



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS
FEBRUARY/MARCH 2009
MEMORANDUM**

MARKS: 300

This memorandum consists of 28 pages.

MARKS: 300**TIME: 180 MINUTES**

SECTION A: COMPULSORY	
QUESTION 1: 50 MARKS - 25 MINUTES	
Topic of this question: SHORT ITEMS	Learning outcomes covered are: LO1 – LO4 (AS1 – AS4)
SECTION B: ANSWER ANY 3 QUESTIONS FROM THIS SECTION	
QUESTION 2: 50 MARKS – 25 MINUTES	
Topic of this question: MACROECONOMICS	Learning outcome covered is: LO1 (AS1 – AS4)
QUESTION 3: 50 MARKS – 25 MINUTES	
Topic of this question: MICROECONOMICS	Learning outcome covered is: LO2 (AS1 – AS3)
QUESTION 4: 50 MARKS – 25 MINUTES	
Topic of this question: ECONOMIC PURSUITS	Learning outcome covered is: LO3 (AS1 – AS4)
QUESTION 5: 50 MARKS – 25 MINUTES	
Topic of this question: CONTEMPORARY ECONOMIC ISSUES	Learning outcome covered is: LO4 (AS1 – AS4)
QUESTION 6: 50 MARKS – 25 MINUTES	
Topic of this question: MACROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES	Learning outcomes covered are: LO1 (AS1 – AS4) LO4 (AS2)
QUESTION 7: 50 MARKS – 40 MINUTES	
Topic of this question: MACROECONOMICS	Learning outcome covered is: LO1 (AS1)
QUESTION 8: 50 MARKS – 40 MINUTES	
Topic of this question: MICROECONOMICS	Learning outcome covered is: LO2 (AS1 + AS3)
QUESTION 9: 50 MARKS – 40 MINUTES	
Topic of this question: ECONOMIC PURSUITS	Learning outcome covered is: LO3 (AS3)
QUESTION 10: 50 MARKS – 40 MINUTES	
Topic of this question: CONTEMPORARY ECONOMIC ISSUES	Learning outcome covered is: LO4 (AS1)

SECTION A (COMPULSORY)**QUESTION 1**

1.1 Various options are provided as answers to the following questions.

- | | | | |
|--------|--|----------|------|
| 1.1.1 | B free floating ✓✓ | | |
| 1.1.2 | A parastatals ✓✓ | | |
| 1.1.3 | C coincident ✓✓ | | |
| 1.1.4 | A $MR = AVC$ ✓✓ | | |
| 1.1.5 | A Competition Commission ✓✓ | | |
| 1.1.6 | C advertising ✓✓ | | |
| 1.1.7 | B dumping ✓✓ | | |
| 1.1.8 | A protectionism ✓✓ | | |
| 1.1.9 | B Critical Infrastructure Programme ✓✓ | | |
| 1.1.10 | C benefits debtors ✓✓ | | |
| 1.1.11 | C uncontrolled pollution ✓✓ | | |
| 1.1.12 | B indigenous ✓✓ | (12 x 2) | (24) |

1.2 Choose, from the list, the word that best describes the statements that follow.

- | | | | |
|-------|-----------------------|---------|------|
| 1.2.1 | Real flow ✓✓ | | |
| 1.2.2 | Oligopoly ✓✓ | | |
| 1.2.3 | Export promotion ✓✓ | | |
| 1.2.4 | Greenhouse effect ✓✓ | | |
| 1.2.5 | Unregulated market ✓✓ | (5 x 2) | (10) |

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- | | | | |
|-------|------|---------|------|
| 1.3.1 | D ✓✓ | | |
| 1.3.2 | F ✓✓ | | |
| 1.3.3 | I ✓✓ | | |
| 1.3.4 | J ✓✓ | | |
| 1.3.5 | A ✓✓ | | |
| 1.3.6 | H ✓✓ | | |
| 1.3.7 | B ✓✓ | | |
| 1.3.8 | G ✓✓ | (8 x 2) | (16) |

TOTAL SECTION A: 50

SECTION B

Answer any THREE questions from this section in the ANSWER BOOK.

QUESTION 2: LO1 MACROECONOMICS, AS1 – AS4**2.1 Choose the correct word(s) from those given in brackets.**

- 2.1.1 Free rider ✓✓
- 2.1.2 Restrictive ✓✓
- 2.1.3 Public ✓✓
- 2.1.4 Appreciating ✓✓ (4 x 2) (8)

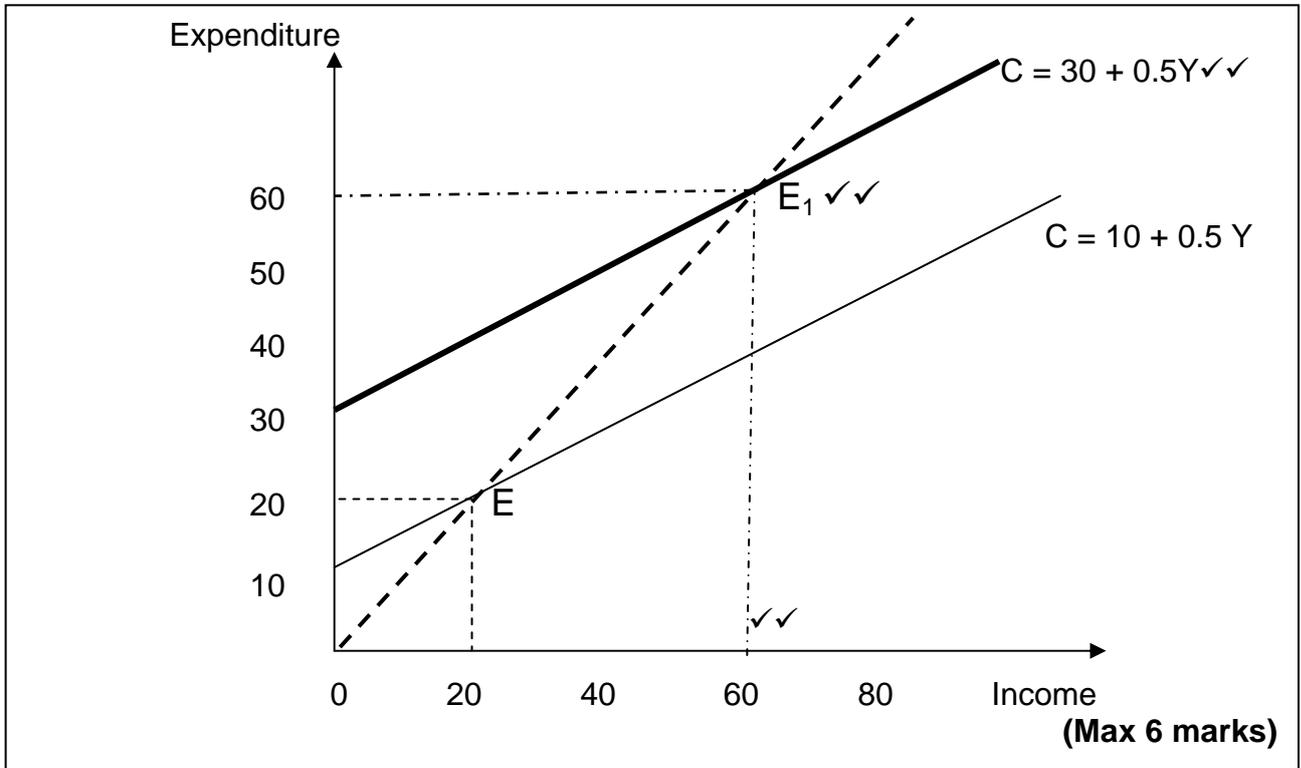
2.2 List any THREE advantages of privatisation.

