

MARKING GUIDELINES

EXAMINATION	NATIONAL SENIOR CERTIFICATE
GRADE	12
DATE	JUNE 2024
SUBJECT	ECONOMICS
PAPER	2
MARK TOTAL	150
DURATION (HOURS)	2
NUMBER OF PAGES	20



SOUTH AFRICAN COMPREHENSIVE ASSESSMENT INSTITUTE
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SECTION A

QUESTION 1: COMPULSORY

30 MARKS- 20 MINUTES

1.1 MULTIPLE CHOICE QUESTIONS

- 1.1.1 B✓✓ differentiated
- 1.1.2 A✓✓ less at a higher
- 1.1.3 B✓✓ Explicit
- 1.1.4 D✓✓ Core
- 1.1.5 C✓✓ inbound
- 1.1.6 B✓✓ Erosion
- 1.1.7 C✓✓ Competition Commission
- 1.1.8 C✓✓ price leadership (8x2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E✓ The cost that changes as the quantity produced change.
- 1.2.2 F✓ The price level rises rapidly at rates exceeding 50% and the value of the currency of a country drop rapidly.
- 1.2.3 A✓ Responsible for marketing South Africa as a tourist destination.
- 1.2.4 K✓ Aims to eliminate or restrict the production and use of persistent organic pollutants.
- 1.2.5 I✓ Cost that change with the level of output.
- 1.2.6 H✓ A market structure dominated by two firms for a given product (commodity) or service.
- 1.2.7 C✓ The government can pass laws using an existing legislative framework to control businesses that generate negative externalities.
- 1.2.8 B✓ Occurs when wages do not keep up with the cost of living. (8x1) (8)

1.3 GIVE ONE WORD/TERM

(ABBREVIATIONS ACRONYMS AND EXAMPLES WILL NOT BE ACCEPTED.)

- 1.3.1 World heritage sites✓
- 1.3.2 Bio-fuel✓
- 1.3.3 Perfect market✓
- 1.3.4 Oligopoly✓
- 1.3.5 Pareto efficiency ✓
- 1.3.6 Producer Price Index✓ (6x1) (6)

TOTAL SECTION A: [30]

SECTION B

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

QUESTION 2: MICRO ECONOMICS**40 MARKS - 30 MINUTES****2.1 Answer the following questions:**

2.1.1 **Name the TWO market structures where complete market information is possible.**

- Perfect competition✓
- Monopolistic competition✓ (2x1) (2)

2.1.2 **Why does the monopoly have a downward sloping demand curve?**

- They are the only supplier of the product, they can decide at what point on the demand curve they wish to be. ✓✓ (1x2) (2)
- (Accept any other relevant answer.)

2.2 DATA RESPONSE

2.2.1 **Identify ONE social cost from the picture above.**

- Air pollution✓
- Water pollution✓
- Environmental damage✓ (Any 1x1) (1)

2.2.2 **Give ONE decision making criteria used in cost benefit analysis.**

- Net present value (NPV) ✓
- Internal rate of return (IRR) ✓
- Cost benefit ratio (CBR) ✓ (Any 1x1) (1)

2.2.3 **Briefly describe the term 'cost-benefit analyses.'**

Project evaluation that needs to be done in order to find conclusive answers/procedures used to measure total cost of a project against its total benefits. ✓✓ (2)

(Accept any other relevant answer.)



2.2.4 **Explain alternative measures the government could consider instead of building a new coal power station?**

- Maintenance of existing roads ✓✓
- Measures to prevent flooding in future ✓✓, e.g. dams ✓

(Accept any other relevant answer.)

(Any 1x2) (2)

2.2.5 **What is the need for a cost-benefit analysis before the government starts a new project.**

CBA will enable the government to:

- Make informed decisions ✓✓
- Be more objective in its decision making ✓✓
- Be more efficient in the allocation of resources ✓✓

(Accept any other relevant answer.)

(Any 2x2) (4)

2.3 DATA RESPONSE

2.3.1 **Identify the profit maximising point for the above firm.**

Point A✓

2.3.2 **Give the price that firms are willing to sell its products for in the graph above.**

R10✓

(1)

2.3.3 **Briefly describe the term 'long run'.**

Long run is a period where all factors of production can be changed.✓✓

(Accept any other relevant answer.)

