NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2023

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

SECTION B

QUESTION 2 MACROECONOMICS

2.1 2.1.1 (a) Is a systematic record/statement of all economic transactions between residents of a country with people and institutions in the rest of the world. Or a set of accounts that give a systematic record of the flows of money between a country and the rest of the world.

(b) Records transactions for (imports and exports) the trade in goods, income/service payments, income/service receipts and current transfers.

2.1.2 **Calculate** the Balance of Trade:

Merchandise exports	1 796 750
+ Net Gold exports	108 004
– Merchandise imports	1 348 655
	R 556 099 billion

2.1.3 **Calculate** the balance on the Current Account:

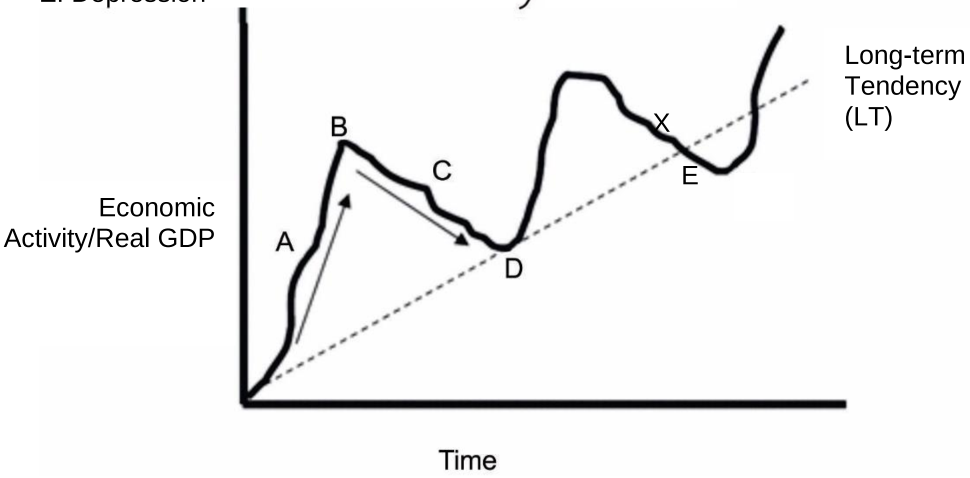
Trade balance	556 099
+ Service receipts	134 926
+ Primary Income receipts	167 431
– Service payments	200 966
– Primary Income payments	286 029
+ Net current transfers	92 360
	R 463 821 billion

The Current Account is in a **surplus**.

2.1 2.2.1 **Draw** a fully labelled business cycle:

A: Expansion/upswing/ recovery
B: Peak
C: Contraction/downswing/recession
D: Trough
E: Depression

$\Big\}$ 4 max



2.2.2 **Leading indicator:** tell us where the economy is going and peak before the peak in the business cycle and reach the trough before the business cycle reaches its trough **OR** leading economic indicators are indicators that change before the economy changes. A leading indicator is a factor that changes before the economy starts to follow a particular pattern or trend **OR** forecast future economic activity.

Lagging indicator: tell us where the economy has been and so it peaks after the business cycle has peaked **OR** lagging economic indicators do not change direction until a few quarters after the economy does and confirm a pattern.

2.2.3 **Exogenous (external) reasons:** economic fluctuations to factors/ reasons that originate outside the market system.

For example: Natural disasters, technological developments, financial crisis, terrorist attacks, political developments, steep rise in oil prices, changing economic conditions in a major trading partner.

Endogenous (internal) reasons: economic fluctuations to factors/ reasons that originate inside the market system.

For example: Monetary causes, changes in the patterns of the consumer, changes in the level of investment spending, psychological reasons, i.e. optimistic or pessimistic outlook of investors/ entrepreneurs, etc.

(Accept any other relevant correct example.)

2.3 2.3.1 Real flow
Monetary flow / money flow

2.3.2 Households
Firms / Businesses
Government / State / Public sector
Overseas Sector / Foreign Sector / Rest of the world

2.4 2.4.1 (a) **Gross Domestic Product (GDP):** Total value of all **final goods and services** produced **within the borders of a country** for a specific period normally one year.

(b) **Current prices:** Also referred to as **Nominal GDP,** which **includes the effect of inflation,** so a more inaccurate, inflated reflection of prices at the time so it is difficult to know whether the value of production increased due to more products being produced, or simply because their prices increased.

