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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P1

2022

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 19 pages.

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

- | | | | |
|-------|--------------------------------|---------|------|
| 1.1.1 | C – a comparative advantage ✓✓ | | |
| 1.1.2 | D – Phillips ✓✓ | | |
| 1.1.3 | A – central ✓✓ | | |
| 1.1.4 | B – households ✓✓ | | |
| 1.1.5 | D – common market ✓✓ | | |
| 1.1.6 | B – mass production ✓✓ | | |
| 1.1.7 | C – Trade and Industry ✓✓ | | |
| 1.1.8 | A – remuneration per worker ✓✓ | (8 x 2) | (16) |

1.2 MATCHING ITEMS

- | | | | | |
|-------|-----|---|---------|-----|
| 1.2.1 | D - | efforts by government to establish investments in areas other than those with a high concentration of economic activity ✓ | | |
| 1.2.2 | I - | buying of financial assets such as shares on the stock exchange of another country ✓ | | |
| 1.2.3 | E - | consultation with commercial banks to act in a desirable manner ✓ | | |
| 1.2.4 | G - | a cash grant given to manufacturers to reduce the cost of production ✓ | | |
| 1.2.5 | A - | transfer of ownership of businesses from the private sector to the public sector ✓ | | |
| 1.2.6 | H - | an official state ban on the import of certain goods and services ✓ | | |
| 1.2.7 | F - | provides guidance on how public finance accounting must be managed in order to standardise ✓ | | |
| 1.2.8 | B - | sets out the government's broad approach towards industrialisation ✓ | (8 x 1) | (8) |

1.3 GIVE THE TERM

- | | | | |
|-------|---|---------|-----|
| 1.3.1 | Free-floating/Flexible ✓ | | |
| 1.3.2 | Real flow ✓ | | |
| 1.3.3 | Kuznets/Building ✓ | | |
| 1.3.4 | Dumping ✓ | | |
| 1.3.5 | Social infrastructure/physical capital/social capital ✓ | | |
| 1.3.6 | Infant mortality ✓ | (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: MACROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 **Name any TWO types of consumer goods.**

- Non-durable goods ✓
- Semi-durable goods ✓
- Durable goods ✓
- Services ✓

(Accept any other correct relevant response)

(2 x 1)

(2)

2.1.2 **How are leading indicators used in the forecasting of business cycles?**

- Leading indicators are used by economists to get an idea of what to expect in the near future as they change before a business cycle changes ✓✓
- They give consumers, businesses and the state a glimpse of the direction in which the economy might be heading ✓✓

(Accept any other correct relevant response)

(1 x 2)

(2)

2.2 **DATA RESPONSE**

2.2.1 **Identify an example of a leakage in the above extract.**

Savings ✓

(1)

2.2.2 **Name any ONE participant in a two-sector economy.**

- Households/consumers ✓
- Businesses/firms/producers ✓

(1)

2.2.3 **Briefly describe the term *autonomous consumption*.**

The spending in the economy that takes place irrespective of the level of income/Level of expenditure that exists when income is zero ✓✓

(Accept any other correct relevant response)

(2)

2.2.4 **Why is the value of the multiplier in a four-sector model smaller than that of a two-sector model?**

- The size of the multiplier will be smaller as there will be more leakages (taxes and imports) in the economy ✓✓

(Accept any other correct relevant response)

(2)

- 2.2.5 Using the marginal propensity to consume (mpc) of 0,6, calculate the change in national income if there was an investment of R250m. Show ALL calculations.

$\Delta Y = \Delta J \times k$ $= \Delta J \times (1/1-mpc) \checkmark$ $= \Delta J \times (1/1-0,6)$ $= \Delta J \times (1/0,4) \checkmark$ $= 250 \times 2,5 \checkmark$ $= \underline{\text{R625 m}} \checkmark$	OR $\Delta Y = \Delta J \times k$ $= \Delta J \times (1/mps) \checkmark$ $= \Delta J \times (1/0,4) \checkmark$ $= 250 \times 2,5 \checkmark$ $= \underline{\text{R625 m}} \checkmark$	OR $\Delta Y = \Delta J / (1-mpc) \checkmark$ $= \Delta J / (1-0,6) \checkmark$ $= 250 / 0,4 \checkmark$ $= \underline{\text{R625 m}} \checkmark$
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OR

$$K = 1/1-mpc$$

$$= 1/1-0,6$$

$$= 1/0,4 \checkmark$$

$$= 2,5 \checkmark$$

$$\Delta Y = \Delta J \times k$$

$$= 250 \times 2,5 \checkmark$$

$$= \underline{\text{R625 m}} \checkmark$$

(4)