(2)

2.3.4 **Explain interdependence as a characteristic of an oligopolistic market.**

(Accept any other relevant answer.)

No answers listed here?

(2)



2.3.5 What impact does price leadership have on the consumer?

- Consumers will need to pay premiums for the products and services that were previously much cheaper.
- Prices of goods and services will increase causing consumers to pay much higher prices for goods and services than before.
- Price leadership may lead to better-quality products because of an increase in profits.
- In the case where the price leader lowers prices, consumers may benefit with less expensive goods and services.

(Accept any other relevant answer.)

(Any 2x2) (4)

2.4 Distinguish between *productive* and *allocative* inefficiency without using graphs.

(2x4) (8)

Productive inefficiency

- The business does not produce at the lowest possible cost. ✓✓
- Resources are not used appropriately to produce the maximum number of goods. ✓✓
- There is room to reduce cost without producing fewer goods or without producing lower quality goods. ✓✓

(2x2)

Allocative inefficiency

- When resources are not allocated in the right proportions and the product mix does not meet the consumers' tastes. ✓✓
- Some goods might be oversupplied, while other goods might be under-supplied. ✓✓

(2x2)

(Accept any other correct relevant response.)

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

(2x4)

2.5 Evaluate the negative impact of imperfect competition on consumers

- Most businesses operating in imperfect markets maximise profits by supplying less than the optimal quantity of goods or services produced which means that some consumers' needs may not be met. ✓✓
- Reduced quantities lead to higher prices which may exclude lower income groups. ✓✓
- New businesses are sometimes prevented from entering the industry, thereby limiting competition, which prevents consumers from enjoying lower prices and a variety of goods. ✓✓
- Collusion which is rife in oligopoly markets results in higher prices which at times prevent some consumers to afford the product. ✓✓
- Consumers pay higher prices in the imperfect markets due to the fact that production does not take place at the lowest point of the LAC-curve. ✓✓

(Accept any other relevant answer.)

(Allocate a maximum of 2 marks for the mere listing of facts / examples.)

(Any 4x2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 30 MINUTES

3.1 Answer the following questions:

3.1.1 Name any TWO examples of eco-tourism.

- Visiting natural areas that are undisturbed ✓
- Drakensberg mountains ✓
- Kruger National Park ✓
- Visiting attractions of scenery ✓
- Flora and fauna ✓
- Vegetation ✓
- Forests ✓
- Wildlife ✓
- Namakwaland flowers ✓
- Enjoying the climate, sunshine, the sea, a river or lake ✓

(Accept any other relevant example.)

(Any 2x1) (2)

3.1.2 How do debtors benefit from inflation?

Debtors receive money with a high purchasing power and repay with money with low purchasing power.

(Accept any other relevant answer.)

(1x2) (2)

3.2 DATA RESPONDS

3.2.1 Identify the strategy employed to ensure the economical use of resources according to the extract.

Conservation✓

(1)

3.2.2 List ONE example of a renewable resource.

- Timber✓
- Agricultural products✓
- Recycling water✓
- Electricity generated by wind✓

(Accept any other relevant example.)

(Any 1x1) (1)

3.2.3 Briefly describe the concept of *conservation*.

Conservation is any strategy aimed at achieving the sustainable use and management of natural resources. ✓✓

(Accept any other relevant answer.)

(2)



3.2.4 Explain the negative impact of the depletion of resources on the environment.

- Depletion of resources causes waste products to be generated, also known as pollution. ✓✓
- It negatively affects biodiversity. ✓✓
- It can lead to climate change and global warming. ✓✓
- Future generations will not be able to use the resources if they are depleted by the current generation ✓✓

(Accept any other relevant answer.)

(Any 1x2) (2)

3.2.5 What methods can be used to reduce the cutting down of trees?

(4)

- Marketing campaigns against deforestation/public opinion. ✓✓
- Use of technology to substitute the wood in products, thus reducing the demand for wood. ✓✓
- Legislation that protects natural occurring forests/expanding plantations to increase supply. ✓✓

(Accept any other relevant answer.)

