



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**JUNE 2021**

**ECONOMICS P1  
MARKING GUIDELINE  
(EXEMPLAR)**

**MARKS: 150**

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This marking guideline consists of 18 pages.

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

- 1.1.1 A ✓✓ balance of payments  
 1.1.2 C ✓✓ specialise in what they do best  
 1.1.3 C ✓✓ tax revenue and tax rate  
 1.1.4 A ✓✓ trendline  
 1.1.5 D ✓✓ improving the efficiency of markets  
 1.1.6 B ✓✓  $G + I + X < S + T + M$   
 1.1.7 D ✓✓ money market  
 1.1.8 B ✓✓ It takes a larger percentage of the income of low-income earners than those with higher incomes
- (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 E ✓ Where long-term funds are borrowed and saved by consumers and business enterprises  
 1.2.2 I ✓ Also known as the national product at constant prices  
 1.2.3 G ✓ Do not change direction until after the business cycle has changed its direction  
 1.2.4 C ✓ Allowed to respond to market forces within certain limits  
 1.2.5 H ✓ A form of credit that the IMF can use for a consistent disequilibrium  
 1.2.6 B ✓ Where resources cannot be reallocated to make one individual better off without making at least one individual worse off  
 1.2.7 F ✓ Prescribed by the United Nations to compile gross domestic product  
 1.2.8 A ✓ Includes libraries, health services, research programmes and education
- (8 x 1) (8)

**1.3 ONE WORD ITEMS**

- 1.3.1 Revaluation ✓  
 1.3.2 Direct taxes ✓  
 1.3.3 Gross National Product ✓  
 1.3.4 Terms of trade ✓  
 1.3.5 Real flow ✓  
 1.3.6 Disinvestment ✓
- (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

Answer TWO of the THREE questions in this section.

**QUESTION 2**

- 2.1 2.1.1 **Name TWO purposes of conditional grants to municipalities.**
- Infrastructure ✓
  - Capacity building and restructuring ✓ (2 x 1) (2)
- 2.1.2 **Why is it not possible to exclude individuals from using public goods?**
- It is not possible because once public goods have been provided, they can be used by everyone. ✓✓
  - It is impossible to prevent individuals from enjoying the benefits. ✓✓
  - E.g., once a traffic light is installed or fireworks displayed, they are enjoyed by everyone. ✓
- (Any other correct relevant response) (Any 1 x 2) (2)
- 2.2 **DATA RESPONSE**
- 2.2.1 **Give the alternative term for recovery(growth) as depicted from trough to peak.**
- Expansion /upswing ✓ (1)
- 2.2.2 **What is measured from peak to peak or from trough to trough?**
- Length ✓ (1)
- 2.2.3 **Briefly describe the term *real GDP*.**
- Refers to GDP figures adjusted for price changes (effect of inflation has been removed). ✓✓
- (Accept any other correct relevant response) (2)
- 2.2.4 **Explain the government policy that the central bank can use in smoothing business cycles when the economy is at a peak.**
- The contractionary monetary policy is the most effective as the interest rates are increased to reduce spending and lower money supply in circulation. ✓✓
- (Accept any other correct relevant response) (2)

2.2.5 **Why are endogenous factors viewed as a cause of business cycles?**

They are viewed as a cause of business cycles because:

- Keynesians hold the view that markets are inherently stable ✓✓
- Level of economic activity constantly tend to be continually above or below its potential ✓✓
- Business cycle is an inherent feature of market economy ✓✓
- The price mechanism fails to coordinate demand and supply in markets ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Name ONE other account of the balance of payment.**

- Capital transfer account ✓
- Financial account ✓ (1)

2.3.2 **Give a reason why net gold exports are entered separately from other exports.**

- Because of historical importance ✓ (1)

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

- These are transfers from residents to nonresidents and vice versa which require no counter performance e.g., gifts in cash, social insurance. ✓✓ (2 x 1) (2)

2.3.4 **Explain the use of unrecorded transactions in the balance of payments.**

- Entries of unrecorded transactions attempt to correct the effects of errors and omissions in international transactions. ✓✓
- It ensures that the balance of payments adds up. ✓✓  
(Accept any other correct relevant response) (2 x 2) (4)

2.3.5 **Calculate the balance on the current account balance for 2018.**

$R1\ 056\ \text{bn} + R77\ \text{bn} - R1\ 158\ \text{bn} - R204\ \text{bn}$  ✓✓

$= -R229\ \text{bn}$  ✓✓

(Award 2 marks for answer only)

(Mark incorrect if answer does not show a negative) (4)

2.4 **Discuss the multiplier and its effects on the national income if the marginal propensity to consume (MPC) is 0,6 and the investment increases by R10 bn. Show calculations.**

- A relatively small investment produces a proportionately large increase in national income ✓✓
- $K = 1 / 1 - mpc$
- $= 1 / 1 - 0,6$  ✓✓
- $= 2,5$  ✓✓
- Multiplier effect =  $2,5 \times R10bn$  ✓✓
- Therefore, an investment of R10bn will produce a R25 bn increase in national income ✓✓

(If a learner gives a graphical representation of the effect, the graph should indicate the change in investment of R10 bn and the change in national income of R25 bn.

