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# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

**SENIOR CERTIFICATE/  
NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2020**

**MARKING GUIDELINES**

**MARKS: 150**

**These marking guidelines consist of 21 pages.**

**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 C – amplitude ✓✓
- 1.1.2 B – China ✓✓
- 1.1.3 D – 0,4 ✓✓
- 1.1.4 B - Medium-term Budget Policy Statement ✓✓
- 1.1.5 C – M3 ✓✓
- 1.1.6 D – labour resources ✓✓
- 1.1.7 A – prime ✓✓
- 1.1.8 A – tax on alcohol ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 D – spending that takes place irrespective of the level of income ✓
- 1.2.2 E – the smoothing of business cycles using monetary and fiscal policy ✓
- 1.2.3 H – official rules and regulations that can hinder service delivery ✓
- 1.2.4 F – ensures the supply of standardized articles through an automated mechanical process ✓
- 1.2.5 C – focus on the acquisition of skills ✓
- 1.2.6 I – selling of goods in another country at very low prices where the local industry cannot compete ✓
- 1.2.7 G – increase in a country's production capacity ✓
- 1.2.8 B – coordinates government actions to increase the competitiveness of South African businesses ✓ (8 x 1) (8)

**1.3 GIVE THE TERM**

- 1.3.1 Economically active population ✓
- 1.3.2 Philips curve ✓
- 1.3.3 Special Drawing Rights ✓
- 1.3.4 Sanctions / trade embargo / boycotts / tariffs / ban / import tax / quotas ✓
- 1.3.5 Moral suasion ✓
- 1.3.6 Urbanisation ✓ (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

Answer TWO of the three questions in this section in the ANSWER BOOK.

**QUESTION 2: MACROECONOMICS**

2.1 Answer the following questions.

2.1.1 **Name any TWO sources of state revenue.**

- Tax (Personal income tax / Capital gains tax / Value Added Tax / Customs duties / Fuel levy / Excise duties) ✓
- Income from property rental ✓
- Income from privatisation of state assets ✓
- Profits from SOEs ✓
- Donations ✓
- Loans ✓

(Accept any other correct relevant response) (2 x 1) (2)

2.1.2 **What is the purpose of the *residual item* when the expenditure method is used to calculate national income?**

The residual item takes into account errors and omissions that may have occurred in order to balance the GDP and GDI equation ✓✓

(Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Which level of government develops policy and coordinates services across all nine provinces?**

National / Central ✓ (1)

2.2.2 **Name ONE macro-economic objective of the state.**

- Economic growth ✓
  - Full employment ✓
  - Economic equity ✓
  - Price stability ✓
  - Exchange rate stability ✓
  - Balance of Payments equilibrium ✓
- (1)

2.2.3 **Briefly describe the term *accountability*.**

The duty of an individual or organisation is to explain its decisions and actions and accept responsibility for its behaviour ✓✓

(Accept any other correct relevant response) (2)

**2.2.4 How will the government benefit from privatising state-owned enterprises?**

- Generate additional funds for the government to provide more goods and services ✓✓
- The tax base will be broadened, increasing corporate tax to ensure an increase in income for the government ✓✓
- It can lead to greater efficiency in the economy because the wage bill is coming down and allows government to be involved in a greater variety of services ✓✓
- The government can use privatisation to promote broad-based black economic empowerment ✓✓

(Accept any other correct relevant response)

(2)

**2.2.5 Why is the *pricing policy* a problem for the government in respect of the provisioning of goods and services?**

- State-owned enterprises do not work within the market system of demand and supply creating problems in determining the price for public goods and services ✓✓
- Community goods are provided free of charge, because it is difficult to attach a price due to its non-excludability and non-rival characteristics ✓✓
- User-charges: government loses income due to motorists failing to pay e-tolls, leading to tax evasion ✓✓
- If the price of a product or service increases sharply it would lead to a misallocation of resources ✓✓ for example water and electricity ✓
- When government considers covering the cost of a service with charges, difficulties may arise when relatively high fixed costs are involved ✓✓ such as public rail or bus transport, where direct and indirect subsidies would cover part of the cost ✓✓

(Accept any other correct relevant response)

(Any 2 x 2)

(4)

**2.3 DATA RESPONSE**

**2.3.1 Which item in the current account is unique to South Africa?**

Net gold exports ✓

(1)