2.3 DATA RESPONSE

2.3.1 Identify the term in the extract above that refers to expenditure on capital goods.

Investment ✓

(1)

2.3.2 Give ONE reason that limits economic recovery of South Africa.

- Social unrest/riots ✓
- Corruption by government officials/public sector failure ✓
- Electricity shortages/high electricity cost ✓
- Increasing fuel price ✓
- High rate of unemployment/poverty/low consumer spending ✓
- Ill-health of employees ✓
- Disinvestments/lack of investments ✓
- Natural disasters ✓

(Accept any other correct relevant response)

(1)

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

The value of all final goods and services produced within a country at constant prices (adjusted for inflation) ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 Explain the effect on business cycles when there is an increase in household consumption.

- Aggregate demand will increase, encouraging businesses to produce more and turning the business cycle to an upswing ✓✓
- Increase in consumer spending will attract more investments expanding economic activity ✓✓
- Increase in economic activity will create more employment ✓✓
- Increase in aggregate demand could increase demand-pull inflation ✓✓

(Accept any other correct relevant response)

(2)

2.3.5 How can the government use taxation to stimulate economic recovery?

- Reduce personal income tax to increase households' disposable income and stimulate aggregate demand in the economy ✓✓
- Decrease corporate income tax to increase profit prospects for businesses such that they can produce more goods and services ✓✓
- Indirect taxes such as VAT and some excise duties may be reduced to stimulate consumer spending ✓✓
- Provide tax exemptions or tax holidays to newly established businesses such that they can establish themselves and produce more output ✓✓
- Increase taxes on imports (tariffs) to increase demand for local goods and stimulate domestic production ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.4 Discuss the role of the foreign exchange market in the circular flow model.

- The foreign exchange market is made up of the financial institutions such as commercial banks that buy and sell foreign currencies ✓✓
- Foreign exchange markets facilitate international payments ✓✓
- Households, firms and government require foreign currency in order to purchase imports from the foreign sector ✓✓
- Firms also use the foreign exchange market to exchange foreign currency that they receive in return for their exports ✓✓
- Foreign exchange markets determine exchange rates through the forces of demand and supply ✓✓

(Allocate a maximum of 4 marks for mere listing of facts)

(Accept any other correct relevant response)

(4 x 2)

(8)

2.5 Analyse the challenges faced by South Africa in international trade.

South Africa may face the following challenges in international trade: -

- Unfair international competition occurs due to developed countries supporting their business through subsidies which makes their product cheaper compared to South African products ✓✓
- Developed countries may export their products to South Africa at very low prices (dumping) which could lead to shut-down of local businesses ✓✓
- Exporting of South African products may be restricted to prevent the spreading of diseases between countries such as covid-19 ✓✓
- Demand on South African agricultural product may decrease due to tariffs that are much higher than those applied on industrial goods ✓✓
- Quotas and embargos may limit South Africa's export volumes which will decrease inflow of foreign exchange ✓✓
- It is difficult for South Africa to sell agricultural product in developed countries due to subsidies provided by their governments to agricultural producers ✓✓
- Current international trade rules on industrial subsidies are not able to effectively tackle government support ✓✓
- Internationalisation of state-owned enterprises' operations may create an unhealthy competitive environment as SOEs in some countries benefit from domestic preferential treatment and cheap finance ✓✓
- Most South African businesses lag behind in technological advances and changing business practices which makes them less competitive and failing to integrate fully in the global economy ✓✓
- Over-reliance on primary sector products result in South Africa generating less export earnings from international trade ✓✓
- Unstable exchange rates cause a lot of uncertainties in planning for South African exporters ✓✓
- Social, political and economic shocks in other countries such as Ukraine and Russia reduce South Africa's ability to trade internationally ✓✓

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

(Accept any other correct relevant response)

(4 x 2)

(8)

[40]

QUESTION 3: ECONOMIC PURSUITS**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 **Name TWO industrial development strategies in South Africa.**