(Any 2x2) (4)

3.3 DATA RESPONSE

3.3.1 Give the current inflation targets of the South African Reserve Bank.

3% - 6%✓

(1)

3.3.2 What is the main purpose of South Africa's targeting policy?

Ensure a stable economy✓

(Accept any other relevant answer.)

(1)

3.3.3 Briefly describe the term *inflation*.

A sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money. ✓✓

(Accept any other relevant answer.)

(2)

3.3.4 Explain the negative effect of inflation on the balance of payments.

Exports will decrease, because foreign countries will import less from South Africa, because of higher prices of South African products. ✓✓

(Accept any other relevant answer.)

(2)

3.3.5 How successful is the Reserve Bank in reaching its inflation targets?

Inflation figures are within the SARB inflation targets. ✓✓

In time of high inflation, the SARB enforced expansionary monetary policy ✓✓ by;

- increase interest rates ✓
- credit become more expensive ✓ and
- expenditure decrease. ✓

(Accept any other relevant answer.)

(Any 2x2) (4)

3.4 Discuss the impact of tourism on *poverty and employment*.

Poverty

- Tourism brings development to the poor in rural areas. ✓✓
- Many of the prime tourist attractions are located in rural areas, therefore alleviating poverty in those areas. ✓✓
- Tourism allows the poor a stake in the economy. ✓✓
- It provides opportunities to start small businesses around community assets and to establish SMME's to provide services. ✓✓
 - e.g. transport, retail and accommodation. ✓
- Tourism empowers the poor, it provides opportunities for on-the job and other training. ✓✓
- Tourism also creates partnerships, such as linking up with mainstream tourism business. ✓✓

(2x2)

Employment

- Tourism has a major positive effect on employment. ✓✓
- Tourism is labour-intensive and creates many employment opportunities. ✓✓
- Tourism employs a huge variety of skills, and there is room for almost any skill in the tourism industry. ✓✓
- Many tourist activities are within the reach of small operators. ✓✓
- Tourism can provide immediate employment, such as accommodating the unskilled. ✓✓

(2x2)

(Accept any other correct relevant response.)

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

(Any 2x4) (8)



3.5 Why should businesses sustain the environment?

- In order to ensure the environment as the primary/natural resource that is needed to produce goods and services, is available. ✓✓
- To ensure that resources do not become extinct/depleted. ✓✓
- In order to maintain long-term economic profit. ✓✓
- The environment can create a larger market for businesses. ✓✓
- This enhances the image of the business in the eyes of customers. ✓✓
- It improves the availability of resources for everyone. ✓✓
- Sustainability creates business value for long-term prosperity. ✓✓

(Accept any other relevant answer.)

(Allocate a maximum of 2 marks for the mere listing of facts / examples.) (Any 4x2) (8)

[40]

**QUESTION 4: MICRO ECONOMICS AND CONTEMPORARY
ECONOMIC ISSUES**

40 MARKS – 30 MINUTES

4.1 Answer the following questions:

4.1.1 Name any TWO consequences of market failure.

- Allocative inefficiency✓
- Productive inefficiency✓
- Externalities✓
- Government intervention✓

(Accept any other relevant answer)

(Any 2x1) (2)

4.1.2 How do taxes ensure environmental sustainability?

- Reduce pollution through green tax and environmental tax. ✓✓
- By levying it on products associated with high pollution levels. ✓✓
- Use tax revenue to promote environmental-friendly products e.g. solar geysers. ✓✓

(Accept any other relevant answer.)

(Any 1x2) (2)

4.2 DATA RESPONDS

4.2.1 List ONE barrier of entry portrayed by the cartoon.

- Patent rights✓
- Exclusive resources✓

(Any 1x1) (1)

4.2.2 Name the type of monopoly is depicted in the above cartoon.

- Artificial monopoly✓
- A monopoly with patent rights✓

(Any 1x1) (1)

4.2.3 Briefly describe the term *monopoly*.

In a monopoly there is only one producer or seller for a product. ✓✓

(Accept any other relevant answer.)

