INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2024

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

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 (a) Includes all gross salaries and wages.

(b) Profit. Total value of all goods and services produced after costs have been subtracted.

(c) Depreciation, value of fixed assets.

2.1.2 Taxes levied per unit (on each item produced), e.g. VAT, import duties, excise taxes. (OR any other relevant example)

2.1.3 Factor cost is the income of the factors of production used to produce the goods and services, including profits paid for entrepreneurship.

2.1.4 Subsidies on production lower the cost of production allowing producers to sell the final product at affordable prices. (OR any other relevant answer).

2.1.5

GDP @ basic prices	6 018 739
+ Taxes on products	704 133
– Subsidies on products	14 964
= GDP @ market prices	6 707 908

2.1.6
- Economists prefer constant prices when measuring economic growth because they exclude the effect of inflation.
- Current prices are an inflated reflection of prices at the time and therefore an inaccurate view of the reality in the economy.
- It is difficult to know whether the value of production increased due to more products being produced, or simply because their prices increased. (MAX 4 marks)

2.2 2.2.1 Households.

2.2.2 Payment for goods and services (Income for businesses).

2.2.3 It is a model that shows the relationship between production, income and expenditure (OR any other relevant answer)

2.2.4 It is regarded as a leakage because it withdraws money from the circular flow resulting in less disposable income. .

2.2.5 18 / 100 × R 30 000
= R 5 400

2.3 2.3.1 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.

2.3.2 E0 = 15 + 0,6Y

2.3.3 0,6

2.3.4 Differentiate between autonomous and induced government consumption.

- The key difference is on the income factor.
- Autonomous expenditure is regarded as necessary to run the country and not affected by income levels in the economy (for example roads, buildings, health, education, housing, security and defence).
- Induced consumption depends on the level of income. (MAX 4 marks)

2.3.5 The higher the mpc the higher the value of the multiplier will be and the lower the mpc the lower the value of the multiplier will be.

2.3.6 70 – 30 / 50 – 20
= 40 / 30
= 1,33

2.3.7 1 / (1 – mpc) OR 1 / mps
= 1 / 0,4
= 2,5

QUESTION 3 MICROECONOMICS

3.1 3.1.1 Air Zimbabwe, MTN, Google/Microsoft/Meta

3.1.2 An oligopoly exists when there are only a few large businesses with significant market share which dominate the market. (OR any other relevant answer)

3.1.3 They generally compete on the basis of non-price competition, which includes product differentiation, advertising, loyalty schemes etc., to avoid price wars in the market, as it is destructive and leaves all firms worse off.

3.1.4
- It is regarded as difficult because barriers to entry and exit are very high.
- These could be in the form of legal restrictions, patents, high start-up or development costs, (high sunk costs), licensing and technical superiority.

3.1.5 Prices in a monopolistically competitive market are lower because there are many sellers and very few barriers to entry and exit, making the market more competitive than a monopoly where one role player dominates. (OR any relevant answer).

3.1.6 Explain TWO characteristics of a perfectly competitive market.
- Many buyers and many sellers – there are so many that no individual buyer or seller is able to influence the market price.
- The products sold in a perfect market are homogenous or identical – this means they are all the same and buyers do not care whom they buy from.
- No barriers to entry and exit – they have complete freedom. There are no financial, technological, legal or other barriers to entry.
- Buyers and sellers have complete knowledge of market conditions – buyers know where to get the cheapest products from and sellers also know where to get the cheapest raw materials from.
- Factors of production are freely available to all producers – all producers have equal access to factors of production.
- There is no collusion between sellers – they do not work together.
- There is no government intervention that affects buyers and sellers
- Buyers and sellers have no influence over price – they only decide on what quantities to produce and supply at the prevailing market price. (MAX 4 marks)

3.2 Describe why externalities are regarded as a cause of market failure. Provide an example of a positive and a negative externality.
- Externalities are the positive or negative side effects of production and consumption activities that have an impact on people who were not directly involved in these activities.
- Externalities are a cause of market failure because the market over produces and over consumes goods with negative externalities while goods with positive externalities are under produced and under consumed.

