



basic education

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.

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

OR

$$\begin{aligned}
 K &= 1/1-mpc \\
 &= 1/1-0,6 \\
 &= 1/0,4 \checkmark \\
 &= 2,5 \checkmark
 \end{aligned}$$

$$\begin{aligned}
 \Delta Y &= \Delta J \times k \\
 &= 250 \times 2,5 \checkmark \\
 &= \underline{\mathbf{R625\ m}} \checkmark
 \end{aligned}$$

(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 ✓ (1)
- (Accept any other correct relevant response)

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) ✓✓ (2)
(Accept any other correct relevant response)

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 ✓✓ (2)
- (Accept any other correct relevant response)

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

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