demand while luxury products have price elastic demand since we can do without them. Any FIVE factors and a brief explanation. *(If the explanation includes the factor award the 2 marks)* MAX 10 marks.

3.3 3.3.1 Market failure occurs when the market is not efficient e.g. when the required production levels are not achieved or resources are not efficiently allocated or demand is greater than supply or an under supply or over supply of goods and services.

3.3.2 Externalities

- In the case of positive externalities such as education, subsidies can be used to reduce the cost and therefore increase the demand and supply.
- To discourage the production and consumption of products with negative externalities laws could be enforced and taxes charged to make them more expensive.

Unequal distribution of income and wealth

- The government can employ the following; a progressive tax system,
- subsiding goods and services,
- welfare grants,
- providing certain goods and services free of charge,
- job creation programmes,
- minimum wages MAX 2 marks

Imperfect competition

- The government could introduce a competition policy to increase the level of competition,
- e.g. grant licences to other firms in the case of monopolies, imposing price controls and using legislation to decrease the price of a product. MAX 2 marks

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 Inflation is a continuous / sustained / gradual increase in the general price level of a variety of goods and services in an economy over a given period of time.

4.1.2 The message of the cartoon is that it is not advisable for the government to increase spending and hope to fight inflation at the same time.

- Overspending during inflationary times is 'dangerous' since it is literally 'adding fuel to the fire'

4.1.3

- This is when the demand for goods is much higher than the supply, or demand increases much faster than the supply does, which results in price increases.
- Due to increased spending by consumers, government, businesses, the foreign sector, access to credit, a decline in savings or a reduction in taxes.
- aggregated demand increases and this pulls up the prices.
- Cost push inflation occurs when the prices of goods and services rise because the prices of production factors increase.
- When cost push inflation occurs, prices rise and output decreases.

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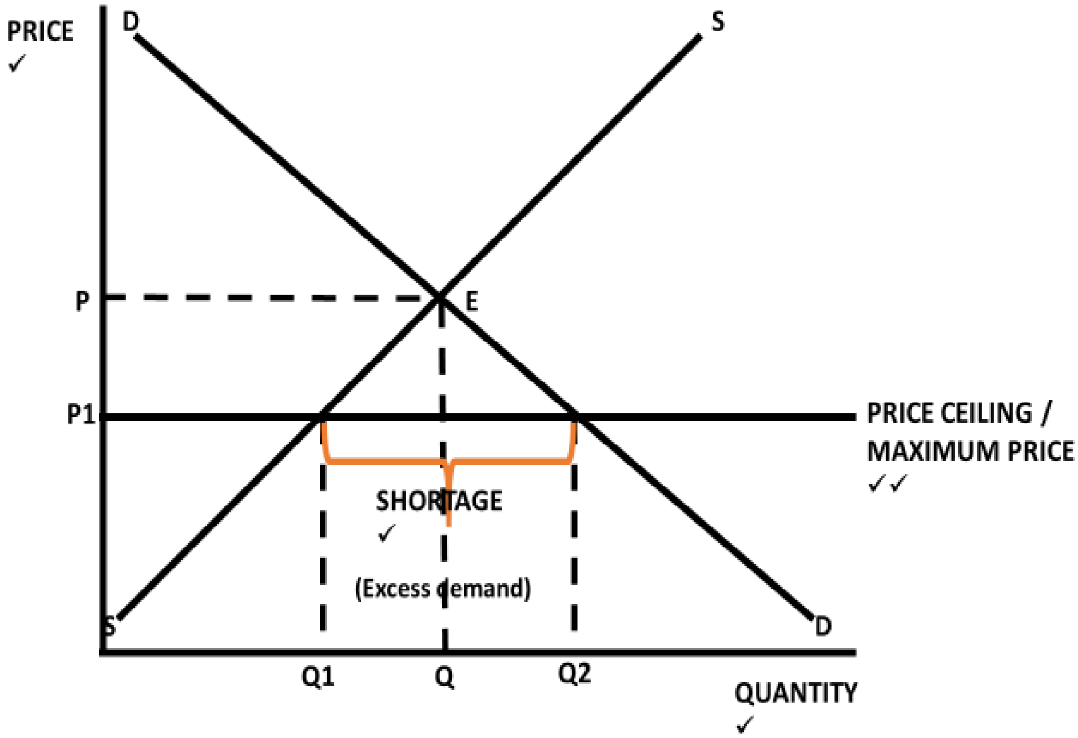
- Cost push inflation can be caused by an increase in the cost of key inputs, an increase in wages and salaries, an increase in the price of foreign exchange, an increase in business profit margins, natural disasters and a reduction in labour productivity. MAX 5 marks for demand pull inflation, 5 marks for cost push inflation.