- Improve efficiency of enterprises ✓✓
- Broaden the tax base ✓✓
- Attracts foreign investment ✓✓
- Lessens pressure on government budget ✓✓
- Promotes BEE / increased share in economy ✓✓
- Provides additional funds to carry out projects ✓✓ (Any 3 x 2) (6)

2.3 Study the following extract and answer the questions that follow.

- 2.3.1 It is a record of all transactions between one country and the rest of the world or record of all transactions relating to goods, services and money across international borders. ✓✓✓ (3)
- 2.3.2
- Capital transfer account ✓✓
 - Reserve account ✓✓ (Any 1 x 2) (2)
- 2.3.3 Portfolio investment ✓✓ (2)
- 2.3.4 Because it is a key export commodity in earning foreign exchange ✓✓✓ (3)
- 2.3.5 Merchandise exports + gold exports – Merchandise imports
(R 399 030 m ✓ + R 35 470 m) ✓ - R 476 545 m ✓ = - R 42 045 ✓✓ (5)
- 2.3.6
- Reduction of gold and foreign reserves. ✓✓✓
 - Increase in liabilities related to reserves/borrowing money to offset the deficit. ✓✓✓
 - Exerts pressure on the financial account in that net inflows of money is required. ✓✓✓ (Any 1 x 3) (3)
- 2.3.7
- Depreciate a country's currency. ✓✓✓
 - Decrease in aggregate demand. ✓✓✓ (Increase interest rates, increase in tax rates, and reduction in government spending, Increase tariffs on imports).
 - Borrowing from IMF ✓✓✓ (Any 1 x 2) (2)

2.4 Copy the graph, indicate the new consumption curve, new equilibrium formed after investment increased by R20 million and describe the multiplier effect of the increase of investment of R20 million on the economy.



In the diagram above, a change in investment of R20 million, with an mpc of (0,5) will result in equilibrium moving from E to E₁ (R20 million – R60 million).

The multiplier is therefore = 2, therefore the change in income with an injection of R 20 million, will be (2 x R20 million = R40 million)

(Max. 4 marks)

The multiplier describes the situation where a change in spending causes a disproportionate change in the level of aggregate income

$$M = \frac{\text{change in } Y}{\text{change in } J}$$

The multiplier effect starts off with unused resources in the economy (e.g.) increase in investment, like construction of roads leads to more jobs. The new workers would then have income to purchase consumer goods which in turn stimulates the demand for goods and services and this results in increased levels of production which further increases the level of employment. This raises income and stimulates greater consumer demand. The size of the eventual change in the income will depend on

mpc (marginal propensity to consume)

(Max. 6 marks)

(16)
[50]

QUESTION 3: LO2 MICROECONOMICS, AS1 - AS3**3.1 Choose the correct word(s) from those given in brackets.**

3.1.1 Market ✓✓

3.1.2 Imperfect ✓✓

3.1.3 Lower ✓✓

3.1.4 Implicit ✓✓

(8)

3.2 List any THREE reasons for unequal distribution of income and wealth.

- Free market system/capitalism ✓✓
- Discrimination (race, gender) ✓✓
- Educational opportunities/Skills/Unequal access to markets ✓✓
- Initial distribution of income ✓✓
- Illness and incapacity ✓✓

Any (3 x 2)

(6)

3.3 Study the following graphs and answer the questions that follow.

3.3.1 A market situation where at least one of the conditions for perfect competition are not satisfied. ✓✓✓

(3)

3.3.2 Short-run ✓✓✓

(3)

3.3.3 The position of MC and MR where $MC = MR$ ✓✓✓

(3)

3.3.4 R, a, b, C ✓✓✓

(3)

- 3.3.5
- In a perfectly competitive market the $AR = MR = P$.
 - A monopoly is confronted with a normal market demand curve, which slopes downwards from left to right $D = AR$.
 - Any point on the monopolist's demand curve (D) is an indication of the quantity of the product that can be sold and the price at which it will trade
 - The MR curve runs below the demand curve with the exception of the first unit,
 - TR increases at a diminishing rate up until a point and then starts to decrease.
 - MR is always lower than AR
 - The percentage increase in quantity demanded is greater than the % decrease in price at all points, therefore the MR will always lower than AR

(Any 3 x 2)

(6)

3.3.6 Will decrease to equilibrium point k ✓✓

(2)

3.4 Discuss merit and demerit goods as a reason for market failures.**Merit goods:**

1. Goods highly desirable for general welfare but not highly rated by the market ✓✓
2. If people had to pay market prices for them relatively too little would be consumed – the market will fail ✓✓
3. E.g. health care, education, radio and TV-broadcasting, skills training, safety, inoculations and car seat belts ✓✓
4. Is a special form of private goods, because few people would pay for education if they had to meet the full cost ✓✓
5. The reason for undersupply of merit goods is that the market only takes the private costs and benefits into account and not the social costs and benefits ✓✓ (Any 4 x 2)

Demerit goods:

1. Regarded as socially harmful for consumption ✓✓
2. Governments often take steps to discourage consumption and ban use of demerit goods ✓✓
3. While the market is willing to supply demerit goods, it tends to oversupply demerit goods ✓✓
4. E.g. addictive drugs, tobacco, alcohol and gambling ✓✓
5. These items may be taxed to reduce consumption or may be banned ✓✓

Some consumers may be unaware of the true cost of consuming them i.e. their negative externalities / demerit goods are regarded as bad for us and we should use less of these goods ✓✓ (Any 4 x 2)

(16)
[50]

QUESTION 4: LO3 ECONOMIC PURSUITS, AS1 – AS4**4.1 Choose the correct word(s) from those given in brackets.**

4.1.1 Ad valorem ✓✓

4.1.2 Development ✓✓

4.1.3 Corridor ✓✓

4.1.4 Economic ✓✓

(8)

4.2 List any THREE advantages of import substitution.

- Increased employment ✓✓
- Bigger variety of products produced / diversification / broader industrial base ✓✓
- Decrease in imports / Positive effect on BoP ✓✓
- Industrial development encouraged ✓✓
- Easy to implement through imposition of tariffs and quotas ✓✓

(Any 3 x 2)

(6)

4.3 Study the following extract and answer the questions that follow.

4.3.1 Services ✓✓

Eskom provides a service in the provision of electricity ✓✓

(4)

4.3.2 Consumer Price index ✓✓ ✓

(3)

4.3.3 Gold mines are deeper than coal mines, therefore it uses a greater % of electricity for ventilation cooling and pumping activities ✓✓ ✓

(3)

4.3.4 Lack of structural changes which are needed to sustain production. ✓✓ ✓ **OR** Increased production costs. ✓✓ ✓

(3)

4.3.5 They are the largest consumers of electricity. ✓✓ ✓

(3)

4.3.6 Economic growth will decline due to interrupted production. ✓✓
Reduction in export goods e.g. gold, can lead to a deficit on the BoP ✓✓

(4)

4.4 Discuss Spatial Development Initiatives (SDI) by highlighting the concept, key objectives, examples and the alleviation of poverty as part of the government's policy to stimulate economic activities in specific areas.