- An example of a negative externality is pollution from businesses manufacturing products or from consumers smoking cigarettes.
- An example of a positive externality is education and the provision of healthcare (OR any other suitable example). MAX 4 marks

3.3.1 Explain the concept of a public good and why it can lead to market failure. Provide two examples of public goods.

- Sometimes market failure occurs when the market is unable to meet the demand for certain goods at a market related price.
- These goods are then provided by the government and are known as public goods.
- Market failure: Businesses do not normally supply such goods because it is difficult to charge for them. People automatically benefit if the goods are provided.
- This gives rise to the free rider problem and it leads to missing markets, and therefore market failure.
- Examples include traffic lights, lighthouses, public libraries and parks, services offered by the police (OR any other relevant example). (TWO marks for explanation / TWO marks for examples).

3.3.2 Describe how incomplete information can result in market failure. Use an example to illustrate your explanation.

- Incomplete or inaccurate information obtained by producers leads to incorrect decisions about what to produce, how to produce it and for whom to produce it, so a waste of resources occurs.
- Consumers aren't always aware of the harmful effects of certain products or that prices of a product from various producers can vary, and they sometimes base their decisions on misleading information (asymmetric information).
- For example, the sellers of second hand products such as cars, houses and electrical products have more information than the buyers. The buyer does not know whether the products are reliable or not. (TWO marks for description / TWO marks for example) (OR any other appropriate example).

3.3.3 Explain why monopoly power can result in inefficiencies in resource allocation.

- Imperfect competition creates inefficiencies as a result of the following: Imperfect competition, like in the case of a monopoly, produces lower quantities at higher prices than a perfect market.
- New businesses are prevented from entering the market and so competition is stifled and the price of the products is prevented from falling.

3.4 For any good or service, the marginal utility of that good or service decreases as the quantity of that good increases, ceteris paribus, OR, the law holds that as we consume more of an item, the amount of satisfaction produced by each additional unit of that good declines.

3.5 3.5.1 This is because of the proportion of our income that we spend on salt. Salt is a very cheap product and takes up very little of our incomes hence the demand for it tends to be price inelastic.

3.5.2 KFC is in a monopolistic market with many sellers and differentiated products.

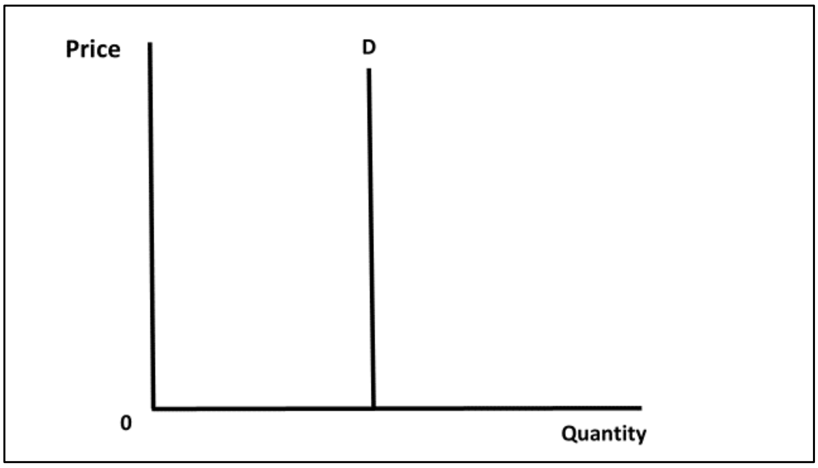
- Despite having brand loyal customers, KFC risks making demand for their product price elastic by increasing the price by 20%, which would reduce their profits.

3.6 3.6.1 % Δ in Quantity demanded of Good A / % Δ in Price of Good B

33% / – 20% = –1,65

3.6.2. The products are complements.

3.6.3 Draw a graph that shows a perfectly inelastic demand curve.



2 marks for the demand curve .

3.6.4 Life-sustaining medicine, water (OR any other relevant example)

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 The percentage of an amount of money that is paid for its use over a period of time. OR the price you pay to borrow money or the return earned on an investment.

4.1.2
- The Central Bank's main instrument to fight inflation is the repo rate. Relatively low interest rates encourage borrowing by households and businesses which increases money supply and spending in the economy.
- This increases inflation. To contain the inflation rate, they will increase interest rates. Thus, the higher the rate of interest the lower the inflation rate will be.

