

MARKING GUIDELINES

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SOUTH AFRICAN COMPREHENSIVE ASSESSMENT INSTITUTE
SUID-AFRIKAANSE KOMPREENSIEWE ASSESSERINGSINSTITUUT

FINAL APPROVED MARKING GUIDELINES

DATE OF MEETING	
UMALUSI MODERATOR	
CHIEF MARKER	
INTERNAL MODERATOR	

SECTION A: COMPULSORY**QUESTION 1****30 MARKS – 20 MINUTES****1.1 MULTIPLE CHOICE QUESTIONS**

- 1.1.1 B ✓✓ injections
1.1.2 D ✓✓ Phillips
1.1.3 A ✓✓ reserve assets
1.1.4 B ✓✓ the Rand depreciated against the \$
1.1.5 C ✓✓ economic union
1.1.6 A ✓✓ the Human Development Index
1.1.7 D ✓✓ Coega
1.1.8 C ✓✓ per capita income (8x2) (16)

1.2 MATCHING ITEMS

- 1.2.1 G ✓ When leakages are more than injections.
1.2.2 H ✓ Is obtained when the effects of irregular events and seasons are removed from time series data.
1.2.3 D ✓ Buying and selling government securities in the open market.
1.2.4 E ✓ One country can produce goods and services cheaper than the other.
1.2.5 J ✓ The abolishment of government intervention in international trade.
1.2.6 B ✓ The rate at which commercial banks pay when borrowing money from the Reserve Bank.
1.2.7 C ✓ Expanding production in value-added sectors focusing on metals fabrication and green and energy-saving industries.
1.2.8 A ✓ Also known as the labour force. (8x1) (8)

1.3 GIVE ONE WORD/TERM

- 1.3.1 Household ✓
1.3.2 Exogenous/monetarist view ✓
1.3.3 National Budget/Main Budget/Annual Budget ✓
1.3.4 Corridor ✓
1.3.5 Globalisation ✓
1.3.6 African Union ✓ (6x1) (6)

TOTAL SECTION A: [30]

SECTION B

Answer any **TWO** of the three questions from 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** monetary policy instruments.

- Interest rates ✓
- Open market transactions ✓
- Cash reserve requirement ✓
- Moral suasion ✓
- Money supply ✓

(Any 2x1) (2)

2.1.2 How can the appreciation of the rand affect the export of goods and services?

There will be a reduction in exports because local goods and services become more expensive for foreign countries. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

(4)

2.2 DATA RESPONSE

2.2.1 Identify the province that contributed the least to the national GDP.

Northern Cape ✓

(1)

2.2.2 Name the institution responsible for publishing the information in the extract above.

Statistics South Africa/Stats SA ✓

(1)

2.2.3 Briefly describe the term *Real Gross Domestic Product*.

Real GDP is the total value of all final goods and services produced in a country during a specific period, ✓ adjusted for inflation. ✓

(Accept any other correct relevant answer)

(1x2) (2)

2.2.4 Explain the importance of GDP as an economic concept.

- Indicates the economic activity within a country. ✓✓
- Measures economic growth from one year to the next. ✓✓
- Determines the standard of living in a country. ✓✓
- Compares prosperity levels among countries. ✓✓

(Accept any other correct relevant answer)

(Any 1x2) (2)

2.2.5 Compare the difference between the *Production method* and *Income method* used to calculate GDP.

Production method/GDP(P)

- GDP (P) is derived by adding all final values of all goods and services calculated as gross value added at each stage of production. ✓✓

Income method/GDP (I)

- GDP (I) is derived by adding all income earned by the household as remuneration for the factors of production. ✓✓

(Accept any other correct relevant answer)

(2x2) (4)

(10)

2.3 DATA RESPONSE

2.3.1 Identify the base year used in the table above.

2015 ✓

(1)

2.3.2 State the change that occurred in export prices between 2015 and 2020.

The export prices increased. ✓

(1)

2.3.3 Briefly explain the term *devaluation of a currency*.

Devaluation of a currency refers to a deliberate reduction in the value of a country's currency relative to others, typically by its government or central bank. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