1. **Concept** SDI refers to national government initiative programme aimed at unlocking inherent and underutilized economic development potential ✓✓ of certain specific spatial locations in SA ✓✓ / regional development initiative in SA to attract infrastructure and business investments ✓✓ to neglected and underdeveloped areas ✓✓ (max 2)

2. Involves strategic initiatives by government and its **key objectives** are:
 - Stimulate economic activity in selected strategic locations throughout SA ✓✓
 - Generate economic growth and foster sustainable industrial development ✓✓
 - Create long-term employment in underdeveloped areas with high poverty and unemployment ✓✓
 - Develop projects of infrastructure in certain areas and finance them by way of lending and private sector investment ✓✓
 - Develop the inherent economic potential of certain areas ✓✓
 - Ensure rapid planning and delivery ✓✓
 - Restructure the apartheid-space economy ✓✓
 - Maximize various types of private sector investment ✓✓
 - Exploit SA underutilized location and economic advantages for export-orientated growth of SDIs ✓✓
 - Establish private—public partnerships (PPPs) ✓✓ (max 3 x 2)

3. **Examples:**
 - Maputo Development corridor ✓✓
 - Lubombo Corridor ✓✓
 - Richards Bay SDI ✓✓
 - KwaZulu-natal ✓✓
 - Wild Coast SDI ✓✓
 - Fish River SDI ✓✓
 - West Coast Investment Initiative ✓✓
 - Platinum SDI ✓✓
 - Phalaborwa SDI ✓✓
 - Coast-2-Coast Corridor ✓✓ (max 2 x 2)

4. To foster sustainable industrial development in areas where **poverty and unemployment** are the highest, the SDI focuses on:
 - High-level support in areas where socio-economic conditions require concentrated government assistance ✓✓
 - Where inherent economic potential exists ✓✓ (2 x 2)

(16)
[50]

QUESTION 5: LO4 CONTEMPORARY ECONOMIC ISSUES, AS1-AS4**5.1 Answer the following questions appropriately:**

- 5.1.1 Monthly ✓✓
- 5.1.2 External ✓✓
- 5.1.3 Food ✓✓
- 5.1.4 World Trade Organisation ✓✓ (8)

5.2 List any THREE sources of environment-friendly energy.

- Water ✓✓
- Wind ✓✓
- Solar ✓✓
- Biomass ✓✓ (Any 3 x 2) (6)

5.3 Study the cartoon below and answer the questions that follow.

- 5.3.1 Inflation rate is increasing (soaring) and government wants to intervene in decreasing the inflation rate. ✓✓✓ (3)
- 5.3.2 Person A – Tito Mboweni / Reserve Bank Governor ✓✓ (2)
- 5.3.3 Restrictive Monetary Policy ✓✓✓ (3)
- 5.3.4 Unfavorable (decrease) exchange rate ✓✓✓ (3)
- 5.3.5 StatsSA ✓✓✓ (3)
- 5.3.6 *Positive effect* – higher prices leads to increase tax ✓✓✓
Income tax increases because of increased wages ✓✓✓
(Any 1 x 3)
- Negative effect* – drop in productivity leads to unemployment ✓✓✓
which results in less income being taxed ✓✓✓
(Any 1 x 3) (6)

5.4 Discuss any FOUR reasons why tourism is of economic importance for South Africa.

- *Economic growth* ✓✓ contribution is both direct and indirect with an increase in GDP ✓✓
- *Job creation* ✓✓ SA tourism is a high employer of labour per rand of sector income with a projection of 1,2 million people to be employed by 2010 both directly and indirectly ✓✓
- *Foreign currency* ✓✓ spending by tourists means income to households because of salaries and wages they earn through employment ✓✓
- *Development of infra- and superstructures* ✓✓ government spends vast amounts on infrastructural development in their endeavour to encourage increasing volumes of tourists ✓✓
- *Poverty relief* ✓✓ through sustainable work opportunities for the poorest communities over the long-term (e.g.) walkways, rock art, ablution facilities ✓✓

(Any 4 x 4)

(16)
[50]

QUESTION 6: LO1 – AS4 AND LO2 – AS2, MACROECONOMICS & CONTEMPORARY ECONOMIC ISSUES**6.1 Choose the correct word(s) from those given in brackets.**

6.1.1 Production ✓✓

6.1.2 Externalities ✓✓

6.1.3 Provincial ✓✓

6.1.4 Direct ✓✓

(4 x 2)

(8)

6.2 List any THREE characteristics of a monopoly.

- One seller in the market ✓✓
- Barriers to entry ✓✓
- Regarded as a price maker ✓✓
- Can make economic profit in the long run ✓✓
- They are faced with normal demand curves ✓✓
- They decide on their production levels ✓✓
- They are exposed to market forces ✓✓
- They face substitutes ✓✓
- They may enjoy favourable circumstances ✓✓
- They may exploit consumers ✓✓

(Any 3 x 2)

(6)