(2)

4.2.4 Explain ONE cause for the creation of natural monopolies.

Natural monopolies are created by:

- associating with high development or input cost. ✓✓
- being owned or regulated by the government. ✓✓

(Accept any other correct relevant answer.)

(2)

4.2.5 Why will a monopolist not charge excessively high prices for a product?

- A monopolist is exposed to market forces. ✓✓
- Consumers have limited budgets and will look for alternatives if the price becomes too high. ✓✓

(Accept any other correct relevant response.)

(2x2) (4)

4.3 DATA RESPONSE

4.3.1 **How many Small Medium and Micro Enterprises were selected to exhibit the South African tourism profile?**

70 SMME's ✓

(1)

4.3.2 **Name ONE benefit that Small Medium and Micro Enterprises have enjoyed during the Indaba.**

- Networking opportunities with buyers from around the world. ✓
- Workshops aimed to provide knowledge about the market. ✓
- Increased access to markets. ✓
- Shared the stories with global media. ✓

(Any 1x1) (1)

4.3.3 **Briefly describe the term *tourism*.**

Tourism is activities of people travelling to and staying in places outside their usual environment for not more than a year. ✓✓

(Accept any other relevant answer.)

(2)

4.3.4 **Explain the importance of infrastructure development for tourism.**

- Adequate and well-maintained physical and basic services, infrastructure is essential for tourists' destinations. ✓✓
- A well-developed infrastructure system is crucial for the advancement of tourism in South Africa. ✓✓
- Public Private Partnerships (PPP) are sometimes used for the development of infrastructure increasing economic growth and development. ✓✓
- Government has prioritized economic infrastructure to support tourism growth. ✓✓

(Accept any other relevant answer.)

(Any 1x2) (2)

4.3.5 **How can government ensure sustainable job creation in the tourism industry?**

- Subsidising the employment creation capabilities of the sector ✓✓
- Subsidising the protection and maintenance of the established tourist sites ✓✓
- Enhancing the marketing face of the sector exclusively for the country ✓✓
- Embarking on a strong marketing plan and strategies ✓✓

(Accept any other relevant answer.)

(Any 2x2) (4)

4.4 Briefly discuss the negative effects of inflation on investors and people with a fixed income.

Negative effect on investors:

- decreasing the value of the investors' assets with a fixed nominal value ✓✓
- giving the investors a fixed return if the assets are held until maturity ✓✓
 - E.g. fixed deposits/government bond as it decrease in value as inflation increases ✓
- discouraging foreign investors from investing money in a country with a high inflation rate ✓✓

(2x2)

Negative effect on people with a fixed income:

- increasing at a faster rate than the fixed income people earn. ✓✓
- decreasing their buying power to purchase fewer goods and services, as prices increase. ✓✓
 - e.g. the poor who receive social grants/pension/retired people. ✓
- saving less because they became poorer. ✓✓

(2x2)

(Accept other correct relevant responses.)

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

(2x4) (8)

4.5 How does an individual firm determine its prices in a perfect competition market?

- The individual business is a price-taker in a perfectly competitive market. ✓✓
- The individual business sells its product at the market price that is determined through the interaction of demand and supply. ✓✓
- The individual business has a horizontal curve that is completely elastic. ✓✓
- As long as the business charges the market price for its products, there will be a demand for the product. ✓✓
- If the business tries to sell its products at a price above the market price, there will be no demand since all participants have perfect knowledge. (Know the existing market price.) ✓✓
- The business will not attempt to sell its products at a price lower than the market price, since the business will not be able to maximise its profits. ✓✓

(Accept any other relevant answer.)

(Allocate a maximum of 2 marks for the mere listing of facts / examples.)