**2.3.2 Name the missing item A from the current account in the table above.**

Current transfers ✓

(1)

**2.3.3 Briefly describe the term *capital transfer account***

It is a net amount and includes all transactions and grants relating to the ownership of fixed assets, debt forgiveness and the value of household and personal effects and financial claims and liabilities of migrants ✓✓

(2)

**2.3.4 Explain ONE factor that would influence demand to reduce the deficit in the balance of payments?**

- An increase in the repo rate affect interest rates and leads to a decrease in import spending ✓✓
- Government incentives are applied to substitute imports ✓✓
- Import control (tariffs and quotas) reduce the demand ✓✓
- Certain exchange controls have been retained by the central bank to ration foreign exchange and led to a decrease in the demand ✓✓

(Accept any other correct relevant response)

(2)

**2.3.5 Determine the value of the trade balance. Show all calculations.**

Merchandise exports	1 175 547 ✓
<u>Plus</u> net gold exports	(+) 71 678 ✓
<u>Minus</u> Merchandise imports	(-) <u>1 222 944</u> ✓
	R24 281m ✓

(4)

**2.4 Briefly explain *leading* and *composite indicators* as features underpinning forecasting of business cycles.****LEADING INDICATORS**

- When these indicators rise, the level of economic activities will also rise a few months later ✓✓
- Leading indicators give consumers, businesses and the state a glimpse of the direction in which the economy is heading ✓✓
- Leading economic indicators are also important for investors, because they are used to predict the future of the economy ✓✓
- e.g. job advertising spaces, inventory and sales ✓ (Max 4)

**COMPOSITE INDICATORS**

- A summary of the various indicators of the same type into a single value ✓✓
- All three indicators could be calculated as a single composite indicator to benchmark a country's economic performance ✓✓
- E.g. find a value for a composite leading, coincident and lagging indicator ✓ (Accept any other correct relevant response) (Max 4)

(2 x 4)

(8)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

**2.5 Analyse the impact of a devaluation of the rand on the economy.**It will affect the economy positively because:

- exports are cheaper which allows the country to be more competitive ✓✓
- there will be an increase in production which will lead to job creation ✓✓
- an increase in exports will lead to an improvement in the Balance of Payments (reduced deficit) ✓✓
- an increase in aggregate demand will lead to economic growth ✓✓
- it allows central banks to cut interest rates which will stimulate the economy ✓✓

It will affect the economy negatively because:

- it causes inflation which will make imports more expensive ✓✓
- it reduces the purchasing power (reduced real wages) of South Africans travelling abroad ✓✓
- it can scare off potential investors because their assets will decrease in value which can result in capital flight (disinvestment) ✓✓
- debts in foreign currency will impact negatively on the cost of repayments ✓✓

(Accept any other correct relevant higher order response) (Max 8)  
 (A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)  
**[40]**

**QUESTION 3: ECONOMIC PURSUITS****3.1 Answer the following questions.****3.1.1 Name TWO indicators related to foreign trade.**

- Terms of trade / Export and import ratio ✓
- Exchange rate ✓
- Balance of Payments ✓
- Interest rate differential ✓

(Accept any other correct relevant response)

(2 x 1) (2)

**3.1.2 What is the purpose of the Expanded Public Works Programme?**

It offers employment to marginalized groups that are currently unemployed ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

**3.2 DATA RESPONSE****3.2.1 Identify the economic indicator that reflects the average earnings for each person in the country.**

GDP per capita ✓

(1)

**3.2.2 Name ONE international institution that requires South Africa to standardise their economic indicators.**

- United Nations ✓
- World Bank ✓
- International Monetary Fund ✓

(1)

**3.2.3 Briefly describe the term *real gross domestic product*.**

The total value of all final goods and services produced in the borders in the country where changes in price levels (inflation) have been taken into account ✓✓

(Accept any other correct relevant response)

(2)

**3.2.4 How is the unemployment rate determined in the country?**

The number of unemployed people expressed as a percentage of the labour force ✓✓

OR

$$\frac{\text{number of unemployed people}}{\text{EAP (labour force)}} \times 100 \checkmark$$

EAP (labour force) ✓

(Accept any other correct relevant response)

(2)



**3.2.5 Why is it necessary for South Africa to standardize its economic indicators according to international requirements?**

