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basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

MARKING GUIDELINES

NOVEMBER 2021

MARKS: 150

These marking guidelines consist of 21 pages.

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

- 1.1.1 C – implicit ✓✓
- 1.1.2 C – Pareto ✓✓
- 1.1.3 B – kinked ✓✓
- 1.1.4 A – private ✓✓
- 1.1.5 D – core ✓✓
- 1.1.6 B – cultural ✓✓
- 1.1.7 A – recycling ✓✓
- 1.1.8 D – marketable permits ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 F - All factors of production are variable ✓
- 1.2.2 G - Income received from selling one extra unit of output ✓
- 1.2.3 I - A market structure that is dominated by two businesses ✓
- 1.2.4 H - Quantities change without a change in the price ✓
- 1.2.5 B - Represents the cost of an average basket of goods and services ✓
- 1.2.6 D - People travelling through South Africa to get to another destination ✓
- 1.2.7 A - An international agreement aimed at reducing greenhouse gases ✓
- 1.2.8 C - Products that are eco-friendly and can be absorbed by the environment without any harm ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Allocative efficiency ✓
- 1.3.2 Monopolistic competition ✓
- 1.3.3 Demerit ✓
- 1.3.4 Deflation ✓
- 1.3.5 Inflation targeting ✓
- 1.3.6 Biodiversity ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name any TWO objectives of the competition policy.**

- Prevent monopolies from abusing their power ✓
- Regulate formation of mergers and acquisitions who wish to exercise market power ✓
- To stop firms from using restrictive practices like fixing prices, dividing markets ✓

(Accept any other relevant and correct answer) (2 x 1) (2)

2.1.2 **Why is a monopolistic competitive market regarded as a hybrid market structure?**

It is a combination of monopoly and perfect competition (market) ✓✓
(1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **In the above cartoon, identify a barrier to entry used by a monopolistic competitor to increase its market share.**

Investment capital / Branding ✓ (1)

2.2.2 **Name the type of monopoly that is characterised by the use of patents.**

Artificial / legal ✓ (1)

2.2.3 **Briefly describe the term *economies of scale*.**

Economies of scale occur when output increases by more than the percentage increase in inputs / when the cost per unit decreases when output expands ✓✓ (2)
(Accept any other relevant and correct answer)

2.2.4 **How would barriers to entry influence profits in the market?**

New businesses are restricted to enter the market and existing businesses will enjoy economic profit in both short and long run ✓✓ (2)
(Accept any other relevant and correct answer)

2.2.5 Why is it a challenge for monopolies to charge excessively high prices?

- Monopoly is limited by the market demand and consumers may stop buying if prices are too high. ✓✓
- Consumers have limited budgets therefore monopolies cannot charge excessive prices. ✓✓
- Monopolist's product still has to compete for consumers' favour with all other products in the economy. ✓✓
- Price increases are sometimes regulated by the government to protect the consumer ✓✓

(Accept any other relevant and correct answer)

(2 x 2)

(4)

2.3 DATA RESPONSE**2.3.1 Identify the quantity where the individual business will maximise profit.** Q_2 ✓

(1)

2.3.2 Name the market structure illustrated above.

Perfect (competition/market) ✓

(1)

2.3.3 Briefly describe the term *economic profit*.

Occurs when a firm's total revenue exceeds total costs / price (AR) is greater than average cost / the profit made by the business over and above normal profit ✓✓

(2)

(Accept any other relevant and correct answer)

2.3.4 Why does the individual business take the price determined by the industry?

- An individual firm is very small in relation to the industry and has no influence over the market price. ✓✓
- If individual firms were to charge higher prices they may either lose customers or market share. ✓✓
- When firms charge lower prices, they can incur losses. ✓✓

(Accept any other correct relevant response)

(2)