(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/Analyse/ Compare/Evaluate/Distinguish/Differentiate/Explain</p> <p>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.</p> <p>Mark Allocation A maximum of six marks will be awarded for listing and examples. Bullets in full sentences will be awarded two marks. Headings and sub-headings will receive one mark each.</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 judgement 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: MICRO ECONOMICS

40 MARKS – 40 MINUTES

- **Discuss the causes of market failure in detail.** (26)

- **Evaluate the advantages and disadvantages of the implementation of a minimum wage in South Africa.** (10)

[40]

INTRODUCTION

Market failure means that the best available or optimal production outcome has not been achieved/it is the failure of markets to achieve optimum resource allocation. ✓✓
(Accept any other relevant introduction.) (max 2)

BODY: MAIN PART

REASONS:

Externalities ✓

- These are known as spill-over effects to a third party. ✓✓
- These are those costs and benefits that convert private costs and benefits into social costs and benefits. ✓✓

Concepts:

- Private costs (internal costs) ✓
- Private (internal) benefits ✓
- Social costs ✓
- Social benefits ✓
- Private costs and benefits have price – externalities do not have a price – is cost or benefit to third parties ✓✓

Public goods ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted. ✓✓
- Markets can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by the market mechanism. ✓✓
- Producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes. ✓✓
- There is no basis for establishing a market price. ✓✓
- Community and collective goods together are known as public goods. ✓✓



Community goods: These are goods such as defence, police service, prison services, street lighting, flood control, storm water drainage and lighthouses. ✓✓

Collective goods: These are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerage systems, waste removals, water reticulation and refuse removals. ✓✓

Features of community and collective goods are:

- **Non-rivalry:** This feature means that consumption by one person does not in any way reduce the consumption by another person. ✓✓
 - e.g. lighthouse or street lighting. ✓
- **Non-excludability:** This feature refers to the fact that consumption of a good cannot be confined to those who have paid for it, so there can be free-riders. ✓✓
- People can enjoy the product without paying for it. ✓✓
 - e.g. radio and television in South Africa have many free riders. ✓

Merit and demerit goods ✓

MERIT GOODS:

- Some goods highly desirable for general welfare – not highly rated by market – leads to too little consumed – market failed. ✓✓
 - E.g. health care and education, safety – merit goods – special form of private goods. ✓
- Few people would pay for education if they had to meet full cost – results in market failure. ✓✓

DEMERIT GOODS:

- Consumer unaware of true cost of consuming them = negative externalities. ✓✓
- Government can ban their consumption or reduce it through taxation and provide information about their harmful effects. ✓✓
 - E.g. cigarettes, alcohol and non-prescription drugs – over-consumed. ✓

Imperfect competition ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Imperfect competition allows businesses to restrict output and raise prices. ✓✓
- Businesses produce where price exceeds marginal cost. ✓✓
- They can also prevent new businesses from entering the industry, thereby preventing full adjustment to changes in consumer demand occurring. ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓



- **Workers:** They may be unaware of job opportunities outside their current employment. ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

Immobility of factors of production ✓

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- While this may be partly due to lack of information, it is also true that resources are very often not mobile. ✓✓
- **Labour:** They may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- They last for many years, but cannot be moved to fit a change in demand. ✓✓
- **Technological applications change production methods:**
- Technology used in the production may change. ✓✓
 - e.g. the use of robots rather than labour in mines. ✓
- It takes time for most industries to adapt. ✓✓
- Workers must be willing to update their skills throughout their working lives. ✓✓
- Workers need to change employment, occupations and work patterns because of technological advances. ✓✓

Labour: They may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓

Physical capital: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓

They last for many years, but cannot be moved to fit a change in demand. ✓✓

Imperfect distribution of income and wealth ✓

Perhaps the most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓

If the initial distribution is unequal, the final distribution will be too. ✓✓

For this reason, it is often argued that the market fails. ✓✓

(Accept any other relevant response.)

(Allocate a maximum of 6 marks for headings / sub-headings/examples)

(max 26)

ADDITIONAL PART

Evaluate the advantages and disadvantages of the implementation of a minimum wage in South Africa.