4.2 4.2.1 CPIX

4.2.2 Core Inflation

4.2.3 Stagflation

4.2.4 Disinflation

4.2.5 Producer Price Index (PPI)

4.3 4.3.1 **LOSERS:**
- People on fixed incomes – Pensioners, people earning fixed salaries, those receiving social grants will lose out their incomes do not change at the same rate as prices do.
- Creditors – The money which is repaid to creditors will be worth less in real terms than the money lent.
- People with savings and fixed investments – Fixed deposits and other long term savings lose their real value due to inflation if the interest rate is not favourable.
- People who get salary increases below inflation

WINNERS:
- Debtors – People who are paying off a mortgage bond will win because they borrowed money with a relatively high purchasing power and they are repaying their loans with money with money relatively low purchasing power.
- People who have investments with flexible market values since the nominal values of these investments usually increase more rapidly than the general price level.
- Governments – They are continually paying off debt and secondly, as incomes and prices increase, they will receive more tax if they are using a progressive tax system. (TWO marks for winners and TWO marks for losers).

4.3.2 **Contractionary fiscal policy**

- Contractionary fiscal policy – Fiscal policy is the approach that a government takes to taxation and government spending in order to regulate the economy.
- To decrease inflation, fiscal policy can be used to raise taxes.
- Higher taxes will decrease investment spending by businesses, as there is less likelihood of making a profit.
- Higher taxes also mean that consumers will have less disposable income, thus a reduction in consumption spending.
- This reduces the amount of money in circulation. Products become cheaper as firms experience a drop in sales.
- Decreasing government expenditure – Lower government spending will result in a decrease in jobs, and as households' disposable income falls, consumer spending will also decrease.

Contractionary monetary policy

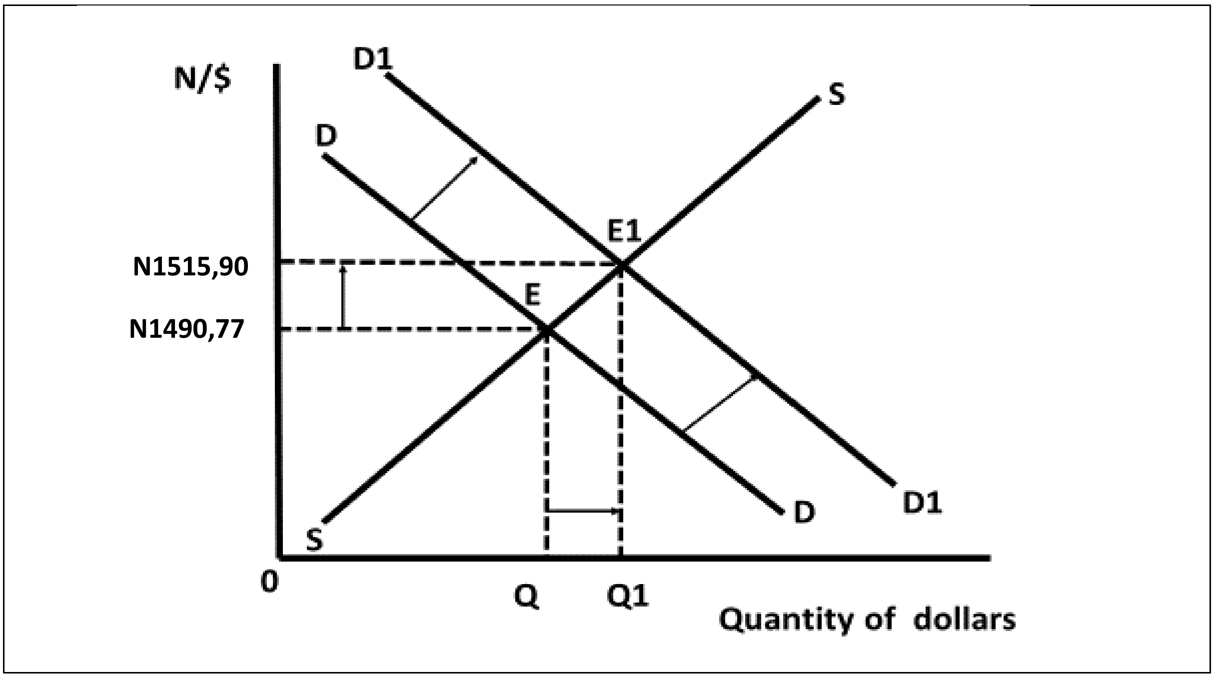
- Contractionary monetary policy – Monetary policy is the approach taken by a country's central bank to influence spending in an economy by influencing the interest rate and money supply.
- To reduce inflation, the central bank can increase the repo rate.
- A higher repo rate increases the prime lending rate, thus credit becomes more expensive.
- This decreases consumption spending by households and investment spending by businesses and decreases the inflation rate
- Monetary policy can also influence money supply through moral suasion, open market transactions (selling government bonds), and the minimum reserve ratio requirement (increasing it).
  (7 marks for fiscal policy and 7 marks for monetary policy).