Accept if the learner explains the effect based on the principle of one person's spending becomes another person's income.)

(Accept any other correct relevant response)

(Allocate a max of 2 marks for mere listing/examples)

(Any 4 x 2)

(8)

2.5 **How is the South African economy influenced by the effects of international trade?**

**POSITIVE INFLUENCE**

- The living standard of South Africans will improve through specialisation in the production of certain goods. ✓✓
- The increase in technology leads to mass production e.g., the use of cellphones. ✓✓
- Increasing production efficiency e.g., resources are used more effectively – less waste. ✓✓
- More choice of goods and services from all over the world – not only domestically. ✓✓
- Increased competition leads to innovation and high standards in economic capacity. ✓✓
- Globalisation brings the countries of the world together and share knowledge. ✓✓

**NEGATIVE INFLUENCE**

- Less developed countries might not be able to compete with developed countries. ✓✓
  - Specialisation causes more producers to close down their businesses. ✓✓
  - Globalisation let people to forget their culture and indigenous knowledge systems disintegrate. ✓✓
  - Mass production leads to local people buying inferior quality goods from other countries at the expense of local producers. ✓✓
- (Accept any other correct relevant response)

( 4 x 2) (8)  
**[40]**

**QUESTION 3**

- 3.1 3.1.1 **Name TWO items involved in the conversion of GDP at factor cost to GDP at basic prices.**
- Other taxes on production ✓
  - Other subsidies on production ✓ (2 x 1) (2)
- 3.1.2 **What effect will the depreciation of the Rand have on the demand for foreign goods?**
- The demand for imported goods will decrease because it will be expensive to import. ✓✓
  - However, exports will increase and there will be a capital inflow. ✓✓ (Any 1 x 2) (2)
- 3.2 **DATA RESPONSE**
- 3.2.1 **What is depicted in the diagram above?**
- Circular flow model/Two sector model ✓ (1)
- 3.2.2 **Name an example of money flow.**
- Expenditure on domestic products/ total expenditure ✓
  - Factor payments ✓
  - Income/ domestic income ✓ (1)
- 3.2.3 **Briefly describe the term *factor market*.**
- Market where factors of production are traded, for example, labour market ✓✓
  - Accept any other correct relevant response) (2)
- 3.2.4 **Briefly explain the role of firms in the economy.**
- Firms purchase the factors of production from the household in the factor market. ✓✓
  - Firms use the factors of production to produce goods and services. ✓✓
  - Businesses sell goods and services to households, government and the foreign sector. ✓✓ (1 x 2) (2)
- 3.2.5 **How can Foreign Direct Investment influence the national income?**
- FDI as an injection in the economy increases production. ✓✓
  - This boosts employment opportunities. ✓✓
  - The result will be an increase in income and spending in the economy. ✓✓ (4)

### 3.3 DATA RESPONSE

#### 3.3.1 Name any ONE budget plan that the government supervises.

- Main budget ✓
- Medium Term Expenditure Framework (MTEF) ✓
- Medium Term Budget Policy Statement (MTBPS) ✓ (Any 1x1) (1)

#### 3.3.2 What challenge is the government facing as depicted?

- Poor spending of public funds ✓
  - Ineffective governance ✓
  - Corruption ✓
- (Accept any other correct relevant response) (1)

#### 3.3.3 Briefly describe the term *budget*.

- A document containing details about the expected revenue and projected expenditure ✓✓
- (Accept any other correct relevant response) (2)

#### 3.3.4 Why will an increase in the tax rate not necessarily increase government revenue?

- Instead of paying more tax, individuals may avoid tax ✓✓
  - Many will decide to stop working ✓✓
- (Accept any other correct relevant response) (2)

#### 3.3.5 How can the government effectively reduce management failure?

Government can effectively reduce management failure by:

- Employing people according to their skills, competence and qualification levels ✓✓
- Providing leadership, training and workshops ✓✓
- Ensuring that no one's welfare is improved at the expense of someone else ✓✓