2.3.4 Explain the effect on the economy when there is a decrease in a country's terms of trade.

- A decrease indicates that a country is poorer since greater volumes of exports are to be produced to afford the same value of imports. ✓✓
- A decrease in the terms of trade will cause export revenues to decrease causing a deterioration in the national income. ✓✓
- The decrease can cause the export industry to slow down leading to lower production, a decline in profits and a decline in economic growth. ✓✓

(Accept any other correct relevant answer)

(Any 1x2) (2)

2.3.5 Calculate the terms of trade for A. Show ALL calculations.

$$(\text{Export prices} \div \text{Import prices}) \times 100/1 \checkmark$$

$$= (120 \div 105) \times 100/1 \checkmark$$

$$= 114,3 \checkmark\checkmark$$

(2x2) (4)

(10)

2.4 Differentiate between *money flows* and *real flows* in the circular flow model.

Money Flows

- Factor remuneration represents the expenditure of producers. $\checkmark\checkmark$
- Money flows also include the income of households $\checkmark\checkmark$
 - e.g. wages, rent, interest and profit. \checkmark
- Consumption expenditure represents the expenditure of households and the income of producers. $\checkmark\checkmark$
- Government and foreign sector payments. $\checkmark\checkmark$
- Import payments (expenditure) and export earnings (income). $\checkmark\checkmark$

(2x2) (4)

Real flows

- Factors of production flow from the owners (households) to producers (and the government) via the factor markets. $\checkmark\checkmark$
- Goods and services flow from the producers via the goods markets to households (and the government) and other users of goods and services. $\checkmark\checkmark$
- Factors of production and goods and services flow from foreign countries to South Africa (imports). $\checkmark\checkmark$
- Factors of production, as well as goods and services flow from South Africa to foreign countries (exports). $\checkmark\checkmark$

(2x2) (4)

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

(Accept any other correct relevant answer)

(2x4) **(8)**

2.5 Analyse the use of leading indicators in the forecasting of economic activities.

- Leading indicators are designed to change ahead of the overall economy, making them valuable tools for forecasting economic trends. ✓✓
- Provide information about potential future conditions, helping economists identify the direction in which the economy is headed. ✓✓
- Investors can use leading indicators to adjust their strategies based on predicted market conditions. ✓✓
- Identifying trends can help investors to increase their potential for profit maximisation and loss minimisation. ✓✓
- Companies can use leading indicators to anticipate changes in the demand and to prepare for different economic scenarios helping to allocate resources optimally. ✓✓
- Companies can use the indicators to respond effectively to economic changes. ✓✓
- Leading indicators enable participants to make informed economic decisions based on predicted changes in the economy. ✓✓

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

(Accept any other correct relevant answer)

(Any 4x2) (8)

[40]

QUESTION 3: ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name TWO import substitution methods.

- Tariffs ✓
- Quotas ✓
- Subsidies ✓
- Foreign exchange control ✓
- Physical control standards ✓
- Diverting trade ✓

(Accept any other correct relevant answer)

(Any 2x1) (2)

3.1.2 How are developing countries challenged by globalisation?

- Exploitation of resources as developing countries are rich in natural resources that are not as expensive and can be easily afforded by developed countries. ✓
- Unfair competition in global markets due to developing countries not being able to compete with developed nations. ✓
- The demand for unskilled labour decreases because developed countries become more advanced and rely less on physical or unskilled labour. ✓
- The poor are becoming poorer due to the exploitation of vulnerable labour forces in developing countries by developed nations. ✓
- The loss in national identity occurs as economies become more integrated and citizens migrate in search of better opportunities. ✓

(Accept any other correct relevant answer)

(Any 1x2) (2)

(4)

3.2 DATA RESPONSE

3.2.1 Identify the largest steel producer in Africa.

ArcelorMittal South Africa. ✓

(1)

3.2.2 Name ONE reason for the wind down in the long steel business from the extract.

- The company cited the current low market demand and national constraints. ✓
- Extreme challenges in both logistics and energy supply in the country. ✓
- Steel-related policy decisions that create an uncompetitive and uneven playing field for the company against its local competitors. ✓

(Any 1x1) (1)

3.2.3 Briefly describe the term *industrial development*.

Policies that are aimed at the encouragement of industrial investment and greater industrial efficiency. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

3.2.4 Explain ONE Spatial Development Initiative (SDI) objective that could help address the challenges faced by AMSA steel business.