- It is important that a country should have the ability to compete successfully internationally and sustain improvements in real output and wealth ✓✓
- The South African economy is increasingly involved in world markets through exports and imports, experiencing high levels of uncertainty in the global environment which hold back higher growth ✓✓
- Various international bodies set specifications on how indicators should be compiled, which make it easy to compare figures similarly compiled ✓✓
- The System of National Accounts are set according to specifications set by the **United Nations** ✓✓
- South Africa can only benefit from these international organizations, if indicators are readily available ✓✓ e.g. bridging finance from **IMF** ✓ financial development aid from **World Bank** ✓ and child aid from **United Nations Children's Fund (Unicef)** ✓
- The South African government forms part of various **international institutions and NGOs**, that are globally involved in providing financial aid, grants, loans and rendering free services ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

**3.3 DATA RESPONSE**

**3.3.1 Give ONE example of a Spatial Development Initiative in South Africa, not mentioned above.**

Corridor / IDZ ✓

(Accept the name of any other SDI)

(1)

**3.3.2 Which government department is responsible for industrial development in South Africa?**

Department of Trade and Industry ✓

(1)

**3.3.3 Briefly describe the term *Industrial Development Zone*.**

Purpose-built industrial estates that are physically enclosed and linked to an international port or airport ✓✓

(Accept any other correct relevant response)

(2)

**3.3.4 How does the foreign investment grant help to promote regional industrial development?**

It is a cash incentive to assist foreign investors to cover their start-up cost which encourages the establishment of businesses in the different regions ✓✓ e.g. the cost of relocating / purchase of new machinery and equipment ✓

(Accept any other correct relevant response)

(2)

**3.3.5 Why is the new Special Economic Zone programme regarded as an improvement of the current Industrial Development Zones?**

- The SEZ involves a broader range of industrial parks and does not need to be located near a port or an airport as with the current IDZs ✓✓
  - The SEZ involves production for export and domestic use, whereas the IDZ which is focused only on exports ✓✓
  - SEZs offer special tax incentives of 15% which is not applicable to the existing IDZs ✓✓
  - SEZs lead to a more diversified economy ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

**3.4 Briefly explain population growth and life expectancy as characteristics of *demographics as social indicator*.**

**Population growth**

- Demographic information refers to information about the size and age structure of a population, and has important implications for public sector expenditure ✓✓
- Currently the South Africa's population is approximately 58 million ✓✓
- Census is done every few years in order to determine the population growth ✓✓
- The population growth rate is an important indicator to the government in terms of the number of social services that are needed ✓✓
- The size and the change in the population indicate the future labour force and the needed infrastructure ✓✓

**Life expectancy**

- Life expectancy refers to the number of years that an individual is expected to live ✓✓
- It reflects the average age at which people in the country die ✓✓
- In South Africa life expectancy is low due to AIDS or other pandemics ✓✓
- Other demographic indicators include migration rates, population density, mortality rates and birth rates ✓✓
- Assurance companies are interested in life expectancy reductions because it has an impact on premiums and service delivery ✓✓

(Accept any other correct relevant response) (2 x 4) (8)  
(Allocate a maximum of 4 marks for the mere listing of facts/examples)

### 3.5 Evaluate the success of Broad Based Black Economic Empowerment (BBBEE) in the South African economy.

The BBBEE has been successful in South Africa because:

- Implementation of this strategy empowers the country's indigenous people as prescribed by the United Nations and World Bank development initiative ✓✓
- Black-owned enterprises benefit from the government's preferential procurement policies where adhering to the DTI scorecard is essential ✓✓
- It has provided access to capital and training of potential black entrepreneurs focusing on the empowerment of black women ✓✓
- A substantial change took place in the racial composition of ownership and management structures of many businesses ✓✓
- Political stability is achieved in correcting the inequalities of the past and stimulation of participation of disadvantaged groups in the economy ✓✓

The BBBEE has not been successful in South Africa because:

- The majority of the disadvantaged people of this country have not fully benefitted from the policy as poverty and unemployment is still increasing ✓✓
- Firms with poor BBBEE scores are unlikely to partake in government contracts although they employ a large percentage of black people, impacting negatively on other black owned companies ✓✓
- Tenders are awarded through preferential procurement, cost the government more as they are not the providers of services due to outsourcing (because they are not involved in the provision of the goods and services, the quality is compromised) ✓✓
- Of fraud where payment for tenders have been honoured without any product or service delivery ✓✓
- Fraud such as fake BEE certification, misrepresentations to government departments, failure to issue share certificates and theft ✓✓
- The redistribution of wealth was emphasized and has not promote economic growth ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for the mere listing of facts/examples)