(Accept any other correct relevant response)

(4)

### 3.4 Discuss free-floating exchange rates.

- They work automatically ✓✓
- If imports increase, the demand for foreign exchange increases ✓✓
- The currency depreciates because of the working of market forces ✓✓
- Depreciation makes imports more expensive in the depreciating country and exports cheaper in the foreign country ✓✓
- Imports decrease and exports increase and the currency appreciates ✓✓

(Accept any other correct relevant response)

(8)



3.5 Evaluate the impact of the downgrading of South Africa's credit rating on the economy.

**NEGATIVE IMPACT**

- Government has to pay a higher interest rate on its debt. ✓✓
- Less money to use for building the economy, important infrastructure and welfare programmes. ✓✓
- Many international investments portfolios are not allowed to invest in sub investment graded economies (junk status) as debt/bond repayments are costly. ✓✓
- The downgrading of a country creates a lack of foreign investments with a weaker rand/inflation then increases as the cost of all imported goods also increase. ✓✓
- The South African government will find it difficult to get international loans to fund the budget and balance of payment of deficit. ✓✓
- Fewer multi-national companies will be allowed to do business in South Africa as some of them have strict mandates not to open businesses in junk status countries. ✓✓

**POSITIVE IMPACT**

- Consumers/firms are forced to save more ✓✓
- Government is prompted to encourage / fast track economic growth. ✓✓
- Job creation ✓✓

(Accept any other correct relevant response)

(Allocate a max of 2 marks for mere listing/examples)

(8)  
[40]

**QUESTION 4**

- 4.1 4.1.1 **Name TWO demand factors for foreign exchange.**
- Importing of goods ✓
  - The payment for services from foreign countries ✓
  - The repayment of a foreign loan borrowed from a foreign country
  - Tourists spending money overseas
  - The buying of shares or assets in another country ✓
- (Accept any other correct relevant response) (Any 2 x 1) (2)
- 4.1.2 **Why are households regarded as an important participant in the circular flow?**
- They are the owners of the factors of production ✓✓
  - They are the primary participants in the circular flow ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **What is the original equilibrium exchange rate in the above graph?**
- R17 ✓ (1)
- 4.2.2 **What happens to the value of the Rand when prices change from R17 to R18?**
- Depreciation ✓ / decline ✓ / decrease ✓ (1)
- 4.2.3 **Describe the term *depreciation of a currency*.**
- Depreciation of a currency is a decrease in the price of the currency in terms of another country's currency due to market forces (1 x 2) (2)

- 4.2.4 **Explain how managed exchange rates correct disequilibria in the balance of payments.**
- Central banks use their reserves to effect depreciations and appreciations. ✓✓
  - Over the long-term currencies have to find their equilibrium levels. ✓✓
- (1 x 2) (2)

- 4.2.5 **How will the depreciation in the value of a currency affect businesses?**
- Depreciation will increase the production costs for businesses as they will require more money to buy from other currencies. ✓✓
  - Exporting businesses can sell more to foreign countries as their products will become cheaper. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

### 4.3 DATA RESPONSE

- 4.3.1 **Which year is currently used by the Reserve Bank as a base year?**
- 2010 ✓
- (1)

- 4.3.2 **Name any institution that compiles the data in the above table.**
- Statistics South Africa (Stats SA) ✓
  - South African Reserve Bank (SARB) ✓
- (1)

- 4.3.3 **Briefly describe the term *constant prices*.**
- Constant prices are prices where inflation is excluded ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

- 4.3.4 **Explain the difference between *nominal GDP* and *real GDP*.**
- Nominal GDP is GDP at current prices while real GDP is GDP at constant prices ✓✓ / Nominal GDP figures do not reflect changes in economic activity while real GDP figures are adjusted for price changes. ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

- 4.3.5 **Calculate the GDP deflator for 2016. Show ALL your calculations.**

$$\text{Deflator} = \text{Nominal GDP} / \text{Real GDP} \times 100$$

$$\text{Deflator for 2016} = 4\,336\,988 / 3\,009\,860 \times 100 \quad \checkmark\checkmark$$

$$= 144 \quad \checkmark\checkmark$$

(Award 2 marks for answer only) (Any 2 x 2) (4)

4.4. **Discuss production and expenditure as methods to determine Gross Domestic Product (GDP).**

**PRODUCTION METHOD**

- Using this method to calculate GDP yields GDP at basic prices. ✓✓
- Gross Domestic Product at basic prices is determined by adding the final values of all goods and services produced in the primary, secondary and tertiary sectors. ✓✓
- In the national accounts Gross Domestic Product at basic prices is usually referred to as Gross Value Added (GVA) at basic prices. ✓✓
- Also known as GDP(P) ✓ (2 x 2)