- SDIs can support the development of more reliable energy infrastructure, helping to address power supply challenges. ✓✓
- SDIs can create a more competitive and supportive business environment for the steel industry. ✓✓
- The key objective of a Spatial Development Initiative (SDI) is to promote economic growth by developing infrastructure and attracting investment in regions with untapped potential. ✓✓

(Accept any other correct relevant answer)

(Any 1x2) (2)

3.2.5 Discuss positive arguments for the development of new industries in South Africa.

Development of new industries in South Africa is important because it:

- Exposes South African industries to the world economy, trade and acquisition of knowledge. ✓✓
- The development of new industries contributes to macroeconomic stability by diversifying the economy, reducing reliance on a few sectors, and creating a more balanced economic structure. ✓✓
- Establishes large-scale manufacturing, agricultural, mining, services, and production. ✓✓
- A more diversified economy provides better opportunities and choices for the consumers. ✓✓
- Improves domestic manufacturing capacity to increase exports. ✓✓
- Creates employment opportunities for local residents. ✓✓
- Provides and maintains appropriate incentives to attract investors. ✓✓
- Contributes to the industrial development of the African continent. ✓✓

(Accept any other correct relevant answer)

(Any 2x2) (4)

(10)

3.3 DATA RESPONSE

3.3.1 Identify the number of people who benefit from the AfCFTA

1.26 billion people ✓ (1)

3.2.2 Name any other free trade area in the world.

- The North American Free Trade Agreement (NAFTA) ✓
- Southern African Development Community (SADC) ✓
- European Free Trade Association (EFTA) ✓
- South Asian Free Trade Area (SAFTA) ✓
- Association of South-East Asian Nations (ASEAN) ✓

(Accept any other correct relevant answer) (Any 1x1) (1)

3.3.3 Briefly describe the term *free trade area*.

A free trade area is where restrictions such as tariffs and quotas have been removed. ✓✓

(Accept any other correct relevant answer) (1x2) (2)

3.3.4 Explain the role of the World Trade Organisation in international trade.

- Oversees the implementation and administering of trade agreements. ✓✓
- Acts as a forum for multilateral trade negotiations. ✓✓
- Seeks to resolve trade disputes. ✓✓
- Identifies non-compliance with trade agreements. ✓✓
- Supervises the review of national trade policies. ✓✓
- Co-operates with other international organisations. ✓✓

(Accept any other correct relevant answer) (Any 1x2) (2)

3.3.5 Discuss the benefits of Africa becoming a single market.

- It will lead to an increase in intra-African trade because of reduced trade restrictions between countries. ✓✓
- An opportunity for African countries to increase the share of industrial goods in production and exports. ✓✓
- Substantial opportunities for industrialisation and employment. ✓✓

(Accept any other correct relevant answer) (Any 2x2) (4)

(10)

3.4 Distinguish between the *critical infrastructure* and *skill support programs* as the incentives used by the South African government to improve industrial development.

Critical Infrastructure Programme (CIP):

- The program offers financial support or subsidies to help large enterprises develop and maintain essential infrastructure required for their operations. ✓✓
- The CIP program focuses on businesses that rely on infrastructure such as transport, electricity, and water systems, to boost productivity and economic growth. ✓✓
- Funding is made available once the project is completed and continues to exist. ✓✓
- The programme extends to both the public sector and private sector. ✓✓
- Infrastructure is considered critical under the program when it is vital for industrial development, either because such development would not be possible without it or would not operate efficiently in its absence. ✓✓ (2x2) (4)

Skill support program (SSP):

- A cash incentive scheme to encourage greater investment in skills training in general. ✓✓
- Introduces new, advanced skills to the immediate benefit of the South African labour force. ✓✓
- Aims at training newly appointed staff. ✓✓
- Additional staff needs to be appointed if the business expands or a new project is being embarked on. ✓✓
- Provides funding that covers up to 50% of a company's training expenses, making it more affordable to develop skilled employees. ✓✓ (2x2) (4)

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

(Accept any other correct relevant answer) (2x4) (8)