2.4.2 **Calculate** GDP:

2021: Formula / words can be used
5 450 414 / 108,01 × 100 = **5 046 212,39**

2022:
Formula / words can be used
5 751 885 / 106,03 × 100 = **5 424 771,29**

2.4.3 **Calculate** GDP growth rate:

2022:

$$\frac{5\ 424\ 771 - 5\ 046\ 212}{5\ 046\ 212} \times \frac{100}{1}$$

= 7,5%

2.4.4 "Country X's" economic growth rate is very high compared to that of South Africa.

(Accept any correct relevant answer.)

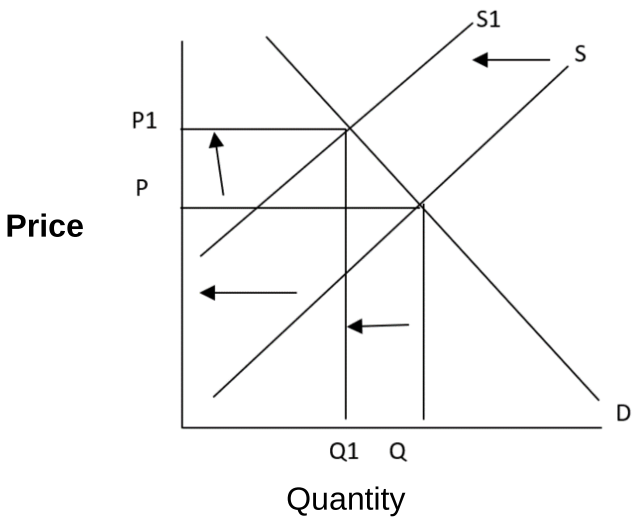
QUESTION 3 MICROECONOMICS

3.1 **Complete** Table 6:

Characteristics	Perfect market	Monopoly
Number of firms	Many/several/ A lot	One
Nature of the product	Homogeneous/the same	Unique/ Rare
Availability of market knowledge to the business	Perfect knowledge/ Complete knowledge	Perfect knowledge/ Complete knowledge
Barriers to entry	No barrier/free entry/ Zero	Blocked/barriers to entry/ Restricted/ high
Price taker or price seeker?	Price takers	Price seekers

3.2 3.2.1 **Nersa:** National Energy Regulator of South Africa

3.2.2 **Decrease in supply graph:**



Graph mark allocation:
Price and quantity label (×1)
Demand and supply label (×1)
Decrease in supply arrow and S1 (×1)
Increase in price arrow (×1)
Decrease in quantity arrow (×1)

3.2.3 **Positives:** An increase in electricity prices will contribute to an increase in revenue for Eskom a parastatal.
Which can lead to an increase in revenue to the government's fiscus and government spending.
Eskom can fix infrastructure which can lead to an increase in productivity and job creation which can increase the standard of living of workers.
Improved infrastructure can reduce loadshedding and can benefit businesses who can produce more products without losses due to production shutdowns.

Negatives: An increase in electricity prices can cause an increase in prices of goods and services.
Can lead to an increase in input/variable costs to the businesses, which can lead to cost push inflation.
Consumers of electricity will have to pay more therefore will have less disposable income to save or spend.

(Accept any other relevant correct answer.)
Candidates must evaluate therefore look at both positives and negatives.

3.3 3.3.1 **Income elasticity of demand** indicates the sensitivity/ relationship/ responsiveness of the quantity demanded of a product to a change in the consumers' income.

3.3.2 Positive income elasticity of +0.7 making it a normal good or necessity with inelastic demand. This means that the demand for the product will increase as income increases and vice versa.

3.3.3 **Factors influencing the price elasticity of supply:**

- Time of production
  in the short-term supply is inelastic, e.g. agricultural products.

- Price expectations
  If price is expected to rise/increase, supply will increase/elastic supply.

- Stock hoarding
  if products can be stored, it will be more elastic

- Availability of inputs
  if scarce, supply will be inelastic (no matter how price fluctuates, supply remains the same)

  (Accept any other relevant correct answer)

3.4 (a) **Demerit goods:**
Demerit goods are goods and services that people consume in greater quantities than the society believes to be in their best interests, E.g. alcohol, drugs and guns. Demerit goods are overconsumed in a free market. When people underestimate, or ignore, the costs of consuming a demerit good, market failure occurs.
Therefore, market failure occurs as there is an under allocation of resources to merit goods and an overallocation of resources to demerit goods.