6.3 Study the table below and answer the questions that follow.

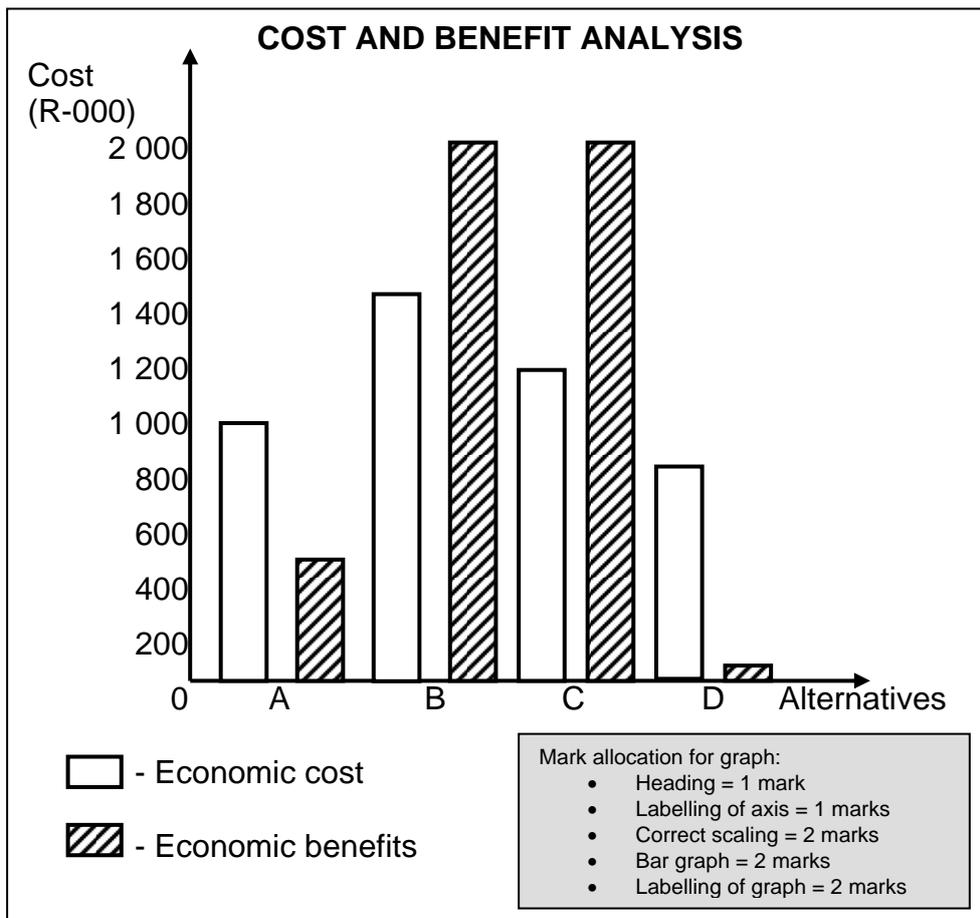
6.3.1 A technique for enumerating and evaluating the total social cost and total social benefits associated with an economic project. ✓✓✓

OR

It is a standard method used to compare the social costs and benefits of alternative projects or investments. ✓✓✓

(3)

6.3.2



(8)

6.3.3

$$BCR_A = \frac{\text{Present value of economic benefits}}{\text{Present value of economic costs}} \checkmark$$

$$= \frac{500\,000}{1\,000\,000}$$

$$= 0.5 \checkmark$$

$$BCR_B = \frac{2\,000\,000}{1\,500\,000}$$

$$= 1.33 \checkmark$$

Alternative B ✓✓

(5)

6.3.4

- In the private sector a comparison needs to be made between the expected private cost and benefits over the estimated time span of a new project ✓✓
- In the public sector a comparison needs to be made between the expected social cost and benefits over the estimated time span of a new project ✓✓

(4)

6.4 Explain any FOUR supply factors that cause international trade.

1. **Natural resources** - are not evenly distributed over the surface of the earth, therefore they can be traded with countries that lack such resources. ✓✓
e.g. South Africa is well endowed with natural resources such as gold, platinum, diamond etc. ✓✓
2. **Climate** - many crops can only be cultivated in certain climatic conditions and in certain types of soil ✓✓
e.g. Brazil is the largest producer of coffee in the world ✓✓
3. **Labour resources** - are not the same everywhere ✓✓
Some individuals have greater ability and aptitude for certain tasks ✓✓
Some countries have developed and perfected a particular skill and aptitude for the production of a certain commodity , therefore their skills will be imported ✓✓
4. **Technology / Capital** - is not always easily obtained in every country ✓✓
Developed countries usually enjoy an advantage over underdeveloped countries ✓✓
Due to lack of capital, countries cannot produce all products they wish to produce / Underdeveloped countries import capital from developed countries ✓✓
5. **Mass production / Specialisation** - Because of specialization countries take advantage of economies of scale ✓✓ and produce at a lower unit cost ✓✓
6. **Cost differences / opportunity cost** – Goods and services can be produced at a lower cost in one country in relation to another ✓✓
The law of comparative cost states that nations will find it profitable to trade with other countries when they have different alternative cost ratios ✓✓
Countries tend to trade when it appears that the cost of the trade is less than the benefits gained ✓✓

(Any 4 x 4)

(16)
[50]**TOTAL SECTION B:****150**

SECTION C

Answer any TWO questions from this section in your answer book.

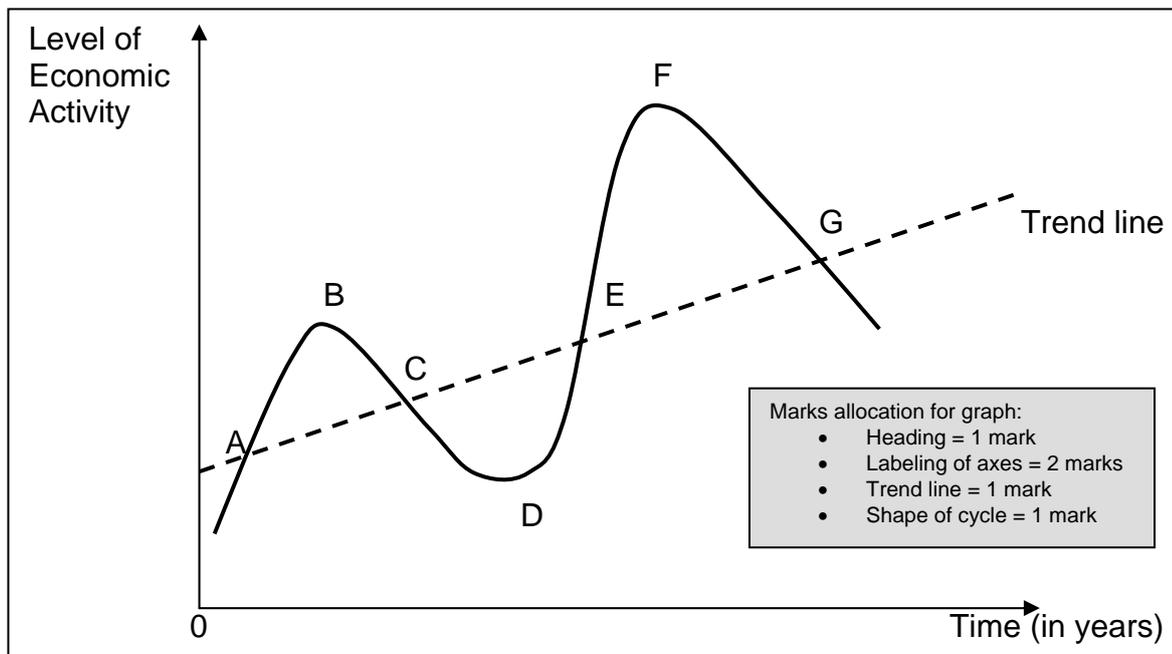
- I. Essay responses should include an introduction, body and conclusion:
 - For the introduction and conclusion 5 marks will be allocated.
 - In addition, 5 marks will be allocated for the interpretation of the topic.
 - A maximum of 40 marks will be allocated for the body.
- II. Other long answer-questions:
 - For the presentation of facts (cognitive context), 5 marks will be allocated.
 - In addition, 5 marks will be allocated for the interpretation of the topic.
 - A maximum of 40 marks will be allocated for the body.

QUESTION 7 (LO1 MACROECONOMICS, AS2)

Write an essay by briefly analysing the composition and features of business cycles and explain how authorities use certain policies to smooth out business cycles.