3.5 How can production indicators, such as GDP, be used to show the performance of a country's economy?

- The GDP can be used to measure economic output as it quantifies the total value of goods and services produced, giving an indication of economic activity. ✓✓
- The GDP, when used as an indicator, can show whether the economy is expanding or contracting, tracking the economic growth of a country. ✓✓
- GDP allows the information gathered to be used in comparing the economic performance between countries, especially when adjusted for population (GDP per capita). ✓✓
- Higher GDP per capita generally suggests a higher standard of living and better access to goods and services in the country. ✓✓
- Policymakers use GDP data to formulate fiscal and monetary policies to stabilise or stimulate the economy. ✓✓
- GDP can boost investor confidence and attract foreign investments from other countries and assist with increasing economic activity in a country. ✓✓
- The GDP can be broken down by sector (primary, secondary and tertiary) to assess which areas are driving or dragging economic growth. ✓✓

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

(Accept any other correct relevant answer)

(Any 4x2) (8)

[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name TWO phases of business cycles

- Recession phase ✓
- Prosperity phase ✓
- Recovery phase ✓
- Depression phase ✓

(Any 2x1) (2)

4.1.2 How will a huge increase in electricity costs affect smaller businesses in South Africa?

A significant increase in electricity cost can severely impact small businesses negatively because it will lead to an increase in operating expenses and reduce profitability. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

(4)

4.2 DATA RESPONSE

4.2.1 Identify the number of municipalities that showed improvement in the 2022-2023 audit.

45 ✓

(1)

4.2.2 Name the current Auditor-General of South Africa as mentioned in the extract above.

Tsakani Maluleke ✓

(1)

4.2.3 Briefly describe the term *public sector failure*.

It is when the government fails to optimally manage the economy and the resources under its control. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

4.2.4 Explain ONE reason for public sector involvement in the management of the economy.

- To ensure the application of suitable and credible economic policies. ✓✓
- To provide public goods for all members of society that are not provided by the private sector. ✓✓
- The government has to intervene to protect the environment. If the environment is exposed to insensitive and even careless use it may be damaged. ✓✓
 - E.g. the oceans for fishing, the air we breathe; natural scenery. ✓
- To create a stable social and legislative framework. ✓✓
- To ensure the application of effective and credible economic and development policies. ✓✓
- To promote equal economic opportunities for all, improving overall living standards. ✓✓
- To guarantee the efficient and fair allocation of resources within the economy. ✓✓
- To curb anti-competitive behaviour in the market. ✓✓
- To achieve key macroeconomic goals, such as growth, stability, and low inflation. ✓✓

(Accept any other correct relevant answer)

(1x2) (2)

4.2.5 Outline actions that can be taken by the government to reduce management failure in the public sector.

- By employing people according to skills, competency levels, and qualifications. ✓✓
- Through the provision of leadership workshops and training. ✓✓
- Establishing clear accountability structures and regular performance audits in public institutions and state-owned enterprises. ✓✓
- Ensuring that no one's welfare is improved at the expense of someone else. ✓✓
- Government can aim at collaborating with private sector experts to improve management practices and efficiency in public services. ✓✓
- Government should set measurable targets and key performance indicators to track and evaluate management effectiveness. ✓✓

(Accept any other correct relevant answer)

(2x2) (4)

(10)

4.3 DATA RESPONSE

4.3.1 State the social indicator that is associated with primary school completion?

Education ✓ (1)

4.3.2 Name the economic participant responsible for providing national education.

Government ✓ (1)

4.3.3 Briefly describe the term *social indicator*.

A social indicator is a statistical measure that reflects the well-being and quality of life of a population, such as health, education, housing, and crime rates. ✓✓

(Accept any other correct relevant answer) (1x2) (2)

4.3.4 How can the government reduce student loans in order to decrease poverty and social injustice?

- Subsidising higher education, enabling more students to pursue further studies. ✓✓
- Increasing the funding made available to students for educational needs like housing and learning materials. ✓✓
- Ensuring that loan repayments are in line with the income of the borrower reducing the financial burden on students. ✓✓

(Accept any other correct relevant answer) (Any 1x2) (2)