(Accept any correct relevant answer.)

(b) **Income inequality:**
Unequal distribution of income is caused by the fact that some people have access to a good opportunities and resources and others not. Therefore, people vary in their skill levels and their ability to produce output.
Markets can generate an 'unacceptable' distribution of income and consequent social exclusion which leads to market failure.
E.g. People in certain industries doing the same job but receiving different levels of income and receiving payment in kind like food.

(Accept any other relevant correct example.)

(c) **Externalities:** An externality is a cost or benefit that is experienced by a third party, who is not a party to the transaction that produced it. A negative externality is a <u>cost</u> experienced by someone who is not a party to the transaction that produced it. A positive externality is a <u>benefit</u> experienced by someone who is not a party to the transaction that produced it.
E.g. the building of a new freeway may have a positive influence on those people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution.
Externalities can also be positive, e.g. the effect of good education and health care services etc.

(Accept any correct relevant answer.)

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 **Economic indicators:** Are statistics that show general trends in the economy. They are used to analyse economic performance and to predict future performance.

4.1.2
- Government can use economic indicators for budgetary planning purposes.
- Economic indicators are used in strategic policy and development planning.
- Indicators can be used to assess current economic conditions or situations in the country.

(Accept any other relevant correct answer.)

4.1.3
- **Positives** is to help battle high inflation of 7,5% and get it in inflation target of 3%–6%.
- Higher interest rates of 7% tend to attract and increase foreign investment.
- Make stock more attractive to investors as they can generate a higher return on savings and investments that a fixed income investment.
- **Negatives** of raising interest rates to 7% is running the risk of sending the economy into a recession, because of decreased demand.
- Increase in unemployment and continuous high inflation.
- From a homebuyer's perspective some negatives of higher interest rates are that they lower demand for housing and make buying and selling a home more difficult.

(Accept any other relevant correct answer.)
Candidates must evaluate therefore look at both positives and negatives.

4.2 4.2.1 **Headline Inflation** is a sustained increase in the general price level of all goods and services over an extended period of time increase in CPI.

Disinflation is an increase in the rate of inflation at a decreasing rate.

4.2.2 (a) **Floods:**
- Can create a shortage on the market, especially agricultural products swept away during floods.
- This will lead to agricultural products becoming more expensive due to the decrease in supply and the prices to increase.
- Agricultural products used in the production of other goods create an increase in input cost which leads to cost-push inflation.
- Infrastructure can be destroyed making it difficult to transport produce from one point to the next, increasing prices of products.

(Accept any other relevant correct answer.)

(b) **Loadshedding:**

- Contributes to rising inflation by disrupting supply chains, increasing the cost of production and affecting manufacturing cost.
- Destroys businesses and compromises the production of food and provision of social services such as water, sanitation, community safety all contributing to increasing costs.
- Businesses lose operating hours, closing shops therefore decreasing their profits, which they must recover by increasing prices of goods and services.

(Accept any other relevant correct answer.)

4.2.3 **Restrictive monetary policy**

- refers to interest rates and money supply and can be controlled by the South African Reserve Bank (SARB) MPC or Governor of the SARB.
- To curb inflation the SARB has increased the repo rate on several occasions.
- This has forced banks to increase their interest rates, thus credit has become more expensive.
- This has forced consumers to spend less, thus decreasing demand in the economy, which will lower the inflation rate.
- The SARB could also decrease the money supply using open-market transactions by selling government bonds.

Restrictive fiscal policy

- refers to taxation and government spending and can be controlled by National Treasury/Minister of Finance.
- To reduce inflationary pressures the government can increase tax and/or reduce government spending. This will reduce aggregate demand.
- If taxes are increased (or government spending decreased) it will lead to a reduction in real disposable income.
- This will lead to lower demand and output, which will then lead to lower inflation.