2.3.5 How would the entry of new firms in the industry impact the individual business in the long run?

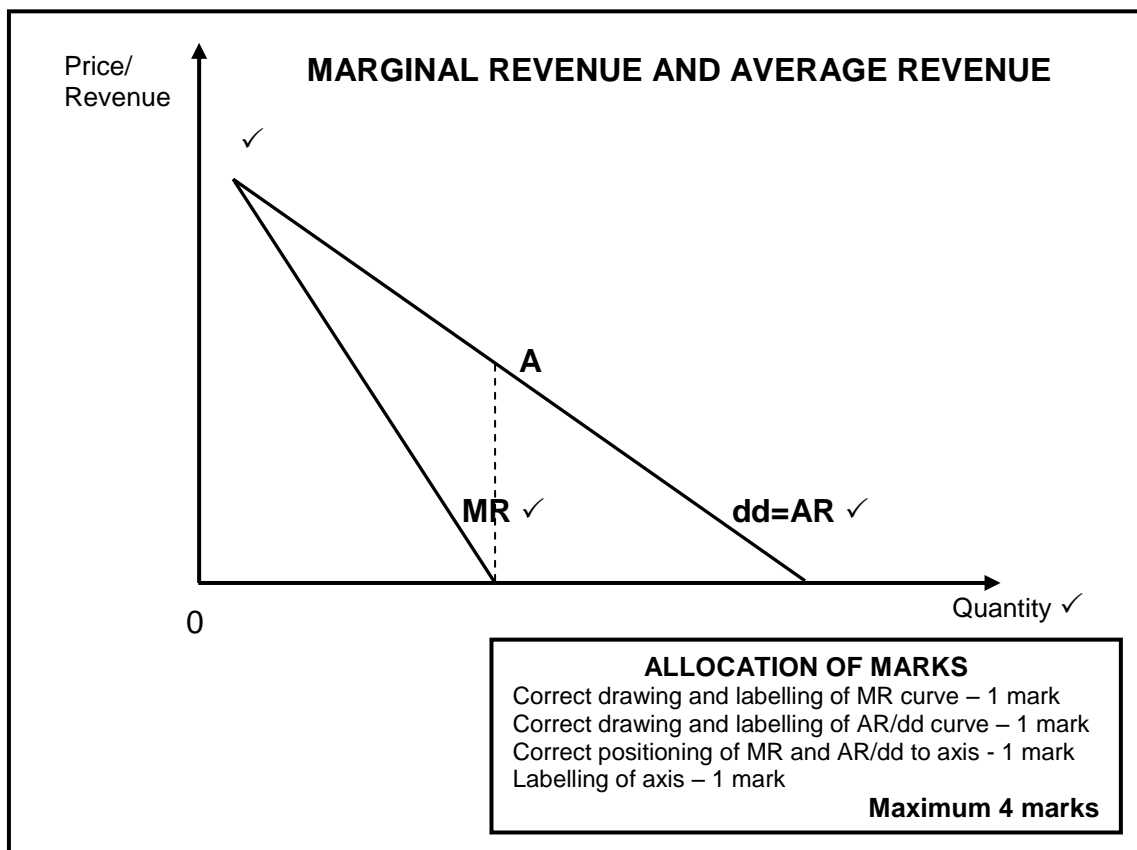
- Competition will increase as the number of competitors in the market increase ✓✓
- Supply of goods and services will increase leading to lower prices ✓✓
- Lower prices will reduce economic profit and individual business will make normal profit in the long run. ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

- 2.4 With an aid of a graph, explain the relationship between marginal revenue and the demand curve (AR) of a monopoly.



- The marginal revenue curve, with the exception of the first unit, will lie below the dd/AR curve ✓✓
- The demand curve (AR) is negatively sloping, which results in more goods being sold at a lower price, hence the additional revenue (MR) will decrease as well ✓✓
- MR curve intersects the horizontal axis at a point halfway between the origin and the AR curve ✓✓
- The monopolist will always set a price above point A on the AR curve, because marginal revenue will be positive ✓✓

(Accept any other correct relevant response)

Maximum 4 marks

(8)

2.5 Analyse measures that may be used by government to promote competition in the economy.

Government can promote competition by:

- initiating a dedicated national inspectorate that deals with the monitoring and enforcement of competition policies ✓✓
- integrating competition policy with national policy objectives such as industrial and macroeconomic policies ✓✓
- reforming and strengthening monopoly laws directed at anti-competitive conduct ✓✓
- reviewing current practices and regulations in corporate governance / reduce red-tape/deregulate to make it easier for new businesses to operate. ✓✓
- ensuring that previously disadvantaged people have an equal opportunity to participate in the economy ✓✓
- allowing imports to increase competition on local products thereby forcing local business to keep their prices low ✓✓
- attracting foreign direct investments to increase competition in local markets ✓✓
- promoting small and micro enterprises (entrepreneurship) to increase competition on large businesses and increase supply of goods in the economy ✓✓
- implementing the competition policy to reduce anti-competitive behaviour, such as price fixing by oligopolies and monopolies ✓✓
- decrease the cost of doing business in South Africa. ✓✓
- decrease corporate tax to encourage new businesses to enter the market. ✓✓
- upgrade, maintain and provide sufficient infrastructure in which businesses can operate. ✓✓
- the government can offer subsidies for skills development to encourage entrepreneurship. ✓✓
- government can fine business for anticompetitive behaviour. ✓✓ (4 x 2)

(Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 **State any TWO criteria for an activity to be regarded as tourism.**

- Purpose of the visit ✓
 - No remuneration ✓
 - Minimum of one night ✓
 - Maximum of one year ✓
 - Travelling distance of more than 160 km ✓ (2 x 1) (2)
- (Accept any other correct relevant response)

3.1.2 **Why is it important to focus on preservation worldwide?**

- Preservation ensures that natural resources are kept intact and can still be used by future generations ✓✓
 - Ecological system, heritage site, wetland, birds, flowers, etc. need to be preserved to avoid extinction ✓✓ (1 x 2) (2)
- (Accept any other correct relevant response)

3.2 **DATA RESPONSE**3.2.1 **Name the factor that caused a sharp decrease in tourism sales between January and April 2020.**

Covid-19 pandemic / lockdown restrictions ✓
(Accept any other correct relevant response) (1)

3.2.2 **Give ONE reason why the government imposes tax on tourist activities.**

- Raise revenue ✓
 - To improve tourist attraction sites / Maintain infrastructure ✓
 - Recover external costs ✓
- (Accept any other correct relevant response) (1)

3.2.3 **Briefly describe the term *inbound tourist*.**

Tourists from other countries who come to visit South Africa ✓✓
(Accept any other correct relevant response) (2)

3.2.4 Explain the role played by tourism to infrastructure development in South Africa.

- Development of tourism sector leads to improvement of social infrastructure in the form of hospitals, public protection services, information service, etc. ✓✓
- Tourism sector also plays an important role in the development of economic infrastructure such as ports, beaches, roads etc., which is shared by residents and visitors alike. ✓✓
- Tourism contributes to improvement of technology in the form of transport and communication. ✓✓
- Energy infrastructure is needed to operate tourist sites ✓✓
- Basic services are required, such as clean water and refuse removal ✓✓

(Accept any other correct relevant response)

(2)

3.2.5 How does a decline in tourism activities impact on rural communities?

- People in rural areas will have less job opportunities thereby increasing poverty levels ✓✓
- People in rural areas may be forced to migrate to urban areas in search for jobs ✓✓
- Investment in tourism-related activities (restaurants, hotels) will decline due to decreased demand for goods and services ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 DATA RESPONSE**3.3.1 Name the type of pollution demonstrated in the above cartoon.**

Water / sea ✓

(1)

3.3.2 Give the international measure that deals with the control of hazardous waste.

Basel Convention ✓

(1)

3.3.3 Briefly describe the term *conservation*.

Conservation is a sustainable use and management of the environment to ensure that it can be used by both present and future generations / manage the environment to ensure continuity ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 Explain the effect of soil erosion on food security.

- Land can no longer be cultivated thereby leading to shortage of food supply ✓✓
- The loss of top soil results in higher production costs and increase in price of food, thereby making food less affordable ✓✓

(Accept any other correct relevant response)

(2)

3.3.5 How does human activity negatively affect environmental sustainability?

- Human activity causes environmental degradation, which causes the depletion of resources ✓✓
- Directly or indirectly overpopulation increases damage to the environment ✓✓
- Actions taken by humans such as the burning and destruction of forests damage the environment. ✓✓
- Polluting the environment, depletion of the ozone layer, which will lead to global warming ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.4 Briefly discuss the reasons why markets fail to ensure environmental sustainability.

- **The environment is a common resource / Non-excludability of the environment:** ✓ Many parts of the environment are not privately owned and do not have a price, so there is no economic incentive for markets to economise on their use ✓✓
- **Externalities:** ✓
 - Because no one person owns the environment, there is no one to enforce property rights over it ✓✓
 - When people pollute the environment, for instance, the costs are borne mainly by others ✓✓
- **Lack of knowledge:** ✓ People may cause environmental damage without realising it, especially when the effects build up over a long time ✓✓
- **Carelessness / Negligence / Ignorance:** ✓ Consumers and businesses are frequently prepared to continue with various harmful practices and leave future generations to worry about their environmental consequences due to self-interest ✓✓