4.3.5 Discuss the direct contribution of education toward the quality of a country's labour force.

- Education gives access to higher-paid jobs, therefore increasing the level of income and ultimately the standard of living. ✓✓
- When the government invests in education, it results in the country having a more productive labour force because of better knowledge and skills. ✓✓
- Investment in education can lead to improved competitiveness in the labour force and increases in the wealth of a country. ✓✓

(Accept any other correct relevant answer) (Any 2x2) (4)

(10)

4.4 Differentiate between the *current account* and the *capital transfer account* of the Balance of Payments.

The current account

- Is the account in the BOP that records international transactions relating to production, income, and expenditure. ✓✓
- The current account is divided into four sub-divisions, namely: trade balance, the services account, the primary income account, and the current transfer account. ✓✓
- In calculating the balance on the current account, five groups of items are taken into account, namely merchandise (goods), gold, services, income and transfers. ✓✓
- The trade balance is a record of imports and exports of merchandise (physical goods). ✓✓
- The services account records imports and exports of services (such as tourism, consultancy, and transport). ✓✓
- The primary income account shows salaries, interest (from investments), and profits that flow between countries, income inflows, and income outflows. ✓✓

(2x2) (4)

The capital transfer account

- The balance shown reflects the net amount of the capital transferred, either negative or positive. ✓✓
- The balance includes transactions related to the ownership of fixed assets, grants, and other financial movements. ✓✓
- For example, it may include a grant from a foreign NGO for housing projects in South Africa, debt forgiveness, the value of personal effects, and financial claims or liabilities of migrants. ✓✓
- As it is not always a significant amount with current and service account payments, the capital transfer account cannot always be included in the statement by the SARB. ✓✓

(2x2) (4)

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

(Accept any other correct relevant answer)

(2x4) (8)

4.5 Analyse the prevention of dumping as an argument in favour of protectionism.

- Creates low prices in the market that domestic producers often cannot compete with, threatening local suppliers. ✓✓
- Allows foreign firms to dominate the market not through efficiency but through pricing tactics. ✓✓
- Prolonged dumping can drive domestic companies out of business, leading to loss of production capacity and long-term dependency on imports. ✓✓
- Governments use anti-dumping duties and tariffs to level the playing field and protect local businesses from unfair practices. ✓✓
- Strengthens the case for protectionism by highlighting the need to shield domestic industries from predatory pricing and maintain a balanced, competitive economy. ✓✓

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

(Accept any other correct relevant answer)

(4x2) (8)

[40]

TOTAL SECTION B: [80]

SECTION C

Answer any **ONE** question of the two questions in the **ANSWER BOOK**.

Your answer will be assessed as follows:

STRUCTURE OF THE ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • DO NOT include any part of the question in your introduction. • DO NOT repeat any part of the introduction in the body. • Avoid saying in the introduction what you are going to discuss in the body. 	<p>Max. 2</p>
<p>Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Compare/Distinguish/Differentiate/Explain/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate.</p> <p>Mark Allocation Bullets/facts in full sentences will be awarded two marks. Headings and sub-headings will receive one mark each. A maximum of eight marks may be allocated for headings/listing of facts or examples.</p> <p>Additional part: Give your own opinion/Critically discuss/Evaluate/Critically evaluate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest.</p> <p>A maximum of two marks can be awarded for the mere listing of facts.</p>	<p>Max 26</p> <p>Max 10</p>
<p>Conclusion Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned. • Any opinion or value judgment on the facts discussed. • Additional support information to strengthen the discussion/analysis. • A contradictory viewpoint with motivation, if required. • Recommendations. 	<p>Max 2</p>
<p>TOTAL</p>	<p>40</p>

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

- Discuss in detail the features underpinning forecasting of business cycles, excluding the business cycle indicators. (26)
- Evaluate the use of the fiscal policy by the government to restrict fluctuations in the economy. (10)

INTRODUCTION

A business cycle can be described as successive periods of contraction and expansion of economic activities. ✓✓

(Accept any correct relevant introduction.)