(8)  
[40]

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****4.1 Answer the following questions.****4.1.1 Name any TWO forms of economic integration.**

- Free trade area ✓
- Customs union ✓
- Common market ✓
- Economic union ✓
- Monetary union ✓

(2 x 1) (2)

**4.1.2 What is the focus of the National Research and Development Strategy?**

Focuses on enhanced innovation; research in science, engineering and technology; development of human resources; transformation ✓✓

(Accept any other correct relevant response) (1 x 2) (2)

**4.2 DATA RESPONSE****4.2.1 Identify the exogenous reason for business cycles in the information above.**

A / climatic conditions resulting in droughts and floods ✓ (1)

**4.2.2 Name any ONE type of business cycle.**

- Kitchin ✓
- Jugler ✓
- Kuznets ✓
- Kondratieff ✓

(Accept any other correct relevant response) (1)

**4.2.3 Briefly describe the term *business cycle*.**

Successive periods of increasing or decreasing economic activity ✓✓

(Accept any other correct relevant response) (2)

**4.2.4 Why does the endogenous school of thought encourage government intervention in the economy?**

- Markets are unstable, therefore government should intervene in the economic processes to stabilise the economy (to smooth out peaks and troughs) ✓✓
- The price mechanism fails to coordinate supply and demand in the product and factor market ✓✓

(Accept any other correct relevant response) (2)

4.2.5 **How can the Reserve Bank use a demand-side policy to dampen (contract) the economy?**

- The Reserve Bank will use a restrictionary monetary policy to reduce economic activity or to reduce inflation ✓✓
  - Use the monetary policy to increase the interest rate to decrease the money supply ✓✓
  - Increasing the cash reserve requirement which results banks having less money to lend ✓✓
  - Selling government bonds to banks to reduce liquidity (open market transactions) ✓✓
  - Pursue banks to limit the amount of credit given to consumers (moral suasion) ✓✓
  - SARB could temporarily intervene by buying or selling foreign currency to stabilise the value of the rand ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Which international organisation encourages free trade?**

World Trade Organisation ✓ (1)

4.3.2 **Name the term that relates to the worldwide integration of economies through trade.**

Globalisation ✓ (1)

4.3.3 **Briefly describe the term *protectionism*.**

A policy that governments impose to protect local producers against the unfair effects of foreign competition ✓✓  
(Accept any other correct relevant response) (2)

4.3.4 **Explain the impact of protection on the value of the rand.**

The rand (currency) will appreciate when the exchange rate improves due to a negative trade balance where protectionism measures were imposed to correct the deficit on the Balance of Payments ✓✓  
(Accept any other correct relevant response) (2)

4.3.5 **How would consumers benefit from a policy of free trade?**

The consumer:

- enjoy freedom of choice to buy anywhere in the world / they are not limited to buy locally produced goods ✓✓
  - purchases products for less when other countries produce some items cheaper (reduced prices) ✓✓
  - welfare is increased because some prefer to buy foreign goods rather than domestic goods ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.4 **Briefly explain *good governance* and *investment in social capital* as benchmark criteria for regional development.**

GOOD GOVERNANCE:

- Regional development strategies should be managed effectively and free of corruption ✓✓
- Must be supported by democratic decision-making that should not be compromised by nepotism and secrecy / appoint people with correct skills ✓✓
- Involves transparency where all role-players should be consulted ✓✓
- Proper financial management and control is essential to meet the aims set by government ✓✓

INVESTMENT IN SOCIAL CAPITAL:

- Regional development focuses on the principle of: *of the people, for the people, by the people* ✓✓
- Development should be addressed from below where most urgent human needs exist ✓✓
- Total development covers all human life including education, health and nutrition ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples) (2 x 4) (8)

**4.5 Evaluate the success of import substitution as a South African trade policy.**

Import substitution has been successful as trade policy by:

- promoting initiation and growth of local industries ✓✓
- creating a gap for investment within domestic boundaries ✓✓
- redirecting resources to the production of goods leading to formation of new industries ✓✓
- leading to increased profits which impacted positively on savings, investment and capital formation ✓✓
- boasting domestic industrialisation that enhanced demand for labour intensive industries that created job opportunities by using the latest technology ✓✓
- increasing the resilience to global economic shocks by building economic stability and sustainability ✓✓
- facilitating urbanisation through expanding industries ✓✓
- restricting imports created an increased demand for locally produced products ✓✓

Import substitution was unsuccessful as trade policy because:

- it led to a lack of external competition that affected the efficiency of infant industries – negatively affecting growth ✓✓
- it failed to meet the needs of a growing domestic industry that resulted in black markets (illegal markets) ✓✓
- financial leakages took effect reducing government revenue and overall capital base of the economy ✓✓
- trade protection due to import substitution led to overvalued exchange rates causing a rise in domestic prices ✓✓
- it forced government to spend more on subsidising industrial investment. Inflation followed ✓✓
- capital and entrepreneurial talent are pulled away from industries and developing countries to countries who have a comparative advantage in production ✓✓
- the total amount of imports are not reduced, as South Africa still imports specialised products, as well as capital (loans) and intermediate goods to produce goods locally ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for the mere listing of facts/examples)

(8)  
[40]

**TOTAL SECTION B: 80**

**SECTION C**

Answer any ONE of the two questions in this section.

**QUESTION 5: MACROECONOMICS**

- **Discuss the role of markets in the circular flow.** (26 marks)
- **How can the business sector contribute more positively to the economy?** (10 marks) [40]

**INTRODUCTION**

- Markets coordinate economic activities and determine prices for goods and services ✓✓ /
- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓  
(Accept any other relevant introduction) (Max 2)

**MAIN PART****Goods/Product/Output markets ✓**

- These are markets for consumer goods and services ✓✓
- In economics a distinction is made between goods and services:
- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
  - Buying and selling of goods that are produced in markets, include:
    - Capital goods market for trading of buildings and machinery ✓✓
    - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods ✓✓
  - Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets ✓✓
  - Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditures and taxes on the product market ✓✓

**Factors/Resources/Input markets ✓**

- Factors of production are bought and sold in the factor market ✓✓
- The factor market includes the labour, property and financial markets ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

**Financial markets ✓**

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓
- Banks, insurance companies and pension funds form part of the financial market ✓✓



**Money markets ✓**

- In the money market, short-term loans and very short-term funds (less than 3 years) are saved and borrowed by consumers and business enterprises ✓✓
- Products sold in this market are bank debentures, treasury bills and government bonds ✓✓
- The SARB is the key institution in the money market ✓✓

**Capital markets ✓**

- In the capital market long-term funds (3 years or longer) are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

**Foreign exchange markets ✓**

- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
  - These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
  - The most important foreign exchange markets are in London/New York/Tokyo ✓✓
  - The SA rand is traded freely in these markets when a person buys travellers' cheques to travel abroad ✓✓
  - Imports and exports are real flows and they are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓
- (Accept any other correct relevant response) (Max 26)

**ADDITIONAL PART****How can the business sector contribute more positively to the economy?**

The business sector can contribute more positively by:

- investing more in labour intensive projects with the focus on in service-training and skills development of workers ✓✓
  - re-investing their profits in gross capital formation programmes ✓✓ equipment, tools, transportation assets and electricity ✓
  - expanding their business operations and investing in the latest technology to ensure an upliftment of the quality of factors of production needed for production ✓✓
  - diversifying their business operations by bringing in a differentiated product offering within or outside the range they produce ✓✓
  - supporting South African businesses in terms of procuring raw materials and increase the market share for South African produced goods and services locally and abroad ✓✓
  - ensuring the existence of sound business principles towards a long-term involvement in the economy leading to a positive economic growth rate ✓✓
  - using loans to invest in capital goods like machinery, to ensure mass production at a lower cost thus improving their competitiveness ✓✓
- (Accept any other correct higher order response) (Max.10)

**CONCLUSION**

Markets are critically important institutions in our economic system, because they regulate the market, to safeguard price stability and general business confidence ✓✓

(Max. 2)

(Accept any other correct relevant response)