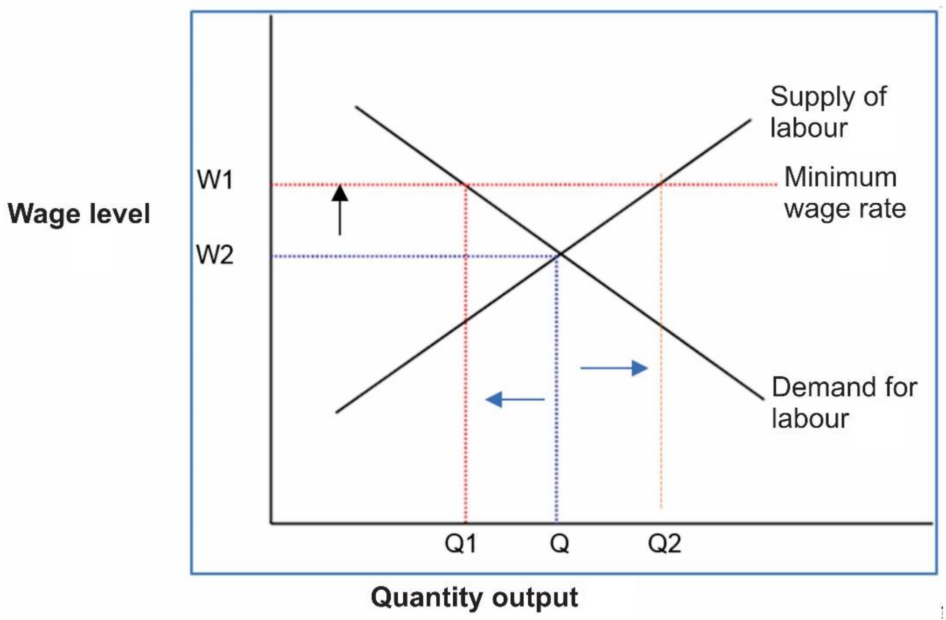
Extent:

- The government has a budget deficit and will increase government revenue by increasing taxes.
- The South African Reserve Bank might increase the repo and prime lending rates to also curb inflation and curb the increase in aggregate demand.
- The SARB might not do anything and keep the repo rate unchanged, because the inflation is within the targeting bracket and consumers are already struggling.

4.3 4.3.1
- To prevent some employers from exploiting workers.
- To narrow the inequality gap between the rich and the poor.
- Reduce poverty and increase the standard of living of poor people.
- It may provide workers with an incentive to work harder and increase productivity.
- Opportunities for workers to upskill themselves.

(Accept any other relevant correct answer.)

4.3.2 **Minimum wage:**
(Candidates are not required to make use of the specific wage rates on the graph.)



- **Graph mark allocation Max 4**
- Wage rate/level or Price of labour ×1.
- Quantity of labour/ Number of hours worked ×1.
- Minimum wage indicated above the equilibrium ×1.
- Supply and Demand indicated as ×1.

4.3.3
- An increase in minimum wage will increase the wage bill/costs to firms, production costs, as businesses will have to pay their employees more.
- Firms may have to increase their selling price to ensure profitability and survival.
- Supply curve will shift to the left as production costs increase and result in a higher price and lower quantity.
- Many businesses might retrench some of the workers.

(Accept any relevant correct answer.)
(Analysis linking Minimum wage, costs and selling price.)

QUESTION 5 MIXED QUESTIONS

5.1 5.1.1 **Currency appreciation** is the increase in the value of one currency in terms of another **OR** when a currency becomes worth more in terms of another currency.
For example, R1 = $0,17 to R1 = $0,27.

Currency depreciation is the decrease in the value of one currency in terms of another **OR** when a currency becomes worth less in terms of another currency.
For example, R1 = $0,20 to R1 = $0,14.

5.1.2 **Free floating exchange rate system:**

- The forces of supply and demand determine the exchange rate.
- Central banks do not intervene in the foreign exchange market on behalf of the government.
- The exchange rate fluctuates as market conditions change.
- Disequilibria is automatically corrected.

Managed floating exchange rate system:

- The exchange rate can fluctuate between certain limits as set by the central bank.
- Central banks intervene if the exchange rate moves outside the set limits.
- They buy and sell foreign exchange to smooth out short-term fluctuations in the exchange rate.
- Huge forex supplies (reserves) are required for such interventions.

5.1.3 **Levels of income differ from country to country:**
Higher income results in a change in needs, especially of luxury goods.

Consumer preferences and tastes change:
People are exposed to more and more products every day.

Religious, cultural and social lifestyles differ from one country to another:
This influences the demand for certain products.

Development of communications and transport:
Countries and products are within easy reach of one another.

Different levels of economic development:
Poor countries will have a demand for basic food and wealthy countries for luxuries.

Natural resources and products differ from one country to another:
Countries import what they don't have and export what they do have.