ADVANTAGES

- Minimum wage earners are protected by law and basic human rights. Many farm workers and domestic workers are better off than before. ✓✓
- Minimum wage earners enjoy a better living standard/ensure sustainable income. ✓✓
- Minimum wage earners can also enjoy unemployment benefits for which they did not qualify before. ✓✓
- Minimum wage earners are also entitled for sick leave with pay. ✓✓
- Minimum wage earners are also entitled to annual leave with pay. ✓✓
- Women are also entitled to maternity leave without the risk of becoming unemployed. ✓✓

DISADVANTAGES

- Demand for labour can decline and the supply of labour can increase, leading to a surplus of labour in the labour market. ✓✓
- Unemployment can increase due to employers not being able to pay the minimum wage. ✓✓
- More people will rely on government support such as grants, healthcare services and education. ✓✓
- Poverty can increase and the standard of living can decrease. ✓✓

(Accept any other relevant answer.)

(Students must cover advantages and disadvantages to earn 10 marks).

(max 10)

CONCLUSION

The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively. ✓✓

(Accept any other relevant conclusion.)

(max 2)

[40]

OR

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 40 MINUTES

- **Discuss the causes and consequences of demand-pull inflation.** (26)
- **Evaluate the success of using the fiscal policy to combat inflation.** (10)

[40]

INTRODUCTION

Inflation is the general increase in prices over a specific timeframe / Inflation reduces the purchasing power of a currency / Demand-pull inflation is caused by consumers who are demanding more, while the supply of the product stays the same or is reduced. ✓✓
 (Accept any other correct relevant introduction.) (Max. 2)

BODY MAIN PART

CAUSES

Increase in household consumption: ✓

- Due to easily available credit, a reduction in taxes and less savings. ✓✓

Investors expenditure: ✓

- May lead to higher profit expectations of businesses. ✓✓
- They will invest more, this might lead to an increase in the demand for goods and services. ✓✓

Government expenditure: ✓

- An increase in government spending leads to an increase in prices. ✓✓
- More money comes into circulation due to an increase in spending on infrastructure, consumption spending and social spending. ✓✓

Export earnings: ✓

- The growth in foreign countries might create an increased demand for locally produced goods without an increase in production. ✓✓

The Monetarist explanation ✓

- According to the monetarists, sustained high rates of growth in the money supply cause high inflation, while low rates of growth cause low inflation. ✓✓
- They base their view on the quantity theory of money ($MV = PT$). ✓✓

They make three basic assumptions:

1. The velocity of circulation of money is stable. ✓✓
2. The quantity of money is exogenously determined by monetary authorities. ✓✓
3. The real output is determined by the quantity and quality of various factors of production. ✓✓

CONSEQUENCES

Debtors/Creditors: ✓

- Debtors benefit because they receive money with a high purchasing power and repay their debt with money with low purchasing power. ✓✓
- Creditors on the other hand suffer. ✓✓

Wage and salary earners: ✓

- People with a fixed income will be able to purchase less as prices are rising. ✓✓

Investors and savers: ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase. Real value of savings decreases. ✓✓

Taxpayers: ✓

- In South Africa, income is taxed on a progressive system. We experience a bracket creep, resulting from inflation and progressive income tax and the government benefits. ✓✓

Disruption of industrial peace: ✓

- Wage bargaining is accompanied by strikes and mass action. ✓✓
(Allocate a maximum of 6 marks for the mere listing of facts / examples.)
(Accept any other relevant correct response.)

(max 26)

ADDITIONAL PART

Evaluate the success of using the fiscal policy to combat inflation.

Fiscal policy as a measure to combat inflation is successful by ...

1. Increasing direct taxation. ✓

- Decreasing disposable income which means that people will have less money available to spend. This will lead to a decrease in the demand. ✓✓

2. Increasing indirect taxation. ✓

- An increase in these taxes will increase the price of goods and services which should lead to a decrease in demand. ✓✓
 - e.g. VAT, excise duties or customs duties. ✓

3. Decreasing government expenditure. ✓

- Leading to less money injected into the circular flow which would lead to a decrease in demand. ✓✓

4. Increase in taxes. ✓

- More revenue for government to finance a budget deficit. ✓✓



5. Acquiring loans from the non-banking sector which is non-inflationary. ✓✓

(Accept any other relevant answer.)

(max 10)

CONCLUSION

Inflation must be carefully monitored and combatted so that it can have a minimal effect on the economy. ✓✓

(max 2)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [150]