4.2 4.2.1 The cartoon suggests that the government has imposed a price ceiling because of high costs but the intended beneficiaries end up suffering because of the same price ceiling OR any other relevant answer.

4.2.2 A price ceiling is a government-imposed price control or limit, on how high a price is charged for a product. OR price ceilings set the maximum price for which a good or service can be sold.

4.2.3 Use **ONLY** a clearly labelled diagram to illustrate the impact of a price ceiling in the market.



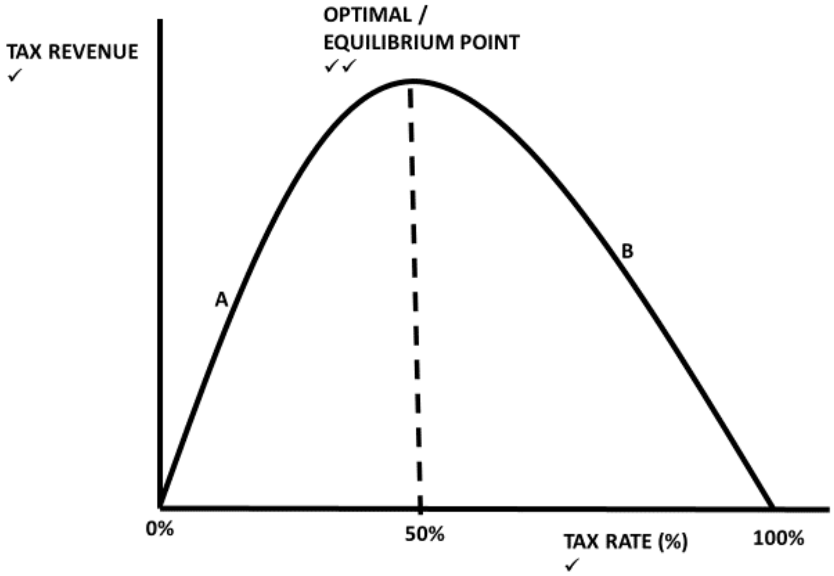
4.2.4
- **Households** – Price ceilings are set to improve the level of welfare of poor people so that they can achieve a certain minimum standard of living.
- This is done by providing the basic necessities such as food, housing and transport at affordable prices, and to prevent businesses from exploiting consumers by charging high prices and making large profits.
- Some households will benefit from the reduced prices on basics.
- However, the price ceiling results in a reduction in supply which creates a shortage in the market. This results in the emergence of black-markets, long queues and rationing of products. In some cases, consumers end up paying more than the equilibrium price due to shortages of the products.
- The intended beneficiaries usually end up suffering from this form of government intervention. *(OR any other relevant answer).*

- **Businesses** – When the government sets the price ceiling at P1, the quantity supplied decreases to Q1 and the quantity demanded increases to Q2.
- This is because suppliers are not willing to supply a lot of their output at such a low price and yet consumers are very happy to get more value for their money.
- The difference between Q1 and Q2 is the market shortage that is created.
- Price ceilings result in reduced business profits. This has a negative knock-on effect on the economy, i.e., reduced production levels, higher unemployment and lower economic growth. *(OR any relevant answer)*
  (MAX 4 marks for households, 4 marks for businesses).