[50]**INTRODUCTION**

Business cycles refer to continuous periods of expansion✓ and contraction✓ of economic activity. ✓ **(Max. 3 marks)**

BODY**BUSINESS CYCLE**

Discussion of Graph:**NB. Do not credit for the heading if already credited in diagram.****1. Period of Recession (BC) ✓**

- During a recession, jobs are lost and there is a feeling of pessimism ✓✓
- Employment levels drop, and there is a decrease in economic activity, and the economy slows down ✓✓ (Max. 5 marks)

2. Period of Depression (CD) ✓

- During a depression money is in short supply leading to a further decline in spending ✓✓
- There is a negative impact on investment spending ✓✓
- When economic activity is at its lowest, a trough is reached at point D ✓✓
- There is competition for jobs and the cost of production decreases ✓✓
- This encourages foreign trade and leads to a recovery. ✓✓ (Max. 5 marks)

3. Period of Recovery (DE) ✓

- During a recovery, production increases and more jobs are created ✓✓
- Business confidence rises and there is increased spending by firms ✓✓
- There is increased economic activity and the country enters into a period of prosperity ✓✓ (Max. 5 marks)

4. Period of Expansion (AB/EF) ✓

- During a period of expansion there is a great degree of optimism ✓✓
Employment levels rise, salaries and wages rise and spending increases ✓✓
- A peak is reached at point B/F ✓✓
- A larger amount of money is in circulation and this leads to an inflationary situation ✓✓ (Max. 5 marks)

5. Trend ✓

- The cycle continues oscillating along a trend line and in-between upper and lower limits ✓✓
- The trend line that rises gradually represents the average effect on the economy over time ✓✓
- Positively sloped: show that GDP is rising over time on average ✓✓ (Max. 5 marks)

6. Length of business cycle ✓

- It is measured from peak to peak or from trough to trough ✓✓
- *i.e.* it is the number of years it takes for the economy to get from one peak to the next ✓✓
- In diagram above the length of the cycle is from B to F ✓✓
- Longer cycles show strength and shorter cycles show weakness ✓✓
(Max. 5 marks)

7. Amplitude of the business cycle ✓

- The amplitude refers to the vertical difference between a trough (D) and the next peak (B) of a cycle ✓✓
- The larger the amplitude the more extreme changes may occur ✓✓
- *e.g.* during an upswing unemployment may decrease from 20% to 10 % (i.e. 50 % decrease) ✓✓
(Max. 5 marks)

(Max. 25 marks)**POLICIES USED BY THE GOVERNMENT TO SMOOTH OUT BUSINESS CYCLES**

- The new economic paradigm, results in the state using monetary policy and fiscal policy to smooth out the business cycle ✓✓

Fiscal policy

- It has been successfully used to stimulate a depressed economy ✓✓
- *e.g.* by reducing taxes or by increasing the government expenditure ✓✓
- By reducing taxes households have more disposable income which increases consumption spending and stimulates economic activity ✓✓
- Increasing government spending leads to a further injection in the circular flow which stimulates economic activity ✓✓

Monetary policy

- It can be utilized more effectively to dampen an overheated economy with severe inflationary pressures ✓✓
- *e.g.* reduce money supply or by increasing interest rates ✓✓
- This will cause total spending to decrease and the level of economic activity to decline ✓✓
(Max. 10 marks)

CONCLUSION

At times it is difficult to know when to implement the policies because we do not have perfect knowledge of how the economy functions ✓✓

It takes time to implement any policy action and once implemented it also takes time to impact the economy ✓✓

By then it may not be necessary to implement the policy because the economy would have turned e.g. from a trough to recovery phase ✓✓

Business cycle are long term trends and can last from 3 to 5 years or even 10 years ✓✓

Any other relevant point.

(Max. 2 marks)

(45)

Use the following rubric in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

**[5]
[50]**

QUESTION 8 (LO2 MICROECONOMICS, AS1)

Explain with the aid of graphs how short- and long term equilibrium for the individual producer is achieved under conditions of perfect competition.

NOTE: Graphs that should be included in your answer are the following:

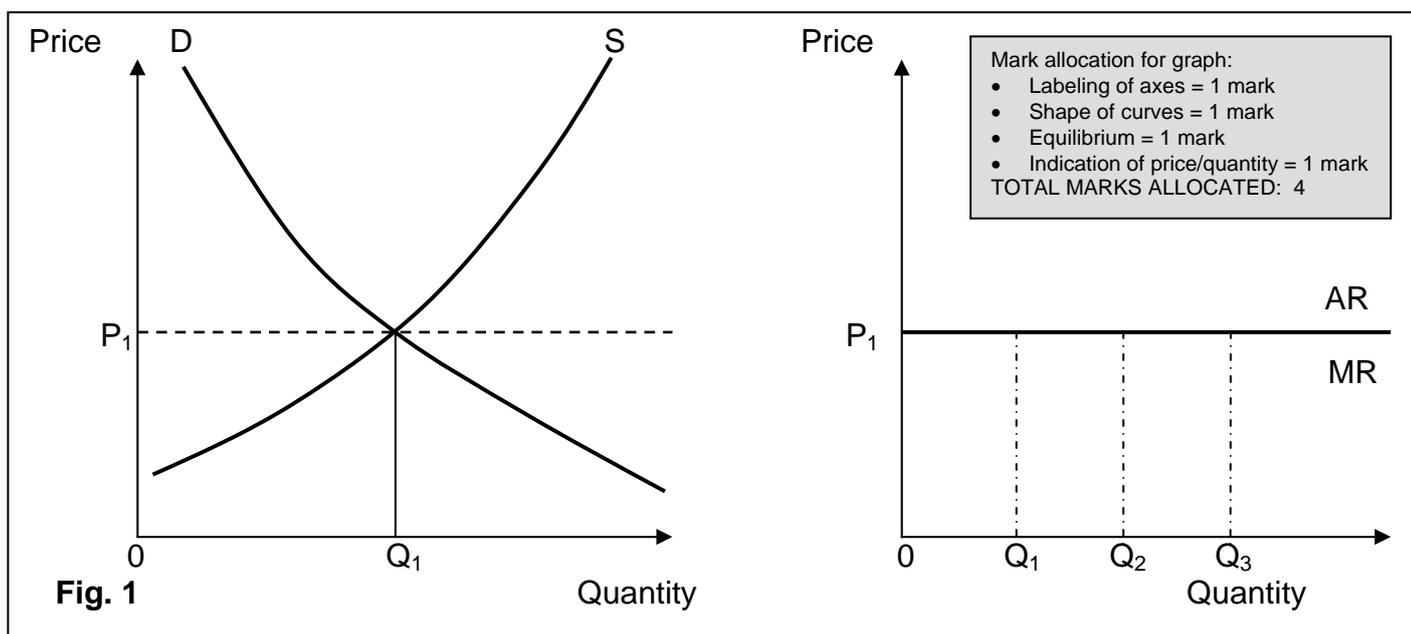
- **Market Supply and Demand as well as Producer Demand**
- **Normal profit**
- **Economic profit**
- **Loss**

[50]