(Max 8)

(8)

(Accept any other correct relevant response)

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

3.5 Analyse marketing strategies used to promote tourism in South Africa.

The following marketing strategies have been used to promote tourism:

- launching the Welcome campaign to make every tourist feel at home and encourage them to return for a repeat visit and tell other about their experience. ✓✓
- introducing welcome awards to recognize businesses and individual that improve the quality of tourist offerings. ✓✓
- launching the Sho't Left campaign aimed to make travel more accessible and affordable that will encourage South Africans to travel within their country. ✓✓
- building a strong partnership between SAT and other organisations such as Computicket Travel and Flight Centre in offering South Africans special deals from flights to accommodation and train trips. ✓✓
- showcasing a wide variety of the best tourism products in South Africa and attracts visitors from across the world through the annual Tourism Indaba ✓✓
- establishing the Tourism Enterprise Partnership to improve the sustainability of small tourism enterprises to protect and promote job creation as well as transforming the tourism industry. ✓✓
- Social Media Platforms such as facebook, Instagram and Twitter are also used by government to promote tourism ✓✓
- South Africa has recently launched E-visas which is likely to attract more tourists ✓✓

(Accept the four P's that relates to promotional campaigns accessibility of places, pricing tourism products and tourist attractions and products)

(Accept any other correct and relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

4.1.1 **Name any TWO examples of fixed costs.**

- Rent ✓
- Administrative ✓
- Insurance ✓
- Depreciation ✓
- Salaries ✓
- Interest on capital ✓
- Property taxes ✓

(Accept any other correct relevant response)

(2 x 1)

(2)

4.1.2 **How does the Paris agreement intend to reduce the impact of climate change?**

- Making finance available to help countries deal with the impact of climate change. ✓✓
- Intensifying the efforts to limit the temperature increases (less than 2°C) to significantly reduce the risks threatening food production. ✓✓
- Increasing the ability of countries to adapt to the adverse impacts of climate change. ✓✓
- Request countries to submit strategies on how to reduce their greenhouse gas emissions ✓✓

(Accept any other correct relevant response)

(1 x 2)

(2)

4.2 **DATA RESPONSE**

4.2.1 **Identify ONE world heritage site in South Africa in the information above.**

Robben Island ✓

(1)

4.2.2 **Name ONE benefit of tourism for households.**

- Enjoy infrastructure ✓
- Skills development ✓
- Income increases ✓
- More job opportunities ✓

(Accept any other correct relevant response)

(1)

4.2.3 **Briefly describe the term *indigenous knowledge systems*.**

The practices and ceremonies that are unique to the country's indigenous (local) people / Local knowledge that is unique to a given culture or society / Stories and traditions carried over from one generation to the other ✓✓

(Accept any other correct relevant response)

(2)

4.2.4 How can the depreciation of the rand affect inbound tourism?

- Foreign tourists will spend less of their currency to buy rand on a foreign exchange market. ✓✓
 - More foreign tourists will visit the country as it will be cheaper for them to buy goods and services in South Africa. ✓✓ (2)
- (Accept any other correct relevant response)

4.2.5 Why do tourists visit South Africa as tourist destination?

- South Africa offer authenticity and uniqueness of the country for tourist to learn how local people live and work. ✓✓
 - South Africa has a diverse culture for tourist to experience ✓✓ known for its friendliness and humility ✓
 - A favourable exchange rate ensures an affordable visit. ✓✓
 - South Africa has favourable climatic conditions for tourist to enjoy different activities. ✓✓
 - South Africa has hosted many international events such as conferences and sporting events ✓✓
 - Peaceful political transformation of the country to achieve democracy ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 Identify the institution that is responsible for investigating anti-competitive behaviour.**

Competition Commission ✓ (1)

4.3.2 Name the type of collusion explained in the extract above.

Overt / formal / explicit ✓ (1)

4.3.3 Briefly describe the term *oligopoly*.

A market structure dominated by a few large firms ✓✓
(Accept any other correct relevant response) (2)

4.3.4 How does the existence of monopolies influence the supply of goods and services?

- Monopolies reduce the number of businesses in an industry reducing the total supply of goods and services ✓✓
 - Monopolies may restrict supply of goods and services to charge higher prices ✓✓
- (Accept any other correct and relevant response) (2)