4.3 4.3.1 Taxes are compulsory payments made by households and businesses of a country to the state.

4.3.2
- Direct taxes are taxes on the income of individuals and the profits of businesses, for example income taxes such as PAYE and company tax.
- Indirect taxes are taxes on the consumption of goods and services, for example expenditure taxes such as VAT, excise duty, customs duty, and transfer duty.

4.3.3 Draw the Laffer curve and briefly discuss the dangers of high personal tax rates.



- The Laffer curve shows the relationship between tax rates and government revenue.
- The curve suggests that at a zero-tax rate the government would earn no revenue. At point A, the revenue is increasing as the tax rate increases.
- At point B, the tax revenue is decreasing as the tax rate rises.
- The curve suggests that there is an optimal rate of taxation after which point people prefer not to work or not to work as hard (no overtime) thus reducing tax revenue.
- The curve also suggests that by reducing a high-income tax rate,

the government can increase its tax revenue, as more people are willing to work and it reduces the number of people avoiding and evading tax. MAX 4 marks for the diagram and 8 the discussion

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 The balance of payments account is a systematic record of all the country's transactions with the rest of the world over a specific period of time.

5.1.2 $1 162 741m + $73 867m – $1 333 859m = –$97 251m

5.1.3 There is a deficit on the balance of payments account because the change in net gold and other foreign reserves is negative.

5.1.4 The financial account has three sub-sections:

- Net direct investment – this refers to people or businesses acquiring an influential interest in a business in another country (either through buying shares or being involved in a merger or takeover) or to a company opening a branch or building a factory abroad.
- The purpose of the investor is to gain control of the business or to get a meaningful say in the management of the business, for example, when foreign parties invest in Swaziland businesses or when Swazi people or businesses invest in foreign businesses.
- Net portfolio investment – is where the investor is only interested in the financial returns to be gained from investing in shares or bonds and not in influencing the management of the business.
- This is a long distance and indirect approach to investment, for example, ownership of foreign shares or bonds which are recorded as assets.
- Net other investment – this refers to a residual category and includes all transactions that cannot be classified as direct investments, portfolio investments reserve assets,
- for example, trade credit and short-term loans from foreign parties. 1 MARK for naming the section, 2 MARKS for the discussion and 1 MARK for example. MAX 12 marks.

5.2 5.2.1 The repo rate (repurchase rate) is the interest rate at which the country's reserve bank lends money to the commercial banks. The prime rate is the lowest rate at which commercial banks will lend money to their best customers

5.2.2

- Cartoon 3 suggests that increases in interest rates by the federal reserve will hurt homeowners who are still servicing their mortgage loans.
- This is because when interest rates go up the interest repayment on mortgage loans also goes up.
- Cartoon 4 suggests that lowering interest rates will hurt pensioners on fixed and long-term investments.
- Retirees or pensioners who have long-term investments with insurance companies and pension funds are the losers when interest rates go down because their hopes of predictable interest-based income are 'crushed'. 1 MARK for identification and 2 MARKS for explanation for each cartoon.

5.3 5.3.1
- When an expansion period is moving too quickly it leads to inflation.
- To curb inflation the Reserve Bank can use one or a combination of instruments. It can increase interest rates, which makes credit more expensive and results in a decrease in the supply of money.
- If it needs to reduce the supply further, it can increase the minimum amount banks must keep in reserve.
- It can also sell government securities (bonds) in the open market, thus taking money out of the economy.
- The decrease in the supply of money reduces aggregated demand, thus slowing down the expansion in the economy. MAX 6 marks.

5.3.2
- To stimulate the economy, the government can decrease taxes, increase social grants and increase its spending on public works.
- All these measures ensure that households have extra money. This will prevent demand from dropping too dramatically.
- This will give businesses a reason to maintain or increase production levels and maintain or increase employment levels, which has a multiplier effect.
- This will then lead to an increase in aggregate demand which will stimulate growth. MAX 6 marks.