**EXPENDITURE METHOD**

- Using this method to calculate GDP yields GDP at market prices ✓✓
- GDP at market prices is determined by adding the spending of the four main sectors of the economy – households (C), government (G), businesses (I) and foreign sector (X – M). ✓✓
- There is a difference between GDE and Expenditure on GDP:
- $GDE = C + I + G$  while  $Expenditure\ on\ GDP = C + I + G + (X - M)$  ✓✓
- Also known as GDP(E) ✓ (2 x 2) (8)

4.5 **How can free trade contribute to a more efficient economy?**

It can contribute by:

- Allowing the inflow and outflow of goods and services into the economy ✓✓
- Stimulating demand for goods and services hence creating job opportunities ✓✓
- Improving the trade balance by making it more favourable ✓✓
- Earning the country foreign capital and accelerating economic growth and economic development ✓✓
- Improving international relations and stimulating economic integrations ✓✓

(8)  
[40]

**TOTAL SECTION B: 80**

**SECTION C**

Answer ONE of the TWO questions in this section.

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<p><b>Introduction</b> The introduction is a lower order response:</p> <ul style="list-style-type: none"> <li>• A good starting point would be to define the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction that you are going to discuss in the body.</li> </ul>	Max. 2
<p><b>Body</b></p> <ul style="list-style-type: none"> <li>• Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate</li> <li>• Additional part :Give own opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/How? / Suggest</li> </ul>	Max. 26  Max. 10
<p><b>Conclusion</b> Any relevant higher order conclusion that should include:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed / analysed without repeating facts already mentioned in the body</li> <li>• An opinion or valued judgment on the facts discussed</li> <li>• Additional support information to strengthen the discussion / analysis</li> <li>• A contradictory viewpoint with motivation, if so required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5**

- **Discuss in detail the objectives of the government in the economy.**  
(26 marks)
- **How can privatisation be used to address the challenge of a slow service delivery in South Africa?**  
(10 marks) **[40]**

**INTRODUCTION**

- The main objectives of the state are to serve the citizens of the country and bring about the systematic development for all of them ✓✓  
(Accept any other correct relevant introduction) Max. 2 (2)

**BODY****MAIN PART****Economic growth**

- Economic growth refers to an increase in the production of goods and services in the economy. ✓✓
- The state must ensure that there is sustainable growth as it leads to an improvement in the standard of living. ✓✓
- For economic development to take place, economic growth rate must be higher than the population rate. ✓✓

**Exchange rate stability**

- Depreciation and appreciation create uncertainty for producers and investors and should therefore be limited. ✓✓
- The state tries to protect the country's currency from excess fluctuations. ✓✓
- Monetary and fiscal policies are used to ensure that exchange rate remains relatively stable for longer periods. ✓✓

**Full employment**

- This means that all persons who would like to work and who are looking for work should be able to find work or be self-employed. ✓✓
- High levels of employment is one of the crucial economic objectives for all governments. ✓✓

**Economic equity**

- In South Africa the government uses a progressive tax system to provide for free services to all its deserving people. ✓✓
- Free social services such as basic education, primary health care, basic economic services and paying cash grants to the poor and other vulnerable people. ✓✓
- A redistribution of income and wealth is important in market economies. ✓✓

**Price stability**

- In South Africa the relative price stability means maintaining an inflation rate of between 3% and 6%. ✓✓
- A market economy performs better when prices are stable ✓✓
- Any country strives for its prices not to fluctuate ✓✓  
(Accept any other correct relevant response)  
(Mark subheadings and examples to a maximum of 8 marks)

Max.26

**ADDITIONAL PART**

**How can privatisation be used to address the challenge of a slow service delivery in South Africa?**

Privatisation can be used to address the challenges by:

- Improving the overall effectiveness and efficiency of state-owned enterprises, thus fast-tracking efficiency. ✓✓
- Attracting foreign direct investment who can provide wanted capital for those state organs and improve service delivery. ✓✓
- Stimulating economic growth and performance of these enterprises by introducing innovative methods by private experts ✓✓
- Providing additional funds to the government through taxes which can make funds readily available for the provision of services. ✓✓
- Promoting community economic participation rate while accelerating service delivery. ✓✓
- Relieving the government from the financial burden placed by SOE'S like SAA thus leaving the state with more funds to invest in service delivery. ✓✓

(Accept any other relevant correct higher order response)