4.4 4.4.1 It is higher due to additional freight/transport charges from the coast to elsewhere in the country.

4.4.2 Organisation of Petroleum Exporting Countries (made up of 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations)

4.4.3 Continued production cuts by OPEC+ OR, extremely cold weather affecting production from North America OR, continued tension in the Red Sea affecting shipping costs and a weak rand.

4.4.4 Use a clearly labelled diagram to show the effect of the naira weakening from N1490,77/$ to 1515,90/$ using the direct method.



2 marks to the Naira weakening
2 marks for an increase in the demand for dollars
2 marks for the shift in quantity from Q to Q1

4.4.5
- Differentiation: Appreciation of a currency is when the value of one currency increases in terms of another currency due to the natural forces of demand and supply without any government interference. Appreciation happens naturally through supply and demand dynamics without direct intervention by the country's central bank or government, whereas revaluation, on the other hand, is a deliberate and official action taken by a country's central bank or monetary authority to increase the value of its currency relative to other currencies.
- A revaluation is a calculated upward adjustment to a country's official exchange rate relative to a chosen baseline such as wage rates, the price of gold or a foreign currency. Only a country's government (Central Bank) can change the official value of the currency. Students should not simply explain the two concepts.

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 This account is a systematic record of all the country's transactions with the rest of the world over a specific period of time. (OR any other relevant answer).

5.1.2 Current transfers

5.1.3 The current account, the capital transfer account, the financial account, the official reserves account

5.1.4 A current account surplus occurs when a country's total exports of goods, services and income transfers exceed its total imports and outflows. This indicates that there is more money coming into the country than is going out, suggesting its economic health and stability. (OR any other relevant answer)

5.1.5 1 286 047 + 108 299 – 1 109 459
= 284 887

5.2 5.2.1
- A decrease in the demand for US dollars could potentially lead to a strengthening of the South African rand relative to the US dollar
- When there is less demand for US dollars, it could mean that investors are shifting their focus away from the US market which could lead to a decrease in the value of the US dollar.

5.2.2
- A fixed exchange rate (pegged exchange rate) exists where the value of a currency is set in terms of something else, such as the currency of another country or the price of gold or the wage rate. E.g. Saudi Arabia, UAE, Hong Kong, Bahrain, Jordan
- A free floating exchange rate exists where a central bank allows the currency of a country to fluctuate in value according to the demand for and the supply of this currency. E.g. USA, Eurozone, UK, Japan.

5.2.3 If the quantity of rands supplied exceeds the quantity of rands demanded, the exchange rate will fall and a depreciation of the rand occurs.

5.2.4
- Goods are imported
- Services are provided by foreign countries
- Paying interest or dividends to foreigners
- Repaying debt on foreign loans
- Investing in foreign countries
- People visit foreign countries (MAX 4 marks)

5.2.5
- Uneven distribution of natural resources – some countries are fortunate in that they have an abundance 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.
- Level of development – In poorer countries people tend to spend most 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.