- National Research and Development strategy/NRDS ✓
- Integrated Manufacturing Strategy/IMS ✓ (2 x 1) (2)

3.1.2 **Why is it important to measure the performance of the economy?**

- To determine suitable changes in economic policies that need to be implemented as the economy is dynamic ✓✓
 - To measure the effectiveness of economic policies that were implemented to improve the performance of the economy ✓✓
 - To compare the performance of the country with its peer countries ✓✓
 - To determine the contributions of different sectors to the economy ✓✓
 - To provide information about the economic conditions to potential investors ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

3.2 **DATA RESPONSE**3.2.1 **Identify the commodity that is a major foreign exchange earner in South Africa.**

- Gold ✓ (1)

3.2.2 **Name any other BRICS member country, apart from China.**

- Brazil ✓
- Russia ✓
- India ✓
- South Africa ✓ (1)

3.2.3 **Briefly describe the term *trade liberalisation*.**

The abolishment of government intervention in trade flows on both the import and the export side / The removal of restrictions such as tariffs and quotas on exports and imports to allow free flows of goods and services between countries ✓✓

(Accept any other correct relevant response) (2)

3.2.4 Explain the impact of a decrease in mineral prices on the South African economy.

- Export earnings will decrease as prices of mineral exports such as gold and platinum will decrease ✓✓
 - Foreign demand for South African minerals will increase, improving the trade balance ✓✓
 - Import payments may also decrease as prices of major imports like oil will decrease ✓✓
 - Cost of production for manufacturing businesses will decrease as raw materials' (minerals) cost decreases ✓✓
 - Cost of generating electricity will decrease due to lower coal prices ✓✓
- (Accept any other correct relevant response)

(2)

3.2.5 How does South Africa benefit from being a member of BRICS?

- South African businesses can export their products to Brazil, Russia, India and China without any restrictions ✓✓
 - Local consumers can import goods and services from Brazil, Russia, India and China at lower cost ✓✓
 - South Africa stand a better position to attract foreign direct investments from Brazil, Russia, India and China, creating more job opportunities ✓✓
 - Being a member of BRICS improved the international relations of the South African government ✓✓
 - South Africa has access to funds for developmental purposes from the New Development Bank ✓✓
- (Accept any other correct relevant response)

(2 x 2)

(4)

3.3 DATA RESPONSE

3.3.1 Identify an example of free-housing provided by the government.

RDP housing ✓

(1)

3.3.2 Give any ONE social problem associated with informal settlements.

- High crime rate ✓
 - Poor services delivery (sanitation, water and electricity) ✓
 - Illnesses and diseases ✓
 - Pollution ✓
 - Over population ✓
 - Poverty ✓
- (Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *urbanisation*.

The movement/migration of people from rural to urban areas ✓✓
(Accept any other correct relevant response)

(2)

3.3.4 Explain the benefit of proper sanitation for life expectancy.

Life expectancy may increase because people will be less exposed to illnesses and diseases ✓✓

(Accept any other correct relevant response)

(2)

3.3.5 How can high population growth influence the standard of living?

- When population growth rate is above real GDP growth rate the standard of living will decrease ✓✓
- High population may result in shortages of goods and services, due to high demand ✓✓
- More people may live in poverty as they fail to access employment opportunities ✓✓
- The government may fail to meet high demand for public goods and services leading to poor standard of living ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.4 Briefly discuss *Small Business Support Programme (SBSP)* and *Skill Support Programme (SSP)* as incentives for industrial development in South Africa.**Small Business Support Program**

- This programme is designed for small businesses with assets of R100 million or less ✓✓
- This incentive consists of a tax free cash grant for investment in industries. ✓✓
- Grants are available to new and expanding businesses ✓✓
- Grants are given for three years after which the company is expected to become self-sustaining ✓✓

(Accept any other correct relevant response)

(2 x 2)

Skills Support Programme (SSP)

- This is a tax-free cash grant for skills development ✓✓
- It aims to encourage greater investment in skills training and to introduce new, advanced skills to the SA labour force ✓✓
- A maximum of 50% of a company's training costs are covered over a period of 3 years ✓✓

(Accept any other correct relevant response)

(2 x 2)

(8)

(Allocate a maximum of 4 marks for mere listing of facts)