Assumption: Perfect competition is a market structure with a *large number of participants* who are all *price-takers*, there are no entry or exit barriers in the long run, all information is available to both buyers and sellers and a homogeneous product is sold. ✓✓

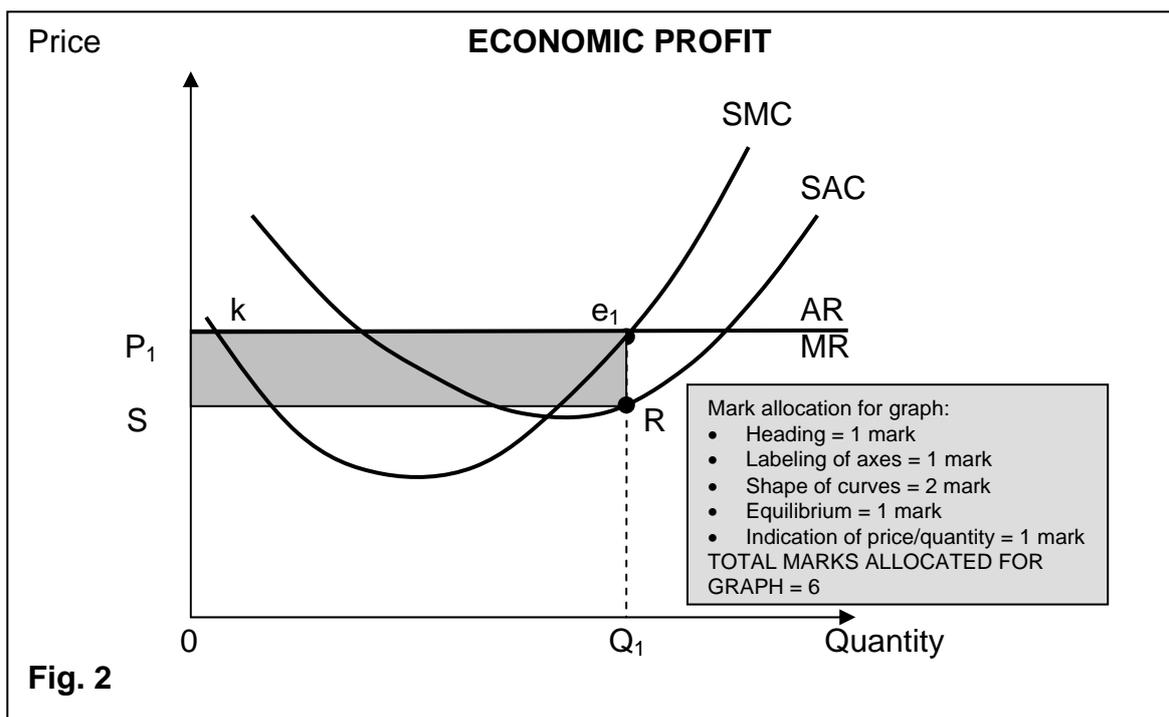
The individual business in the market:

1. In a perfectly competitive market the market price is determined by the interaction between market demand and market supply (see Fig. 1) ✓✓
2. The point of intersection determines the market price P_1 . ✓✓
3. The business can also offer any quantity of products on the market and sell them at the prevailing market price. ✓✓
4. The demand curve for the product of the perfect competitor is a horizontal curve, at the market price. ✓✓
5. For every unit that it sells the perfectly competitive business receives the same price (the market price). ✓✓
6. The average revenue the business receives is therefore equal to the market price and the horizontal demand curve represents the average revenue curve (AR). ✓✓
7. In addition, the revenue from any additional unit the business sells, that is the marginal revenue, is equal to market price P_1 , and the horizontal demand curve therefore also represents the marginal revenue curve (MR) ✓✓
8. Under conditions of perfect competition Price = AR = MR. ✓✓ **(Max. 4 marks)**