5.3 5.3.1 Number of workers

5.3.2 Cost of capital

5.3.3 Short run period

5.3.4 A = 25
B = 33
C = 7
D = 1
E = -2

SECTION C

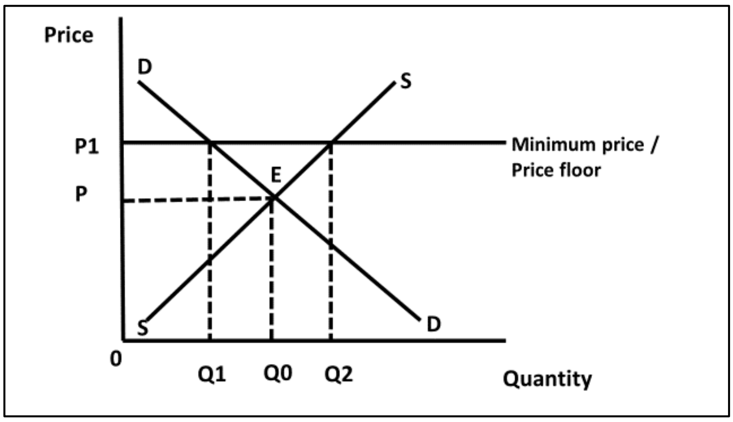
QUESTION 6 DATA RESPONSE

6.1 6.1.1 (a) Expansion/peak
(b) Expansion
(c) Depression
(d) Expansion
(e) Recession

6.1.2
- Exogenous factors are factors/variables that affect a market system from outside.
- For example, natural disasters and dramatic changes in weather patterns, pandemics, government policies, structural changes in the economy, wars and terrorism, financial crisis, changes in the economic conditions of a major trading partner, a steep increase in oil prices.
- Whereas endogenous factors are factors/variables that affect a market system from inside.
- For example, changes in the level of consumption spending by households and changes in the level of investment spending by businesses.

6.2 6.2.1 A price floor is a government imposed minimum price for a good or service set above the equilibrium market price.

6.2.2 Draw a clearly labelled diagram to illustrate the impact of a minimum price/price floor in the market.



2 marks for shift in price
2 marks for labelling price floor
2 marks changes in demand from Q0 to Q1 and change in supply from Q0 to Q2

6.2.3
- Minimum prices, or price floors, can benefit producers by ensuring they receive a fair price for their goods, which helps maintain their income stability and incentivizes production.
- This can also prevent prices from falling too low due to oversupply.
- However, price floors can lead to surpluses if set above the market equilibrium, resulting in inefficient allocation of resources and potential waste.
- For consumers, price floors ensure that the goods will be produced and available, however price floors can lead to higher prices and reduced affordability, impacting their purchasing power.
- Overall, while price floors can protect producers, they can also have negative consequences for consumers and market efficiency.

(4 marks for producers and 4 marks for consumers, 2 marks for an advantage and 2 marks for a disadvantage for each).

6.3 6.3.1
- Economic growth refers to the increase in the quantity of goods and services produced in a country, typically measured by GDP.
- Economic development includes not just growth but also factors like improvements in living standards, education, healthcare, and income distribution.
- Growth is about the economy expanding, while development is about improving the overall well-being of the population.

(MAX 4 marks). Maybe explain and not discuss

6.3.2 Human Development Index

6.3.3
- Income
- Education
- Life expectancy

6.3.4
- It reduces foreign barriers to exports – If a country imposes tariffs and quotas on imports, and provides subsidies for exports, this will affect businesses in foreign countries. Foreign countries are likely to retaliate by bringing in their own tariffs, quotas and subsidies.
- It leads to efficiency – When a country's business can export to other countries, this creates a larger market and means they can take advantage of economies of scale. This allows businesses to specialise and means they have to be efficient to remain competitive.
- It leads to lower prices – As businesses become more efficient and competitive, prices decrease.
- It leads to greater consumer choice – Consumers benefit from the greater variety of products on offer when there are no barriers to imports.
- It leads to a higher standard of living – Lower prices and more consumer choice leads to a higher standard of living. (OR any other relevant answer). If 'discuss' it needs to have a degree of evaluation.

6.3.5 (a) Import substitution is an inward-looking strategy that restricts imports in order to allow domestic businesses the opportunity to supply similar goods.

(b) Export promotion is an outward-looking government strategy to encourage economic growth, where domestic producers are helped to make products for foreign markets.

Total: 300 marks