3.5 How can exports benefit the South African economy?

Exports may benefit the South African economy in the following ways:

- Improving the quality of goods and services as businesses will become more innovative to produce world-class products ✓✓
- Generating sales revenue in form of foreign exchange that can be used to pay for strategic imports such as oil ✓✓
- Increasing tax revenue for the government by expanding its tax base ✓✓
- Improving economic efficiency as production will be done at the lowest possible average cost to penetrate global markets ✓✓
- Increasing real GDP (export-led economic growth) through the expansion of export production ✓✓
- Adding value to natural resources of the country by processing them into finished products that can be exported at higher values ✓✓
- Creating more job opportunities through the establishment new industries (Industrial development zones) for export production purposes ✓✓
- Strengthening the value of local currency (rand) as exports increase supply of foreign currency ✓✓
- Reducing balance of payments problems by increasing export volumes and earnings ✓✓
- Lowering domestic prices as production increases, benefiting local consumers ✓✓

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

(Accept any other correct relevant response)

(4 x 2)

(8)
[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 **Name any TWO methods of import substitution.**

- Tariffs ✓
- Quotas ✓
- Subsidies ✓
- Exchange control ✓
- Physical control (embargo) ✓
- Diverting trade (import deposit ✓, quality standards/control ✓ and time-consuming customs procedures) ✓ (2 x 1) (2)

4.1.2 **Why does international trade lead to mass production?**

- World market are much bigger than domestic market which encourages production of goods at a large scale ✓✓
- Exporting requires the use of new technologies (capital-intensive industries) which leads to production on a large scale. ✓✓
- International trade requires specialisation which leads production of goods in large quantities ✓✓
(Accept any other correct relevant response) (2 x 2) (2)

4.2 **DATA RESPONSE**4.2.1 **Identify any year in which South Africa experienced a trade surplus in all four quarters.**

2017 or 2020 ✓ (1)

4.2.2 **Name the Balance of Payments sub-account represented by the graph above.**

Current account ✓ (1)

4.2.3 **Briefly describe the term *current transfers*.**

An item that records the transfer of money such as donations, gifts and pension from South African residents to non-residents and vice versa / Refer to transactions in which goods and services or financial items are transferred without economic value received in return ✓✓ (2)

(Accept any other correct relevant response)

4.2.4 **Explain the effect on local fuel prices if the rand depreciates.**

Importing crude oil from OPEC countries will become expensive resulting in an increase in local fuel prices ✓✓ (2)

(Accept any other correct relevant response)

4.2.5 How can an increase in interest rates improve the Balance of Payments?

- Borrowing may be expensive for households which will discourage expenditure on imports, reducing deficit on the current account ✓✓
- Higher returns on financial investments to foreign investors may create net capital inflow, increasing the balance on financial account ✓✓
- Higher interest rates encourage local households to save and discourage expenditure on imports, increasing the trade balance. ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 Identify any phrase in the extract that refers to an increase of unemployment in South Africa.**

Losing more jobs than it creates/depressed economy/loses jobs ✓ (1)

4.3.2 Name any ONE corridor in South Africa.

- Maputo development corridor ✓
 - Coast to Coast corridor ✓
- (1)

4.3.3 Briefly describe the term *regional development*.

Refers to policies that are aimed at increasing the economic livelihood of specific areas or geographical regions that are under-developed ✓✓

(Accept any other correct relevant response) (2)

4.3.4 Why do special economic zones (SEZs) have a wider industrial development objective than IDZs?

- Special economic zones can be located anywhere in the country which improves economic activity in many areas that are not close to international ports ✓✓
- Goods produced in special economic zone can be sold to domestic and export markets allowing businesses to generate extra income ✓✓

(Accept any other correct relevant response) (2)

4.3.5 How can industrial development influence the international competitiveness of a country?

- Industrial development increases the variety of goods and services (diversification) that that can be exported to other countries ✓✓
- Some industrial development measures such as subsidies and incentives may allow local businesses to export goods at lower prices that may be more competitive ✓✓
- Use of new technologies in manufacturing may improve the quality of South African exports ✓✓
- Industrial development through export promotion may result in favourable exchange rates ✓✓
- World-class infrastructure to promote industrial development may also help to attract more foreign direct investments ✓✓
- Research and development may encourage local businesses to introduce new products that are more competitive than the existing ones ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