**[40]**

**QUESTION 6: ECONOMIC PURSUITS**

- Discuss, without graphs, the supply-side policy to promote economic growth. (26 marks)
- Why should government focus more on Small, Medium and Micro-enterprises (SMMEs) to drive the economy? (10 marks)

**[40]****INTRODUCTION**

Supply-side policies focus on supply and its microeconomic components such as competition and potential output to supply goods and services ✓✓

(Accept any other correct relevant response) (Max. 2)

**MAIN PART****1. THE EFFICIENCY AND EFFECTIVENESS OF MARKETS ✓****Efficient**

- If a business achieves its aims of profitability and growth, the business is efficient ✓✓
- Similarly, industries and markets are also efficient when they achieve their aims ✓✓
- In South Africa, the government imposes aims on the markets through law which they are obliged to pursue and if they meet those objectives, they are efficient ✓✓

**Effectiveness**

- Government demands that markets operate in a manner that ensures that more black people are absorbed into the mainstream economy because they were previously excluded ✓✓
- Two Acts were promulgated among others to enforce a preference for black workers and the business of black people ✓✓

The **Employment Equity Act** ✓ This Act prohibits discrimination and requires that the workforce reflects the racial and gender profile of the population ✓✓

- Businesses have to file an employment equity plan with the Department of Labour and inspectors from the department visit the business sites to ensure compliance ✓✓

**Broad-based Black Economic Empowerment ✓**

- This Act provides the legal basis for the transformation of the South African economy ✓✓
- This requires the redress so that the number of black people who own / manage and control businesses in the country ✓✓ can increase significantly and income inequalities can be decreased substantially ✓✓
- Pareto efficiency ✓ means that given the constraints of the effectiveness parameters, it is not possible to change the allocation of resources in such a way that someone is made better off without making someone else worse off ✓✓
- It includes productive and allocative efficiency ✓✓
  - **Competition** ✓ This was increased in the following manner in the markets: By establishing new businesses and recruiting of FDI ✓✓ and the reduction of import restrictions ✓✓ which increased competition from abroad ✓✓
  - In addition, a competition regulatory network was established to enforce competition practices amongst domestic businesses (the Competition Act (1998), Competition Tribunal, and Competition Appeals Court) ✓✓ and in spite of this, the Global Competitive Index shows that South Africa's competitiveness is slipping ✓✓

- **Deregulation** ✓ Private sector power imbalances that inhibit the free operation of markets have been revised and some were even abolished in the mid-1990s ✓✓
- **Privatisation** ✓ Efficiency is improved in terms of quality of services delivered and products delivered ✓✓
- Government maintains its commitment to improve the ease of doing business in South Africa ✓✓
- Exchange control measures were occasionally relaxed but not abandoned by 2012 ✓✓
- The Ease of Doing Business Index shows South Africa is slipping every year ✓✓

### **Business efficiency** ✓

Some measures serve as incentives to increase the effort and efficiency and greater profitability ✓✓

#### • **Taxes** ✓

- The country's corporate income tax is at 28% and small businesses pay a lower rate as long as their income is less than R350 000 over year while the micro-enterprises the turnover is R750 000 ✓✓
- Individual income tax starts at 18% and increase on sliding scale to 40% ✓✓
- The effects of bracket creeping on personal income tax has been attended to in almost every budget with the adjustments in of income brackets ✓✓

#### • **Capital formation** ✓

- The depreciation of capital goods used by businesses is designed to encourage investment e.g. the purchasing of new machinery may be depreciated over four years, 40% in the first year and computers and electronic equipment over three years ✓✓
- Government, through the DTI and the IDC, also provides capital and loans to SMMEs and bigger businesses ✓✓
- These serve as incentives to promote efficiency ✓✓

#### • **Human resources/transformation of education** ✓

- Education receives proportionally the bigger slice of the budget expenditure ✓✓
- Sectoral Education and Training Authorities (SETAs) have to facilitate post-school, work-related training and all these measures are aimed at fostering efficiency ✓✓

#### • **Free advisory services** ✓

- Examples include the development of export markets, managing and running SMMEs, agricultural production, weather forecasts, and preventing and curing animal diseases ✓✓

**2. COST OF DOING BUSINESS ✓**

In South Africa government controls most physical infrastructure components ✓✓

The availability, reliability and cost of infrastructure services play an important role in the financial viability and profitability of businesses ✓✓