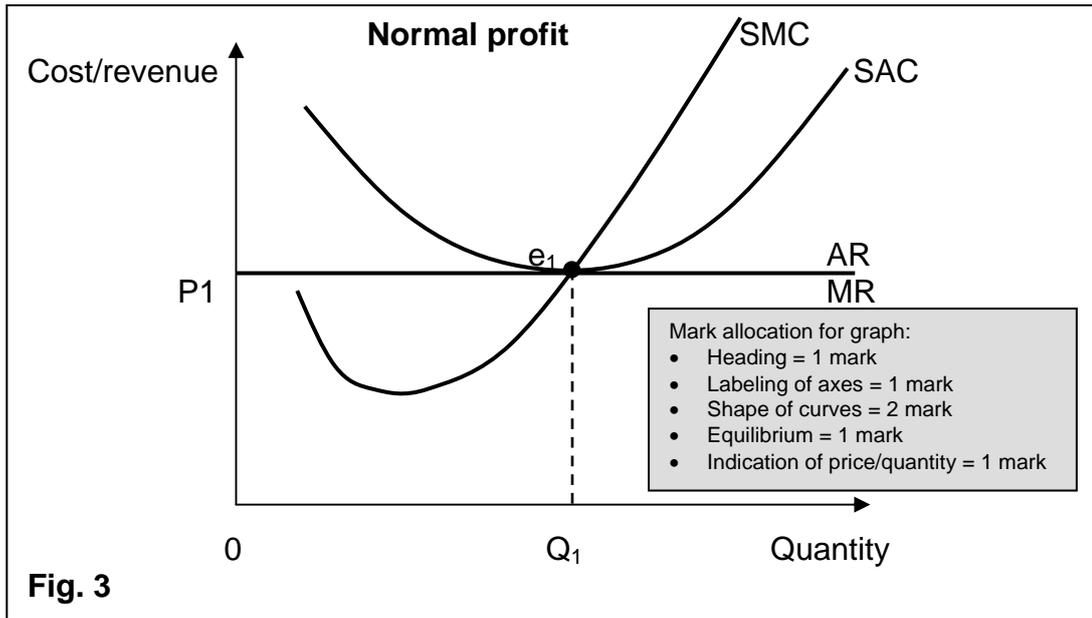


SHORT- AND LONG-TERM EQUILIBRIUM/PROFIT AND LOSS

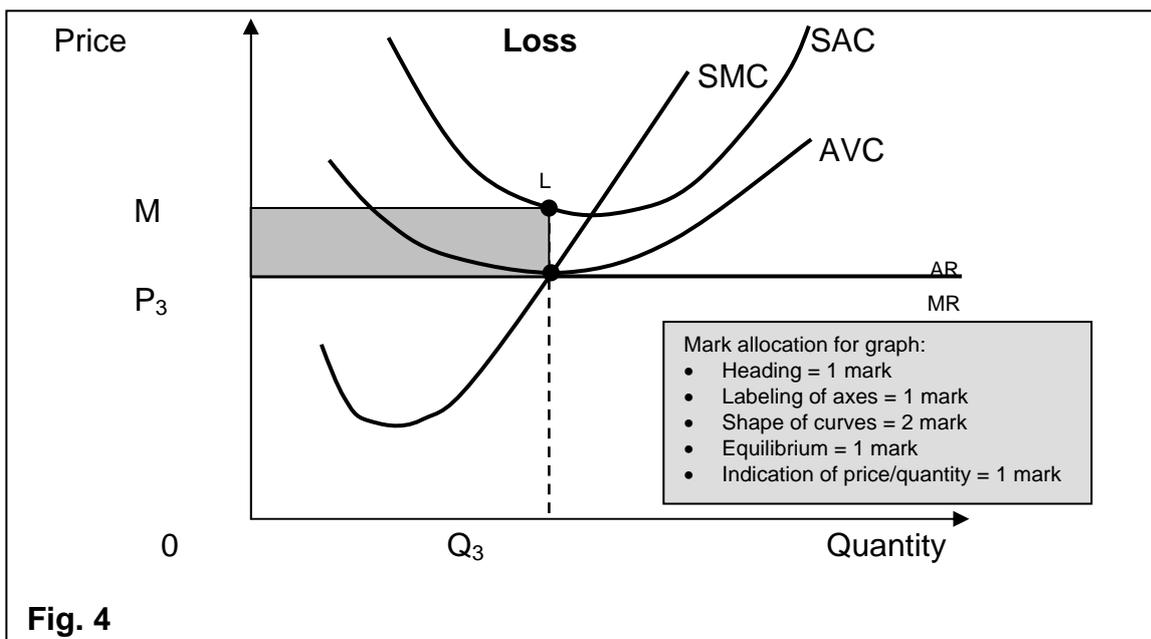
1. A business's production operations can be graphically represented by the short-term cost curves - a set of cost curves that represent a particular plant size
2. Except that short-term marginal cost curve (SMC) and short-term average cost curve (SAC) have been added to represent the business's plant – **see Fig. 2**
3. The business maximizes profit at level of production that is determined by point of intersection of short-term marginal cost curve (SMC) and marginal revenue curve (MR)
4. At the profit maximization point marginal costs are exactly equal to marginal revenue (SMC = MR) which means that business has expanded production to point where production costs per unit are exactly equal to revenue it earns
5. This is the point at which profit is maximized; also known as equilibrium point of the business
6. Important to note that point of intersection where SMC = MR and profit is maximized must lie on ascending section of SMC curve. Point of intersection could also occur on descending section of SMC curve but then it is a point where losses are being made



7. There are several profit or loss possibilities for the perfectly competitive business in the short term
8. Whether the business makes a profit or loss depends on the location of the short-term average cost curve (SAC) in relation to the market price when the business is in equilibrium
9. The SAC curve represents the average total costs in the short term
10. To calculate a business's profit or loss, the total cost of production must be deducted from the total revenue.



- Normal profit:** is the minimum earnings required to prevent the entrepreneur from leaving and using his factors of production elsewhere
- In **Fig. 3** the business is maximizing profit at point e₁ where short-term marginal costs are equal to marginal revenue, but in this case only normal profit is made
- Economic profit:** in **Fig. 2** the minimum point of the short-term average cost curve (SAC) is lower than the market price P₂
- The business is in equilibrium at point e₁ where MR = SMC and business will therefore produce quantity Q₁ at the market price P₁
- Total revenue less Total cost = economic profit P₁e₁RS



16. **Losses:** in **Fig. 4** the minimum point of the short-term average cost curve (SAC) is higher than the market price P_3
17. The business is again in equilibrium at point e_3 where $MR = SMC$
18. If total cost exceeds total revenue, a loss is made at e_3 which is represented by an area $P_3ML e_3$ **(Max 12 marks)**

Use the following rubric in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
3	Candidate has interpreted topic correctly but has not linked facts to topic.
5	Candidate has interpreted topic correctly and has linked facts to topic.

(5)
[50]

QUESTION 9: LO3 ECONOMIC PURSUITS, AS1

Compare and evaluate South Africa's development policies in terms of international benchmarks, and highlight the North/South divide.

[50]

- According to UN classification, SA falls in the medium human development group of countries and ranks 119th out of 177 countries. ✓✓
- Development is a multi-faceted process and each facet is addressed by different kinds of policies ✓✓ (max 2 marks)

Mark allocation:

- 1 mark for mentioning a fact (✓)
- 2 marks for knowledge/description (✓✓)
- 2 marks for evaluation (✓✓)

The following **policies** are evaluated in terms of international benchmarking:

1. Macro-economic policy ✓

- Successful application in interest of poor and wealthy people
- Per capita GDP increased from -1.6 % in 1998 to 3.5 % in 2005
- Illustrates increase in standard of living of SA-population as a whole
- Demand and supply-side and other policies were therefore successful
- Redistribution affected through tax system, cash benefits, in kind benefits, housing and services benefits (Any description X 2 marks) ✓✓
- Evaluation of policy ✓✓

2. Micro-economic policy ✓

- Due to increase in unemployment rate, perception prevails that labour market within parameters imposed by employment equity and BEE has failed
- Employment in informal and formal sectors increased by 32 % (3.6 % per year) which was higher than the average real growth rate of 3.2 %
- Unemployment rate increased sharp due to consolidation of homelands and migration
- Perception of labour market failure is therefore not correct ✓✓
- Evaluation of policy ✓✓
 - E.g. High unemployment rate in 2005 is about double the ratio of 12 % which is the benchmark rate for industrializing countries

3. Social policies ✓

- E.g. social security grants, benefits in kind, services, primary health care, education are examples of government intervention to solve poverty ✓✓
- Evaluation of policy ✓✓
 - E.g. Almost 34 % of SA's population is poor in terms of international benchmark poverty line income (\$2 per day)

4. Redress ✓

- International organizations (UN) articulate importance of empowerment of indigenous peoples of developing countries
- In SA redress measures are essential due to racially discriminatory policies of the past

- SA government passed both empowerment and affirmative action acts and introduced range of measures to ensure redress taking place ✓✓
- Evaluation of redress ✓✓

5. **Black Economic Empowerment (BEE)** ✓

- BBBEE Act No. 53 of 2003 provides legal basis for transformation of SA economy so that number of black people that own, manage and control country's economy can increase significantly and income inequalities will decrease substantially
- Speed and extent of empowerment and transformation agreed upon in charters (agreements) between government and various industries
- DTI published scorecard used to measure empowerment and transformation progress of business and industries
- Elements on scorecards include equity ownership, management and control, employment equity, preferential procurement, enterprise development and social responsibility ✓✓
- Evaluation of BEE ✓✓

6. **Land redistribution and restitution** ✓

- Government aims to redistribute 30 % of agricultural land to previously disadvantaged individuals and groups ✓✓
- Evaluation of redistribution ✓✓

7. **Affirmative action** ✓

- Affirmative action rules described in Employment Equity Act, no 55 of 1998 and apply to employers with 50 or more employees or income turnover above stipulated limits of R2 million in agriculture and R10 million in manufacturing
- Workforce should reflect demographic and gender profile of country
- Also requires employment of proportion of disabled persons ✓✓
- Evaluation of affirmative action ✓✓ **(max 30 marks)**