Increase in population and their income:
Demand and needs change – countries cannot meet the need.

Natural resources are not evenly distributed:
E.g., S.A.'s mineral riches enable us to produce more cheaply to export.

Climatic conditions differ from one country to another:
Some products can be produced cheaper than in other countries, e.g., coffee in Brazil.

Labour resources/ Labour skills:
Quality, quantity and cost differ between countries, e.g., labour supply in Malaysia is high and cost is low. Other countries have high levels of sophistication of labour – more productive.

Technology & Specialisation:
Some countries have access to technological resources to produce at low cost. Japan specialises in electronic equipment, produces in mass and sells at lower prices.

Access to capital differs:
Some countries have more capital and can produce better and cheaper products.

(Accept any other relevant correct answer.)

5.2 5.2.1 6

5.2.2 **Normal profit** is the profit a firm makes when the total cost of production (implicit plus explicit) is equal to the total revenue from the sale of its output (breakeven) or zero.

Economic profit occurs when a firm makes more than a normal profit, that is the level of output at which total revenue is greater than total cost (implicit plus explicit costs)

5.2.3 **A:** 20

B: 2

C: 4

D: 39

E: 76

5.3 5.3.1 Government budget deficit occurs when government expenditure/ spending is greater than tax revenue/government revenue.

5.3.2 Political developments/less government spending/more taxes.

(Accept any relevant correct answer.)

5.3.3 Government should spend less, no salary increases.

(Accept any relevant correct answer.)

5.3.4 **Direct taxes:**
- Personal Income Tax/ PAYE
- Capital Gains Tax
- Company Tax

Indirect taxes:
- Value Added Tax (VAT)
- Customs Duty
- Excise duty (Sin Tax)

5.3.5 **Direct taxes:**
Higher personal income taxes
The taxpayers will have to spend more of their income on tax. As a result, government's tax revenue should increase and therefore reducing the budget deficit.
On the other hand, this may create disincentives to work, tax avoidance or even emigration.
This could further reduce the aggregate demand which will increase the budget deficit.
If aggregate demand decreases, it could lead to increase in unemployment, and therefore an increase in government social grant/ benefit payments. Impact more on the higher income group.

(Accept discussion of the Laffer curve to analyse the effect of increased taxes.)

Higher company taxes
Companies will have to pay a higher proportion of their profits to the government and therefore raising tax revenue and reducing the budget deficit.
On the other hand, this might scare away foreign direct investment, resulting in lower tax receipts in the long term which may increase the budget deficit.

Indirect taxes:
Value Added Tax (VAT)
An increase in VAT will generate more revenue for the government and reduce the budget deficit.
On the other hand, higher VAT is likely to cause higher inflation and reduce GDP growth which will lead to higher unemployment and increase in the budget deficit.

Excise duties
An increase in excise duties will increase government revenue and reduce the budget deficit.
But can lead to cost-push inflation and decrease GDP growth in the country causing unemployment to rise and foreign direct investments to decrease, which can lead to the budget deficit to increase.

Candidates must have ONE Direct and ONE Indirect example and look at both positives and negatives in each example. (Accept any other relevant correct answer.)