- **Transport costs ✓**

- Transport options in the form of air, road, rail and sea transport ✓✓
- Government controls air and rail transport in South Africa ✓✓
- A substantial proportion of cargo and passenger transport is moved by road ✓✓
- Only a reliable rail service that is cheaper than road transport will turn this around ✓✓
- Transport costs within South Africa and between South Africa and its exports destinations are expensive due to the long distances involved ✓✓
- Government has committed to improving the efficiency and reliability of its rail transport services and to making it more affordable ✓✓

- **Communication costs ✓**

- Communications options are cable, signal and mail ✓✓
- Government controls cable (land / fixed) and mail communication services ✓✓
- Cable communication in South Africa is the most expensive in the world but reasonably efficient ✓✓
- The high cost make IT services for businesses and individuals expensive and inhibits global competitiveness ✓✓

- **Energy costs ✓**

The two main forms of energy in South Africa are electricity and liquid fuels ✓✓

- Eskom is a monopoly electricity supplier ✓✓
- In recent years its rates escalated substantially and at times it has been unable to meet the demand for electricity and this undermines the efficiency in the economy ✓✓
- Government announced substantial investments in new electricity capacity ✓✓
- Government regulates petrol and paraffin prices ✓✓
- prices of imported crude oil are linked to high international market prices ✓✓
- High liquid energy prices undermine the efficiency of the economy ✓✓

**3. HUMAN RESOURCES ✓**

- Apply migration policies to retain highly skilled workers and curb inflow of lesser skilled workers ✓✓
- Promote quality education and training to increase labour productivity ✓✓
- Reduce the power of unions in order to encourage greater flexibility in wage and labour practices ✓✓

**4. NATURAL RESOURCES ✓**

- Value, grow and conserve the natural resources of the country ✓✓
- Invest in new discoveries of minerals and other natural resources ✓✓
- Invest in research and technology to increase productivity of natural resources ✓✓

**5. CAPITAL FORMATION ✓**

- Promote private sector investment in manmade capital such as new factories ✓✓
- Use public money efficiently to improve infrastructure, public goods and services ✓✓
- To promote technological improvements to increase the productivity of capital and labour ✓✓
- Encourage foreign investment through the abolishment of exchange controls and other restraints on the free movement of capital ✓✓✓
- Encourage the public to save to provide funding for capital formation ✓✓
- Create a stable business environment that instils confidence and promotes investment ✓✓

**6. ENTREPRENEURSHIP ✓**

- Encourage competition through policies of deregulation and anti-monopoly legislation ✓✓
- Promote an entrepreneurial culture and encourage new business start-ups by providing financial and advisory assistance, entrepreneurial education and training and business-friendly legal environment ✓✓

**7. TECHNOLOGY ✓**

- New scientific knowledge in the form of inventions and innovations are applied ✓✓
- Advanced technology stimulates economic growth and development to produce a wider variety of goods / improve the quality of goods and services / explore and produce new products ✓✓
- It is important for countries to invest money in education, technology and research development ✓✓

(A maximum of 8 marks can be allocated for mere listing of facts/examples)

(Accept any other correct relevant response)

(Max 26)

**ADDITIONAL PART**

The government should focus on SMMEs to drive the economy because:

- the small business sector employs a large part of the labour force compared to other size businesses ✓✓
- the average capital cost of a job created in the SMME sector is lower than in the big business sector ✓✓
- it allows for more competitive markets where consumers will benefit from a wider variety of goods at more competitive (lower) prices ✓✓
- it can adapt more rapidly than larger organisations to changing preferences and trends ✓✓
- often local resources are used which has a ripple-effect in the development of other industries ✓✓
- it provides opportunities for aspiring entrepreneurs, especially those who are unemployed, under-employed or retrenched ✓✓
- workers at the smaller end of the scale often require limited or no skills or training; they learn on the job ✓✓
- subcontracting by large enterprises to SMMEs lends expansion to production processes ✓✓
- it plays a vital role in technical and other innovations which can lead to a world of successful, highly qualified competitors in future ✓✓

(Accept any other correct relevant response)

Max (10)

**CONCLUSION**

The supply-side policy approach can be used to encourage quality and quantity use of factors of production to the best of the economy ✓✓  
(Accept any other correct relevant higher order response)

Max (2)

**[40]****TOTAL SECTION C: 40****GRAND TOTAL: 150**