(A maximum of 2 marks for mere listing of facts)

(10)

**CONCLUSION**

- The state uses the national budget to try and achieve all its objectives using taxes, a major source of income ✓✓  
(Accept any other correct relevant response)

(2)

**[40]**

**QUESTION 6**

- Discuss in detail the demand-side policies in smoothing of business cycles. (26 marks)
- How could the Monetarist's viewpoint on government policies cause a contraction in the business cycle? (10 marks)

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

Smoothing of business cycles is when policy is used to prevent dramatic peaks and troughs ✓✓

(Accept any other correct relevant introduction)

(2)

**BODY****MAIN PART**

- Government's aim with business cycle policies is to achieve the best possible growth rates ✓✓
- They need to apply policies to smooth out cyclical movements, so that peaks do not end up in high inflation and troughs do not result in high unemployment. ✓✓
- Government uses monetary and fiscal policies to achieve this. ✓✓
- Fiscal policy is instrumental in stimulating a depressed economy. ✓✓
- Monetary policy is more effective when dampening an overheated economy that has rising inflation. ✓✓

**MONETARY POLICY**

- When the level of economic activity changes the SARB can use expansionary and contractionary measures to reduce fluctuation of such economic activities. ✓✓
- An expansionary monetary policy is implemented when the economy is in recession in order to stimulate economic activities. ✓✓
- Interest rates can be reduced to encourage spending. ✓✓
- Households and firms can therefore borrow spend more. ✓✓
- The increased spending increases the level of economic activity, investment will increase and more factors of production will be employed. ✓✓
- Higher levels of production and income and expenditure will be achieved. ✓✓
- The demand will be greater than supply if the supply of goods and services does not increase in line with the increase in demand and inflation will increase. ✓✓
- In the case of contractionary monetary policy, inflation can be curbed by reducing money supply and availability of credit. ✓✓
- To dampen demand at the peak the government will be able to reduce money supply by increasing interest rate. ✓✓
- Selling government bonds and securities (open market transactions)
- Reduce the supply of money in circulation ✓✓
- Increase the cash reserve requirement to manipulate money creation activities of banks ✓✓
- Persuade banks to decrease lending (moral suasion) and to devalue the exchange rate (exchange rate policy) ✓✓



**FISCAL POLICY**

- When the level of economic activity changes, the Minister of Finance can use expansionary and contractionary measures to reduce fluctuation of such economic activities. ✓✓
- An expansionary fiscal policy can be implemented when the economy is in recession in order to stimulate economic activities. ✓✓
- An increase in government expenditure will increase aggregate demand. ✓✓
- This serves as an injection into the economy as production will increase, more factors of production will be employed. ✓✓
- This will lead to higher income and higher expenditure. ✓✓
- Taxes will be reduced, which will lead to an increase in disposable Income. ✓✓
- This serves as an injection into the economy and eventually aggregate demand will increase. ✓✓
- In the case of contractionary fiscal policy, when the economy grows too fast government can reduce its spending and increase taxes. ✓✓
- This will lead to a decrease in aggregate demand which will reduce production as fewer goods and services will be needed. ✓✓

**DEMAND-SIDE POLICIES**

- Traditional monetary and fiscal policies focus on aggregate demand. ✓✓
- A demand side approach only does not render ideal results. ✓✓
- Often growth has to be cut due to problems in inflation, balance of payments and shortage of skilled labour. ✓✓

**ADDITIONAL PART****MONETARISTS VIEWPOINTS**

- Markets are inherently stable and that a disequilibrium in the markets are caused by faulty policies. ✓✓
- The most important cause of economic fluctuations is inappropriate government policies. ✓✓
- The monetarist's feel that state intervention will cause distortion of equilibrium. ✓✓
- Equilibrium is caused by supply and demand. ✓✓
- If any imbalance occurs, the market forces of supply and demand will always bring the market back to equilibrium. ✓✓
- The bigger the government intervention, the greater the distortion will be. ✓✓
- An undesirable increase in the money supply will lead to a contraction. ✓✓
- An undesirable decrease in the money supply will lead to a decrease in production processes. ✓✓
- Government should carefully control the stock of money in the economy so that it does not distort the equilibrium that markets forces will automatically establish. ✓✓

(Accept any other relevant argument)

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

**CONCLUSION**

- It remains critical that business cycles must be clearly monitored through indicators available. ✓✓
- Policy makers must act quickly by using monetary and fiscal instruments in order to prevent instability in the economy. ✓✓

(Accept any other correct relevant response) (Max. 2) (2)  
**[40]**

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