4.3.5 What is the impact of price fixing on the market?

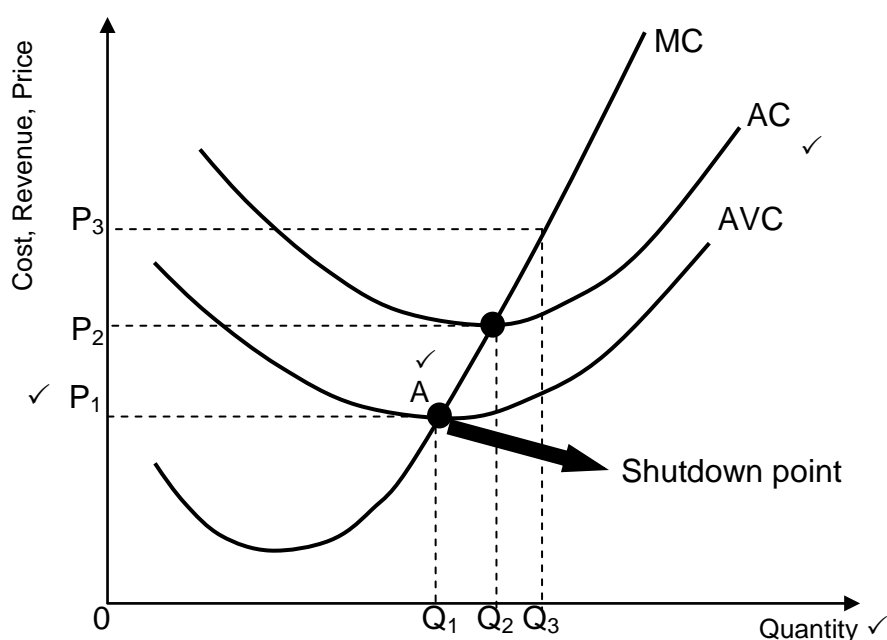
- Consumers may end up paying higher prices for goods and services ✓✓
- Businesses may be forced to pay penalties if they are found guilty of price fixing ✓✓
- Demand for the product may decrease as customers fail to afford the higher prices ✓✓
- Businesses may temporarily enjoy high profits which may increase supply of the product ✓✓

(Accept any other relevant and correct response)

(2 x 2)

(4)

4.4 With the aid of a graph, explain shut-down point in a perfect market.

**ALLOCATION OF MARKS**

Correct drawing and labelling of cost curves = 1 mark

Correct labelling of axes = 1 mark

Correct labelling on axes = 1 mark

Correctly indicating shutdown point = 1 mark

Maximum 4 marks

- Above Q_1 , the firm will continue to produce because the price is greater than AVC, which means the business can pay for all its variable costs ✓✓
- Below Q_1 , the firm will stop to produce because the price is less than AVC, which means the firm is no longer able to pay all variable costs ✓✓
- Therefore, point A where price (AR) is equal to AVC, is the shutdown point ✓✓

(Max 4)

(Accept any other correct relevant response)

(8)

4.5 Analyse the impact of an increase in population on the environment.

An increase in population will result in:

- demand for food increasing thereby putting more pressure on the environment. ✓✓
- deforestation due to increased demand for infrastructure development. ✓✓
- an increased human settlement causing soil erosion and loss of biodiversity ✓✓
- increased land and water pollution as more biological and non-biological waste will be introduced to the environment. ✓✓
- depletion of raw materials due to increased production of goods and services. ✓✓
- resources will be severely strained when population increases e.g. water ✓✓
- an increase in the burning of fossil fuels such as coal or petrol due to higher demand for energy ✓✓

(Accept any other correct relevant response)

(8)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5: MICROECONOMICS

- Discuss, in detail, without drawing graphs, state intervention as a consequence of market failure. (26 marks)
- How can market inefficiency be reduced by global markets (globalisation)? (10 marks)

INTRODUCTION

When market failure occurs, consequences such as inefficiencies, spill-over effects, imperfect competition and government intervention are likely to prevail ✓✓ (Max 2)
(Accept any other correct relevant introduction)

BODY: MAIN PART**State intervention as a consequence of market failure****Direct control** ✓

- The state can pass laws or use existing legislative frameworks to control businesses and industries, individuals who generate negative externalities ✓✓
- Thus in South Africa, emissions of potentially dangerous chemicals, air and scenic pollution, environmental preservation are controlled through various Acts regulations ✓✓
- Advertising by the tobacco industry is prohibited and alcohol may not be sold on Sundays or to persons under the age of 18 years ✓✓