North-South divide

- Refers to countries of Northern and Southern hemispheres of the world - referring to developed and developing countries ✓ **(def: max 1 mark)**

1. **Unequal standard of living** described by UN's Human Development Index by 3 indicators: ✓✓

- Per capita income ✓ about 87 % of world's total income produced by 15 % of world's population – living in economically developed regions of the world (North) ✓✓ Remaining 85 % of world's population living in only one-fifth of world's total income (South) ✓✓
- Life expectancy ✓ problems like malnutrition, disease and ill health in developing countries a constant battle ✓✓ e.g. life expectancy 48 years compared to 75 years in developed countries ✓✓ HIV/AIDS spreads faster
- Education ✓ low standard of living relate to low levels of education ✓✓ expressed by adult literacy rate ✓✓ LDC literacy rate 46 % in 2005 – SA 86 % ✓✓
- Primary industries ✓ – self sufficient economies in developing countries in South ✓✓

2. **Globalisation inequalities** – North sees it as progress – South disappointed in 3 areas: ✓✓
- **Poverty** ✓ growing gap between rich and poor (Africa) ✓✓ number of poor people rose by 100 million since 1987 (\$1 per day) ✓✓ since 1994 rose only in Africa
 - **Growth** ✓ honest developing countries who keep inflation down and balance their budgets do not attract FDI ✓✓ emerging market countries with financial instability do receive financial help – multinational organizations do not know how to handle financial crisis ✓✓
 - **Trade** ✓ rich countries subsidise production of agricultural goods, making it difficult for developing countries to compete ✓✓ but insist that developing countries eliminate tariffs on manufactured goods – feel marginalized by this ✓✓
3. **Environment** – threats of major crisis in regional and world environments in North and South ✓✓
- **Northern countries:** mass consumption – burn massive amounts of oil and coal – damaging ozone layer ✓✓ developing countries in Africa affected more than in the North ✓✓ Kyoto Protocol requires countries to reduce greenhouse gases ✓✓ challenges faces air pollution, water pollution, noise pollution and toxic waste ✓✓
 - **Southern countries:** focus on agriculture, soil conditions, adequate rainfall and health of crops crucial ✓✓ degradation and depletion of land, water and vegetation main environmental problems ✓✓ inability of these countries to produce sufficient food cause hunger and malnutrition ✓✓ Sustainable development ✓

(max 14 marks)

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic
3	Candidate has interpreted topic correctly but has not linked facts to topic.
5	Candidate has interpreted topic correctly and has linked facts to topic.

(5)
[50]

QUESTION 10: LO4 CONTEMPORARY ECONOMIC ISSUES, AS3

‘The environment is under pressure because human claims on the environment are more than what nature can provide for on a long-term basis’.

Analyse the state of the environment, highlighting the policy measures by government to ensure sustainability.

[50]

- The environment is under pressure because of **increasing population numbers** as a result of the high birth rates in developing countries ✓✓
- **Excessive consumption** in developed countries is 30% higher than the amount that nature can provide on a sustainable basis ✓✓
- The activities of humans put demands on the natural environment in two ways, through **inputs** ✓ (provision of resources) and **outputs** ✓ (production of waste).
- Environmental sustainability means the ability of the **environment to survive** its use for economic activity ✓✓
- Aims at **achieving social efficiency** with regard to environmental sustainability ✓✓
- Sometimes government intervention does not get the desired results and the government has to take **direct control** ✓✓

Pollution ✓

- The introduction of waste matter into the environment, both directly and indirectly ✓✓
- Production and consumption of goods and services lead to unwanted residuals ✓✓
- Pollution occurs when the flow of residual emissions resulting from human activity exceeds the natural environment’s capacity to absorb them ✓✓
- Technology and the control of pollution have cleaner environmental effects than previous technologies ✓✓
- (e.g.) electricity produced from coal and fossil fuel energy ✓✓
- Policies include **granting property rights** ✓ people care for the things that belong to them and will try and use them as profitably for as long as possible ✓✓ If property rights can be expanded to common goods such as clean air, those suffering from pollution can charge the polluters for the right to pollute ✓✓ The principle of the polluters paying victims to reduce pollution is sometimes followed by government ✓✓ (e.g.) in terms of the **Kyoto Protocol**, the developed countries agreed to provide financial assistance to developing countries because they cause less pollution ✓ The developed countries therefore pay for the right to pollute ✓✓
- **Marketable permits** ✓ each business is given a license (permit) to emit a share of the chemical pollutants ✓✓ in developed countries the business who obtain these licenses or permits or credits, can trade them in a permit market ✓✓
- **Command and control (CAC)** ✓ measures entail the setting of maximum permitted levels of, (e.g.) emission (carbon dioxide), or resource use (tons of fish) or minimum acceptable levels of environmental quality (in plantations) ✓✓

Conservation ✓

- Human activities affect the environment, not only because they cause pollution but also because they tend to over-utilise it ✓✓
- Conservation is used for botanical parks, game parks, museums and any place of historical interest ✓✓
- **Charging for the use of the environment** ✓ the government levies a fee on consumers and producers for the waste (**solid, liquid, gas**) they produce and dump in the environment ✓✓ The best results are obtained if these charges are proportional to the waste produced ✓✓
- **Education** ✓ plays a major role in improving people's capacity to manage the environment ✓✓ Pressure groups such as the Green Party and Friends of the Earth have forced industries to encourage managers to integrate environmental responsibility into all their business decision making ✓✓

Preservation ✓

- Means to keep something intact ✓✓
- Some resources are not only non-renewable but if lost, irreplaceable ✓✓
- (e.g.) ecological systems, heritage sites ✓✓
- Government can intervene in order to preserve environmental assets through subsidies, control measures, or to buy or expropriate certain assets ✓✓
- **Voluntary agreements** ✓ rather than imposing laws and regulations, the government can seek to enter into voluntary agreements with businesses for them to cut pollution ✓✓

Externalities ✓

- Are the costs and benefits that are captured by market transactions and can be either positive or negative ✓✓
- Negative externalities such as air and water pollution will be oversupplied in the market ✓✓
- If businesses are expected to spend a certain amount of money on equipment that reduces pollution, the expenditure on such pollution abatement (reduction) equipment could provide positive externalities to others. ✓✓
- The major economic role of governments with regard to the environment is to correct the inefficiencies emanating from externalities. ✓✓
- **Environmental taxes** ✓ a tax could be imposed on the output (or consumption) of a good, wherever external environmental costs are generated ✓✓ These are known as **green taxes** ✓ To achieve a socially efficient output, the rate of tax should be equal to the **marginal external cost** ✓✓
- **Environmental subsidies** ✓ an alternative is to provide subsidies for activities that reduce environmental damage ✓✓ The cost to reduce or prevent the harmful effects is recovered from the proceeds of taxation ✓✓ (e.g.) encourage production of environment friendly substitutes, such as **unleaded petrol** ✓ and to encourage recycling of waste, such as bottles, cans and cardboard ✓

Max 45 marks

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects of topic (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

Accept all relevant alternatives where appropriate.

(10)

[50]

TOTAL SECTION C: 100

GRAND TOTAL: 300