SECTION C

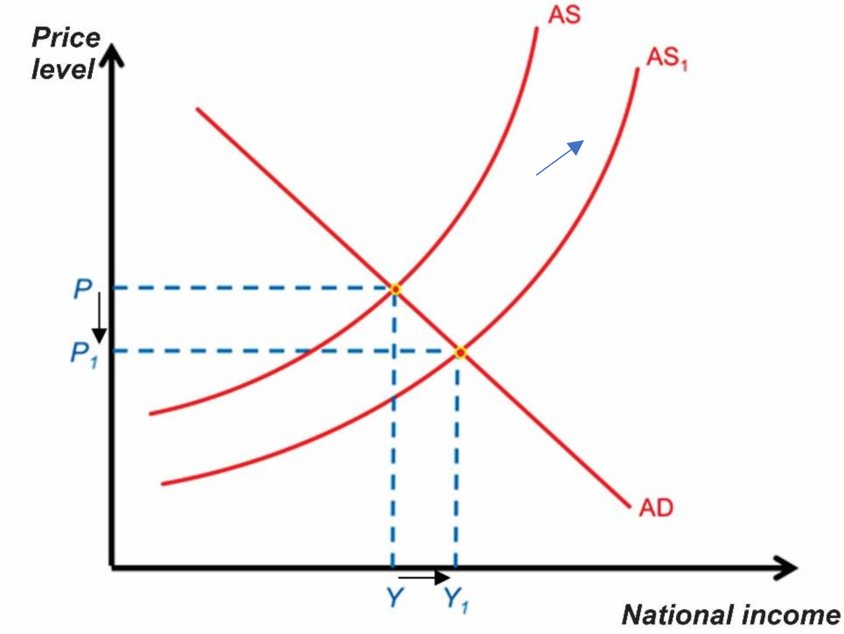
QUESTION 6 DATA RESPONSE

6.1 6.1.1 recession

6.1.2 (a) **Economic growth:**
Is the capacity of the economy to produce more goods and services, measured in real GDP or increase in the productive capacity.

(b) **Economic development:**
Is about improving the standard of living, it is shown by an increase in the UN HDI and increase in the real GDP per capita.

6.1.3 Increase in Aggregate Supply:



Graph mark allocation Max 4
AS rightward shift and arrow = x2 marks
Correctly labelled horizontal (Output/ Real GDP) and vertical axes 2 marks (1 each)

6.1.4 **Positives:** a positive growth rate in Quarter 3 2022 of 4.1% can reduce unemployment and generate more income for households which can increase the multiplier on the economy.
Economic growth generates job opportunities and hence stronger demand for labour.
With more jobs the average households have an income and can increase their standard of living by providing for basic needs.
Negatives: there is no guarantee that economic growth will ultimately lead to economic development.
In order for economic development to take place, the 4,1% economic growth in Quarter 3 of 2022 must lead to an improvement in the living standards of the majority of people.

Candidates must evaluate therefore look at both positives and negatives. (Accept any correct relevant answer.)

6.2 6.2.1 **Arc elasticity of demand** measures the responsiveness of quantity demanded to a price and last between two points on a curve. It takes the elasticity of demand at a particular point on the demand curve, or between two points on the curve. In the concept of arc elasticity, elasticity is measured over the arc of the demand curve.

6.2.2 **arc elasticity:**

Price elasticity of demand: $Q = \frac{60-40}{50}$ $\frac{20}{50}$

$P = \frac{3-5}{4}$ $\frac{-2}{4}$

= (2 / 5) / (2 / 4)

= 4 / 5 **OR** 0,8

(Credit candidates for formula/application of formula max 2 marks)

6.2.3 Price elasticity is **inelastic**. (Since elasticity is below 1)
(Mark with Question 6.2.2)

6.2.4
- Substitutes
- Compliments
- Period of time under consideration
- Proportion of income spent on goods and services
- Definition of a product
- Habit-forming/life-saving substances
- Durability of a good
- Branding/marketing

6.3 6.3.1
- China
- Germany
- United States
- India

6.3.2
- South Africa can advance its national interest and trade relations with China.
- To promote its regional integrated programme and related continental infrastructure projects.
- South Africa's world class internationally competitive construction companies can supply services to the Chinese market.
- China can supply South Africa with top class technology.

(Accept any other relevant correct answer.)

6.3.3 **Methods to promote exports:**

Export subsidies:
- The government can pay the local businesses which export goods a certain amount to compensate for some of their expenses.

Tax concessions:
- South African businesses can get a reduction in taxes on profits and volumes exported and also refunds of the taxes exporters have to pay on their goods in the foreign country.

Tax-free grants:
- These grants can compensate the exporters for the extra costs they incur in exporting.

Identifying markets:
- The state can supply the businesses with information about possible markets, setting up trade shows, and making trade agreements with other countries.

(Candidates not to discuss measures to discourage imports.)

6.3.4 **Impact of a policy of export promotion on SA economy:**

- The size of the foreign market is much bigger than our domestic markets. This enables our local motor industry to produce larger quantities of output.
- More jobs are created in the country, and also more secure employment can be offered with increased opportunities in training in the industry.
- Economic growth is promoted, as the GDP increases as motor industry producers increase their output.
- Exports earn the country foreign currency; this is an injection into the circular flow that adds to the national income.

Assess:
- If currency is too strong, then South Africa is non-competitive and export promotion has no impact on the economy.
- If South Africa's quality of products is low, that will also have no impact if you apply export promotions.

(Max 4 for impact of export promotion policies and max 2 for assessing the impact that it will have on the SA economy.)

Total: 300 marks