Imperfect markets ✓

The government can deal with imperfect competition by:

- Formulating or implementing a competition policy to increase the level of competition ✓✓
- Using laws on competition to prevent exorbitant prices charged by firms, to ensure that entry to the market is free, prevent harmful collusion and encourage foreign competition which helps to keep prices low ✓✓
- Granting licences to more business in the case of state monopolies ✓✓
- Imposing price controls to decrease prices of goods and services ✓✓

Levying of taxes ✓

- The government will intervene in the market by levying taxes to recover external costs ✓✓
- These taxes will increase the price and will result in a decrease in production of a certain good ✓✓
- Levying taxes could be used as a strategy of reducing production and consumption of demerit goods as well as generating revenue for the state ✓✓
- Firms and consumers will then be allocating resources in a more efficient way ✓✓

Providing producer subsidies ✓

- The government provides subsidies to producers to encourage them to produce more goods and services ✓✓
- Subsidies increase supply of specific goods and services such as milk, wheat and maize ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered, increasing consumption ✓✓

Minimum wages ✓

- A minimum wage is the lowest remuneration that employers are required by law to pay their workers ✓✓
- Income for the workers will increase and as a result their standard of living will improve (improve welfare and ensure basic needs are met) ✓✓
- If a minimum wage is set above the equilibrium market wage, supply of labour will exceed the demand for labour ✓✓
- This will increase the cost of labour, resulting in higher cost of production for businesses ✓✓
- Some workers may be retrenched and increase unemployment and while production decreases ✓✓
- Minimum wages will lead to more bargaining power of workers ✓✓

Minimum prices ✓

- The government is obliged to intervene to ensure sufficient supplies of staple food in the market ✓✓
- The approach of setting minimum prices or price floors will be used so that it will be worthwhile for producers (to make a comfortable profit) to produce essential goods in desired quantities ✓✓
- These are prices that are set above the market price by the government ✓✓
- Minimum prices however have unwanted side-effects as they cause a surplus in the market ✓✓
- Surplus products become a challenge to dispose as they should rather be sold at lower costs, dumped to other countries which is prohibited by the WTO or be destroyed ✓✓

Maximum prices ✓

- The government will set a maximum price if the price is deemed to be too high for essential goods (basic goods) ✓✓
- The maximum price that is set by the government below the market price is known as a *price ceiling* or maximum price ✓✓
- The government will intervene in the market by passing law that suppliers may not charge more than a maximum price ✓✓
- The immediate effect of maximum prices in the market is that the quantity supplied drops thus causing shortages ✓✓
- Shortages in supply for certain goods in the market will result to the establishment of the '*black markets*' ✓✓

Redistribution of wealth ✓

- The South African government uses a progressive income tax system to redistribute income and wealth ✓✓
- Traditional methods such as levying various taxes, provisioning of free services, benefits in kind and cash benefits, are used to reduce the income gap ✓✓
- The government can also implement redress methods such as BBBEE, affirmative action, land restitution, land redistribution and property subsidies to redistribute wealth among the population ✓✓

Government involvement in production ✓

- Subsidising merit goods to increase production ✓✓
- Imposing taxes on demerit goods to reduce production ✓✓
- Levying income taxes, indirect taxes and wealth taxes to provide community goods free of charge ✓✓
- Providing collective goods such as refuse removal, waste disposal and sewerage drainage for a user fee ✓✓ (Max 26)

(Accept any other correct relevant response)

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

BODY: ADDITIONAL PART**How can market inefficiency be reduced by global markets (globalization)?**

- allowing foreign direct investment in the economy to increase supply of goods and services. ✓✓
- increasing competition in local market and reducing the existence of monopolies ✓✓
- increasing the accessibility of information to both consumers and producers for them to make rational or informed decision. ✓✓
- ensuring efficiency allocation of resources by allowing countries to specialize in production of goods that they have comparative advantage in. ✓✓
- increasing mobility of factors of production between different countries. ✓✓
- encouraging businesses to be innovative and produce goods and services of better quality for consumers. ✓✓
- increasing consumers' choice on goods and services ✓✓

(Accept any other relevant and correct higher order response)

(Max 10)

(A maximum of 2 marks will be allocated for mere listing of facts)

CONCLUSION

Market failure may also result in inefficiencies in the way resources are allocated and used in producing goods and services ✓✓ (Max 2)

(Accept any other correct relevant higher order conclusion)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Discuss the consequences of inflation. (26 marks)**
- **How does foreign direct investment influence inflation in the economy? (10 marks)**