5.4
- Protecting infant industries and industrial development – newly established industries often find it difficult to compete with well-established foreign competitors. If they are protected in their early years, they may be able to grow and become competitive.
- Protecting jobs and stable wage levels – Foreign competition may force businesses to reduce wages or salaries, or to retrench staff, in order to remain competitive. But in countries with high levels of poverty and unemployment, it is important to protect jobs.
- Protecting self-sufficiency and strategic industries – Some industries such as agriculture are essential, some are seen as strategic for economic growth such as the oil and coal industries.
- Balance of payments corrections and stabilising the exchange rate – Protectionism can be used to reduce imports, which will improve the balance of payments and exchange rates.
- Preventing dumping – dumping occurs when foreign enterprises sell goods at a lower price than in the domestic market. This leads to them gaining the majority of the market share and forcing local producers out of the market, creating a monopoly in the process.
- Earning government revenue – import tariffs are seen as an important source of revenue in many developing countries.

2 MARKS for argument, 2 MARKS for discussion. MAX 8 marks.

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SECTION C

QUESTION 6 DATA RESPONSE

6.1 6.1.1 Hyperinflation

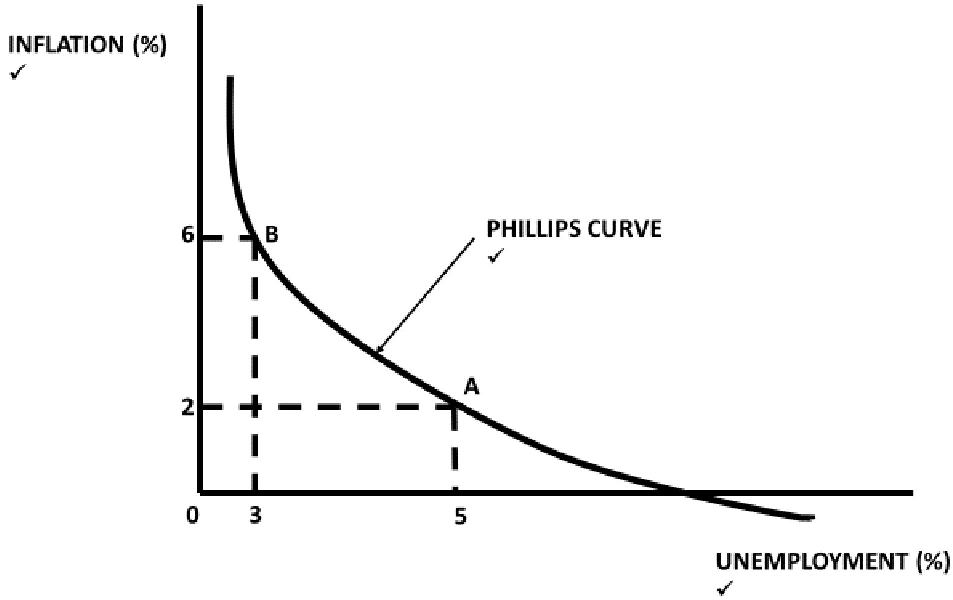
6.1.2
- A decrease in the purchasing power of money –
- this is the most important consequence of inflation. It means the consumer can buy less than before with the same amount of money.
- An increased poverty level – more people will be unable to satisfy their basic needs. Living standards will drop and poverty levels will increase.
- Balance of payments problems – If inflation in South Africa is higher than its trading partners, South African products will become less competitive internationally. This will result in a decrease in exports because our goods are more expensive and at the same time imports will increase because foreign goods are now relatively cheaper than local goods. This will cause a deficit on the balance of payments and a depreciation of the exchange rate.
- Social and industrial unrest – continually rising prices can make people very unhappy. Bread and transport costs can lead to social unrest and political dissatisfaction.
- Redistribution of income and wealth – Inflation causes a redistribution of income and wealth depending on people's positions. There are winners and losers. The losers will be those people on fixed incomes, creditors, people with savings and fixed investments and people who get salary increases below inflation. The winners will be debtors, governments and people who have investments with flexible market values. 1 mark for consequence and 2 marks for evaluation. If the consequence is part of the evaluation, award 3 marks. MAX 9 marks.