(Max 2)

BODY: MAIN PART**Extrapolation ✓**

- Extrapolation means to estimate something unknown from the facts and information that are known. ✓✓
- Past data is used, where predictions are made about the future based on assumptions related to trends. ✓✓
- Extending a trend into the future may provide information on what is likely to happen. ✓✓
- If a business cycle has passed through a trough and entered into a boom phase, forecasters may predict that the economy will grow in the months to follow. ✓✓
- Extrapolation techniques are sometimes used to predict future share prices. ✓✓
- To accurately apply extrapolation, the trend of the existing data must be followed to extend the analysis further. ✓✓

Amplitude ✓

- It is the difference between the economic output at its highest (peak) and lowest (trough) points, compared to the normal growth trend. ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity. ✓✓
- The amplitude shows two things:
 - The power of the underlying forces, ✓✓ e.g. interest rates, exports, or consumer spending. ✓
 - A large amplitude during the upswing signifies strong underlying forces – which result in longer cycles. ✓✓
- The extent of change: the larger the amplitude, the more extreme the changes that may occur. ✓✓

- During an upswing
 - unemployment may decrease from 20% to 10% ✓✓
 - inflation may increase from 3% to 6% (i.e. 100%) ✓✓
 - a surplus on the current account (BOP) can change from a surplus to a deficit (a decrease of 50%) ✓✓

Trend ✓

- The trend indicates the general direction in which the indices that were used in the business cycle, move. ✓✓
- When the economy is growing, there is an upward trend, but when the economy is decreasing, there is a downward trend. ✓✓
- The trend will change when the time series data change their behaviour patterns of the past. ✓✓
- Resistance points indicate forces in the economy preventing it from repeating the performance – unfavourable forces need to change or be removed for growth to exceed previous tendencies. ✓✓
- The trend normally has a positive slope because the production capacity of the economy increases over time. ✓✓
- Channels are formed when output growth reaches successive higher turning points (upward channel). ✓✓

Length ✓

- Length is measured from peak to peak or from trough to trough. ✓✓
- Longer cycles show strength and shorter cycles show weakness across economic activities. ✓✓
- Cycles may overshoot with the effect that some composite indicators may increase beyond their normal level. ✓✓

Moving averages

- Calculating a series of averages at different points along a time series, moving averages create a smoother curve. ✓✓
- The method helps analyse changes in data over a specific time period. ✓✓
- To eliminate the effect of sharp fluctuations in the business cycle, economists use moving averages to smooth out the business cycle so that it looks more like a straight or slightly curved line. ✓✓

(Allocate a maximum of 8 marks for headings/listing of facts or examples)

(Accept any other correct relevant answer)

(Max 26)

ADDITIONAL PART

Evaluate the use of the fiscal policy by the government to restrict fluctuations in the economy.

Negative arguments

- Cutting spending and raising taxes reduces aggregate demand, which can slow down GDP growth and reduce business profits. ✓✓
- Public sector job cuts or reduced infrastructure investment can lead to job losses, both directly and indirectly. ✓✓
- Due to the unpopularity of tax hikes and spending cuts, governments often find it difficult to implement or maintain contractionary policies. ✓✓
- Fiscal policy changes take time to be implemented and take effect, by the time they impact the economy, the economic situation may already have changed. ✓✓
- Overdoing contractionary policy can tip the economy into recession, especially if consumer and business confidence is already weak. ✓✓

Positive arguments

- Reducing government spending and/or increasing taxes lowers aggregate demand, which helps bring down inflation. ✓✓
- Higher taxes and lower spending can improve the government's fiscal position by reducing the budget deficit and national debts. ✓✓
- Contractionary fiscal measures can boost investor and consumer confidence, especially if inflation is perceived as being unchecked. ✓✓
- During economic booms, too much demand can overheat the economy; fiscal tightening helps to stabilise economic growth and prevent bubbles. ✓✓ e.g., in housing or assets ✓

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

(Accept any other correct relevant answer)

(Any 5x2) (10)

CONCLUSION:

It is difficult to do accurate economic forecasting because many factors influence the dynamics of the economy. ✓✓

(Accept any other correct relevant conclusion.)