INTRODUCTION

Inflation refers to a sustained and significant increase in the general level of prices over a period of time ✓✓

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

BODY: MAIN PART**Creditors ✓**

- Creditors (lenders) suffer due to price increases because they get money back which has a lower purchasing power, especially if the interest rate has been below the inflation rate / inflation harm creditors as they lose due to a fall in the real value of money ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods ✓✓

Debtors ✓

- Debtors (borrowers) receive money with a high buying power and pay back with money with a lower buying power ✓✓
- Borrowers benefit from price increases ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓

Salary and wage earners ✓

- Price increases affect people negatively because their incomes are relatively fixed ✓✓
- Real wages fall sharply during period of high inflation as a result of a decline in capital stock and a shift in relative prices ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages ✓✓
- Relative wages are the important component of wealth; they constitute the main source of income for many households, especially for the less well-off ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty ✓✓
- This group includes retired people, pensioners and the poor, that will experience the erosion of spending power and eventually earn too little to survive ✓✓
- Wage increases are lower than the inflation rate increase ✓✓

Investors and savers ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate ✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings ✓✓
- Investors in assets with flexible market value gain when prices increase, because their assets with a flexible market value increase at least proportionately to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds ✓✓

Tax payers ✓

- With inflation taxpayers' nominal income rise although their real income remain unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payers ✓✓
- Taxes are levied on nominal income and not on real income ✓✓
- If the income tax brackets remain unchanged, inflation increases the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before – bracket creep leads to a redistribution of income from taxpayers to the government ✓✓

Industrial peace ✓

- Wage bargaining is accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence which affects society at large ✓✓
- Inflation leads to demands for increased wages as trade unions put increasing pressure on employers to raise wages and salaries ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow ✓✓

Inflation has an adverse effect on a country's balance of payments ✓

- If a country's rate of inflation is higher than that of its trading partner, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market leading to a decrease in exports ✓✓
- Cheaper imports have a negative effect on a country's balance of payments ✓✓
- The loss of competitiveness can be a result of increased unemployment ✓✓

Unemployment and poverty ✓

- The effects of inflation are uneven, because it does not benefit anyone and harms most – some less than others ✓✓
- Inflation also tends to redistribute income from low income groups to higher income groups ✓✓
- This is because people in the low income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients ✓✓

Psychological influence (2021 EGs)

- **Low inflation expectations**
 - limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future ✓✓
 - allow consumers to postpone consumption expenditure thereby reducing pressure on price increases. ✓✓
 - give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand ✓✓
 - reduce panic buying by consumers when they expect that prices will be stable in the future ✓✓
 - boost real interest rates which will encourage savings. ✓✓
 - increase the burden on debtors which discourages them from borrowing money, due to the real interest rate ✓✓
- **High inflation expectations**
 - Excessive wage demands by different labour unions because workers anticipate increases in cost of living in the future will lead to producers increasing prices in order to recover extra costs of production ✓✓
 - Prompts consumers to engage in panic buying when they expect prices to rise and thereby increasing pressure on price to rise. ✓✓
 - Make households to save less, thereby leading to excess demand for goods and services ✓✓
 - Decreases real interest rates which will discourage savings. ✓✓
 - Reduce the burden on creditors as they will receive their money at higher interest rates ✓✓

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for headings/examples)

(Max 26)

BODY: ADDITIONAL PART**Foreign direct investment influences inflation in the economy by:**

- increasing the production of goods and services which will increase aggregate supply thus stabilizing prices ✓✓
- bringing more efficient production techniques that will reduce production costs, slowing down cost push inflation ✓✓
- increasing competition in local markets which will keep local prices low ✓✓
- strengthening the rand through higher export volumes which helps to reduce the cost of importing production inputs such as crude oil ✓✓
- improving technology in production which increases productivity thereby reducing cost push inflation ✓✓
- creating more employment opportunities thereby stimulating consumer spending which contributes to demand pull inflation ✓✓
- increasing expenditure on capital goods such as machinery and equipment resulting in increased aggregate demand ✓✓
- increasing real wages more than domestic investment, leading to cost push inflation ✓✓

(Accept any other correct relevant higher order response.)

(Max 10)

(A maximum of 2 marks may be allocated for mere listing of facts)

CONCLUSION

Unacceptably high inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures to control it have to be put in place ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

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