4.4 Briefly discuss *consumer price index* and *producer price index* as economic indicators.

Consumer price index

- Measures the price of a fixed basket of consumer goods and services purchased by a typical South African household ✓✓
- Relates to a cost of living as it shows change in the purchasing power of the rand ✓✓
- Capital and intermediate goods are excluded from the basket of consumer goods and services ✓✓
- CPI includes value added tax (VAT) and interest rates ✓✓
- Prices of imported goods are not explicitly shown ✓✓

(Accept any other correct relevant response)

(2 x 2)

Producer price index

- Measure the prices of goods that are produced domestically when they leave the factory ✓✓
- Relates to a cost of production as it assesses the impact of changes in the relative prices of production inputs ✓✓
- Basket consists of manufactured goods as well as capital and intermediate goods ✓✓
- PPI excludes value added tax (VAT) and interest rates ✓✓
- Prices of imported goods are measured when they enter the country (at a port) ✓✓

(Accept any other correct relevant response)

(2 x 2)

(8)

(Allocate a maximum of 4 marks for mere listing of facts)

4.5 **Analyse the importance of price stability in preventing the extreme fluctuations in business cycles.**

- Price stability controls speculative behaviour among businesses and consumers thereby reducing supply-side and demand-side influences on economic fluctuations ✓✓
- Positive consumer confidence is encouraged which enables businesses to maintain steady growth in production levels ✓✓
- Larger amplitudes in the business cycles are avoided through stable prices and creates more certainty in the economy ✓✓
- Stable prices result in longer business cycles which show strength of the economy and the economic growth path will have upward trend ✓✓
- Maintains positive investors' confidence, allowing the economy to follow a stable economic growth path ✓✓
- Minimises government interventions which may reduce extreme economic fluctuations ✓✓
- Stable prices allow the SARB to keep interest rates unchanged to ensure continued growth in the economy without big fluctuations ✓✓
- Demand for exports is maintained when prices are stable, which avoids extreme depreciation of the local currency associated with recession ✓✓

(Allocate a maximum of 4 marks for mere listing of fact and examples)

(Accept any other correct relevant response)

(4 x 2)

(8)
[40]

TOTAL SECTION B:

80

SECTION C**QUESTION 5: MACROECONOMICS****40 MARKS – 40 MINUTES**

- **Discuss in detail the reasons for public sector failure.** (26 marks)
- **Analyse the impact of poor service delivery by the government on socio-economic rights.** (10 marks)

INTRODUCTION

- Public sector failure occurs when the government fails to manage the economy and the resources under its control optimally. ✓✓
 - Public sector failure can be regarded as a failure of government to achieve its objectives. ✓✓
- (Accept any other correct relevant introduction.) (Max 2)

MAIN PART**Management failure** ✓

- Ignorance leads to the implementation of conflicting or wrong policies ✓✓
- Incompetence in the public sector may be due to improper qualifications, lack of training, experience and an attitude of apathy ✓✓
- Lack of skills may lead to wrong decisions and low productivity ✓✓
- Corruption exist when government official exploit their positions for personal gain. ✓✓
- Taking bribes, committing fraud, nepotism, behaving dishonestly and committing discrimination. ✓✓
- Allowing rent-seeking, which is behaviour that improves the welfare of someone at the expense of the welfare of others ✓✓

Apathy ✓

- Government officials show little or no interest in delivering an efficient service to the public ✓✓
- It is not always easy to hold the public sector officials accountable because of the huge workforce in various departments ✓✓
- Corruption and poor service delivery are some of the symptoms of apathy ✓✓
- People employed by the state do not always serve the interests of the public ✓✓
- Public sector officials seek to maximise their salaries, status and power and are not required to produce a profit and loss statement ✓✓
- Poor accountability is the result of low motivation, poor training, and lack of competence. ✓✓

Lack of motivation ✓

- Frontline workers rarely receive incentives for successful service delivery but are only monitored on inputs and following procedures and processes. ✓✓
- Lack of motivation leads to limited services, high cost and low-quality service delivery ✓✓
- There is no measurement of effectiveness or productivity and few rewards for outstanding performance and penalties for poor performance. ✓✓
- There are not enough systems in place to evaluate the services that government employees give ✓✓