(Max 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

40 MARKS – 40 MINUTES

- **Discuss in detail the use of fiscal policy in the demand-side approach to promote economic growth and development.** (26)
- **Evaluate the impact of a lack of foreign direct investment on the economic growth patterns of developing countries.** (10)

INTRODUCTION

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

BODY: MAIN PART

FISCAL POLICY

- Fiscal policy is driven by the Department of Finance or National Treasury. ✓✓
- The policy aims to facilitate government’s political and economic objectives. ✓✓
- South Africa’s fiscal policy is put into practice through the budgetary process. ✓✓
- The main purpose of fiscal policy is to stimulate macroeconomic growth and employment as well as to ensure redistribution of wealth. ✓✓

The following instruments are used by the fiscal policy to redistribute wealth:

1. Progressive personal income tax. ✓

- Higher income earners are taxed at higher tax rates. ✓✓
- Progressive taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes. ✓✓

2. Wealth taxes ✓

- Properties are levied (taxed) according to their market values. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when traded. ✓✓
- Capital gains tax is levied on gains on the sale of capital goods. ✓✓
 - e.g. properties, shares ✓
- Estate duties are paid on the estates of the deceased. ✓✓
- Wealth taxes are used to finance development expenditures which benefit the poor more often. ✓✓

3. Cash benefits ✓

- Old age pensions, disability grants, child support, and unemployment insurance are cash grants. ✓✓
- Cash benefits are also known as social security payments. ✓✓

4. Benefits in kind (in natural benefits) ✓

- These include the provision of healthcare, education, school meals, protection. ✓✓
- When user fees are charged, poor or low-income earners pay less or nothing. ✓✓
- Limited quantities of free electricity and water are provided. ✓✓

5. Other redistribution methods ✓

- Public works programmes, provide employment subsidies and other cash and financial benefits such as training, financing, and export incentives. ✓✓
 - e.g. the Strategic Integrated Projects (SIP). ✓

6. Land restitution and land redistribution ✓

- Land restitution is the return of land to those who have lost it due to discriminatory laws of the past. ✓✓
- Land redistribution focuses on land for residential (town) and production (farm) for previously disadvantaged groups. ✓✓
- The money for restitution and redistribution programs is provided for in the main budget. ✓✓

7. Subsidies on properties ✓

- Subsidies help people to acquire ownership of fixed residential properties. ✓✓
 - e.g. the government's housing subsidy scheme provides funding to all people earning less than R3 500 per month. ✓

(Allocate a maximum of 8 marks for headings/listing of facts or examples)

(Accept any other correct relevant answer)

(Max 26)

ADDITIONAL PART

Evaluate the impact of a lack of foreign direct investment on the economic growth patterns of developing countries.

Positive arguments

- In some cases if Foreign Direct Investment is absent from the economy, there is less risk of foreign companies exploiting resources and labour without benefiting the local economy. ✓✓
- Less Foreign Direct Investments can encourage governments and local businesses to invest more in the domestic industries, promoting self-reliance. ✓✓
- Less Foreign Direct Investments decreases the amount of profits being earned and sent back to foreign countries, allowing more capital to stay in the country. ✓✓
- Countries can maintain full control over their resources, industries, and economic decisions, reducing dependency on foreign interests. ✓✓
- A lack of foreign investment may encourage domestic industries to innovate, become more competitive, and thrive independently. ✓✓

Negative arguments

- Without Foreign Direct Investments, countries may struggle to finance large-scale development and growth projects as FDIs attract much-needed capital for infrastructure, production and technologies. ✓✓
- A lack of Foreign Direct Investments means that countries do not benefit from the advanced technology and skills associated with such investments; local industries may lag in production and innovation. ✓✓
- Foreign Direct Investments projects create employment opportunities and boost local employment; without which there are limited opportunities for employment to increase. ✓✓
- Foreign investors often introduce global market links; without them, local businesses may find it hard to compete and become part of international supply chains. ✓✓
- Less Foreign Direct Investment puts a strain on public finances as it reduces the tax base for the country. ✓✓

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

(Accept any other correct relevant answer)

(Any 5x2) (10)

CONCLUSION:

Globalisation is needed to ensure growth, but it must be combined with strategic internal goals and mechanisms to ensure that all participants are to be advantaged. ✓✓

(Accept any correct relevant conclusion.)

(Max 2)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [150]