6.1.3 Stagflation is when there is persistently high inflation and high unemployment. This occurs when the economy is unable to create new jobs. This could be due to a low economic growth rate in reaction to strong monetary and fiscal policies to curb the high inflation rate.

6.2 6.2.1 Lack of employment opportunities, poor healthcare and Government corruption.

6.2.2
- Lack of employment opportunities –If people do not have jobs, they do not have income. The key driver of economic growth is spending. Lack of spending leads to reduced production which further worsens the unemployment rate.
- Poor healthcare – If the labour-force is not healthy then it cannot be productive. This impacts economic growth negatively.
- Government corruption – corruption results in public funds meant to provide public goods and services being misappropriated. Public infrastructure crumbles and service delivery is compromised. Those conditions are not ideal for economic growth OR any other relevant answer.

6.2.3 Labelled graph



- The Phillips curve shows the trade-off / inverse relationship between inflation and unemployment.
- The model shows that as the unemployment rate drops from 5 to 3 percent, the price to pay will be an increase in the inflation rate from 2 to 6 percent.
- If the government's policy objective is to reduce the inflation rate to 2 percent for example, the sacrifice would be a higher unemployment rate of 5 percent. MAX 3 marks for the diagram and 5 marks for the explanation.

6.3 6.3.1
- Loadshedding – has affected production levels negatively. It is also bad for investor confidence hence the lack of foreign direct investment and capital flight
- Lower commodity prices on the international market which has negatively impacted the exchange rate
- Corruption and a fragile political, social and economic environment which is not good for business confidence OR any other relevant answer. Credit should be given for reasons for Nigeria increasing their GDP – such as rebasing or changing the way certain sectors are calculated Negatives / Positives included. MAX 4 marks.

6.3.2
- This was during the peak of COVID 19 and all countries around the globe were under lockdown.
- International trade during that period was limited to essential products only.

6.3.3 Discuss FOUR reasons with relevant examples why countries engage in international trade.

- Uneven distribution of natural resources – some countries are fortunate in that they have an abundance of natural resources while others have very little, for example South Africa has a rich supply of precious metals and gold which has given the country an advantage in international trade.
- Climatic conditions differ – Certain agricultural products can only be grown in particular areas. For example, the climate in Brazil is more suitable for the production of coffee which allows them to produce it cheaply and export it to the rest of the world.
- Labour resources and technology differ from country to country – Some countries have a better trained labour force and more technologically advanced than others. For example, Germany is renowned for its car manufacturing industry and the country has an international reputation for producing quality cars.
- Specialisation – a country can take advantage of economies of scale if it specialises in the production of a good or service. Japan for example, mass produces electronic equipment and therefore enjoy a comparative advantage in international trade.
- Capital may be limited – many countries have a capital outlay problem. These countries will often export raw materials to more developed countries for further processing.
- Level of income – If income levels are high or increasing, it leads to higher aggregate demand, which often creates demand for imported goods.
- Consumer preferences and tastes – because preferences and tastes differ, there will always be demand for goods from other countries.
- Religious, socio-cultural – consumption patterns are influenced religion and culture.
- Leve of development – In poorer countries people tend to spend the majority of their income on basic needs such as food, whereas, in richer countries, a great deal of money is spent on luxury items.
- International migration – Immigrants usually demand goods from their country of origin and this encourages entrepreneurs to import these goods. 1 MARK for reason and 2 MARKS for discussion. If the reason is in the discussion, award 3 MARKS. MAX 12 marks.

Total: 300 marks

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