Bureaucracy ✓

- Bureaucracy makes policies take long to be implemented or it is not implemented successfully. ✓✓ for example, official rules and procedures ✓✓
- Bureaucrats tend to obey rules and procedures without judgements ✓✓

- Government officials tend to be more interested in obeying rules than the efficient delivery of goods and services to the people ✓✓
- Bureaucrats can manipulate policies to benefit themselves at the expense of the people ✓✓

Politicians ✓

- Politicians tend to promote policies and spend money on projects as long as they get votes in return. ✓✓
- These policies might involve an inefficient allocation of resources. ✓✓
- Politicians can also serve their own interests through corruption, personal and hidden agendas and suspicious motives ✓✓

Structural weaknesses ✓

- Objectives are not met, such as full employment and houses for all are not realistic and attainable objectives ✓✓
- Too aggressive redistribution of income and wealth may cause the government not to reach their macroeconomic objectives ✓✓

Special interest groups ✓

- Groups such as labour unions and business groups can also cause government failure. ✓✓
- Trade unions can influence the government to pass certain laws to favour their members ✓✓
- Business groups can influence the government to provide them with profitable contracts and favourable regulations. ✓✓
- Businesses may influence the government to distribute resources so that they can benefit at the expense of the country. ✓✓

(Accept any other correct relevant response)

A maximum of 8 marks may be allocated for headings/examples (Max 26)**ADDITIONAL PART**

Poor service delivery by the government may impact on socio-economic rights by:

- limiting people's participation in economic activity due to poor infrastructural services such as electricity and water supply ✓✓
- exposing people to unhealthy or unsafe living environment due to poor sanitation and lack of housing ✓✓
- violating children's right to education because of lack of educational infrastructure and material ✓✓
- exposing people to death risks through poor health care services in some parts of the country ✓✓
- limiting access to housing and ownership of property through delayed human settlement and housing programmes ✓✓
- exposing people to crime due to poor and unreliable protection services by the SAPS and defence forces ✓✓
- violating the people's right to human dignity by failing to provide proper sanitation and housing in some parts of the country ✓✓

(Accept any other correct relevant response)

A maximum of 2 marks may be allocated for mere listing of facts (Max 10)**CONCLUSION**

- South Africa requires a creative and competitive private sector with new technologies that can help entrepreneurs to enter industries where the state dominates. ✓✓

(Accept any other relevant higher order conclusion.)

(Max 2)

[40]

QUESTION 6: ECONOMIC PURSUITS**40 MARKS – 40 MINUTES**

- Discuss in detail the demand-side approach in promoting economic growth and development in South Africa. (26 marks)
- Evaluate broad-based black economic empowerment (BBBEE) in promoting economic development in South Africa. (10 marks)

[40]**INTRODUCTION**

- The demand-side approach involves discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand and therefore output ✓✓
(Accept any other correct relevant introduction.) (Max 2)

MAIN PART**MONETARY POLICY ✓**

- The SARB is co-responsible for formulating and implementing South Africa's monetary policy. ✓✓
- Its primary goal is to protect the value of the currency by stabilising prices in terms of inflation targets. ✓✓

Monetary policy includes the following instruments:**1. Interest rate changes ✓**

- These are used to influence credit creation by making credit more expensive or cheaper. ✓✓
- Interest rate changes are also used to stabilise the exchange rate by encouraging capital inflows or outflows in order to take care of a deficit or a surplus on the current account of the balance of payments. ✓✓

2. Open market transactions ✓

- To restrict bank credit, the SARB sells securities. ✓✓
- When banks buy these securities, money flows from the banks to the SARB. ✓✓
- The banks then have less money to lend and cannot extend as much credit as before. ✓✓
- To encourage credit creation, the SARB buys securities in the open market. ✓✓
- Money then flows into the banking system. ✓✓
- The banks use the money to create credit. ✓✓

3. Moral suasion ✓

- The SARB consults with banks and persuades them to act in a manner that is desirable in terms of the economic conditions that prevail at the time. ✓✓
- The persuasion is often linked to transactions of the SARB in the money market. ✓✓
- The SARB can call on banks to be less lenient when they are too generous in extending credit. ✓✓
- Government securities may be sold on open markets to drain excess liquidity so that banks have less money to lend. ✓✓

4. Cash reserves requirement ✓

- The SARB may decrease cash reserve requirements order to increase money creation ✓✓
- This will increase money supply and stimulate aggregate demand thereby encouraging businesses to produce more ✓✓

5. Exchange rate policy ✓

- The SARB uses the free-floating exchange rate system to allow forces of demand and supply to determine the exchange rate ✓✓
- This allows local prices to be linked to international prices ✓✓
- Exchange rates adjust themselves with minimum government intervention ✓✓

FISCAL POLICY ✓

- The National Treasury is responsible for the formulation and implementation of fiscal policy in South Africa ✓✓
- The main purpose of fiscal policy in South Africa is to stimulate macroeconomic growth and employment, and to ensure a desirable redistribution of income (economic equity). ✓✓
- The stability objective, in terms of prices and exchange rates, is left for the most part to monetary policy. ✓✓
- Government compiles and times its expenditure and taxation in a way that enhances its chances of achieving its macroeconomic objectives. ✓✓

1. Progressive personal income tax ✓

- Higher-income earners are taxed at higher rates than lower-income earners. ✓✓
- The taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes. Examples are the social wage and social allowances such as pensions. ✓✓

2. Wealth taxes ✓

- Properties such as houses, offices and factory buildings in urban areas are taxed annually. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when they are traded. ✓✓
- Capital gains tax (CGT) is levied on gains earned on the sale of capital goods, such as properties and shares. ✓✓
- Estate duties are levied on the estates of deceased persons. ✓✓
- Taxes are used to finance development expenditures which benefit the poor more than those who are not poor. ✓✓

3. Cash benefits ✓

- Old-age pensions, disability grants, child support grants and unemployment insurance are important cash grants. ✓✓

4. Benefits in kind ✓

- These include the provision of healthcare, education and school meals, protection, municipal services and infrastructure. ✓✓
- Where user-fees are charged, poor people and low-income earners benefit more than others because they pay nothing or less than higher-income earners. ✓✓
- Limited quantities of free electricity and water are provided. ✓✓

5. Other redistributions ✓

- Some macroeconomic policies have advantages that favour poor and low-income earners. ✓✓
- Public work programmes, for example, provide employment and Strategic Investment projects (SIPs) provide employment subsidies and a number of other cash and financial benefits to SMMEs. ✓✓
- Previously disadvantaged persons receive preference. ✓✓

6. Land restitution and land redistribution ✓

- The purpose of land restitution is to return land (or pay cash compensation) to those who lost their land because of discriminatory laws. ✓✓
- Land redistribution focuses on land for residential (town) and productive (farm) use. ✓✓
- The aim is to redistribute 30% of the country's agricultural land to previously disadvantaged persons. ✓✓
- The money for these redress and redistribution programmes is provided for in the main budget. ✓✓

7. Property subsidies ✓

- Subsidies help beneficiaries to acquire ownership of fixed residential property. ✓✓
- The government's housing subsidy scheme provides funding options to all eligible persons earning less than R3 500 per month. ✓✓
- The money for this scheme comes from the main budget. ✓✓
(Accept any other correct relevant response)

A maximum of 8 marks may be allocated for headings/examples (Max 26)

ADDITIONAL PART**Broad-based Black Economic Empowerment (BBBEE) managed to:**

- empower previous disadvantaged groups through the system by being appointed into senior positions both in the public and private sectors ✓✓
- involve many previously disadvantaged people actively in the economy of the country ✓✓
- create opportunities for upcoming young entrepreneurs to enter the business world ✓✓
- offer accessibility of open business opportunities in the different sectors of the economy ✓✓
- increase the number of black people in the shareholding of large companies ✓✓

Broad-based Black Economic Empowerment (BBBEE) is not successful because:

- few people are benefiting from BBBEE due to corruption by top government officials ✓✓
- fronting is leading to wrong people benefiting from BBBEE programs ✓✓
- many black people do not have the skills and experience to occupy senior management positions especially in big companies ✓✓
- black people do not have capital to establish businesses or buy shares in big companies ✓✓

(Accept any other correct relevant response)

A maximum of 2 marks may be allocated for mere listing of facts (Max 10)

CONCLUSION

- To achieve economic development, economic growth rate should exceed population growth rate. ✓✓

(Accept any other relevant higher-order conclusion.)

(Max 2)

TOTAL SECTION C:	40
GRAND TOTAL:	150