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# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS P1**

**NOVEMBER 2015**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 20 pages.**

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

- |       |                               |         |      |
|-------|-------------------------------|---------|------|
| 1.1.1 | B (investment) ✓✓             |         |      |
| 1.1.2 | A (amplitudes) ✓✓             |         |      |
| 1.1.3 | C (collective) ✓✓             |         |      |
| 1.1.4 | B (assets and liabilities) ✓✓ |         |      |
| 1.1.5 | C (dumping) ✓✓                |         |      |
| 1.1.6 | B (medium) ✓✓                 |         |      |
| 1.1.7 | A (subsidies) ✓✓              |         |      |
| 1.1.8 | A (mortality rate) ✓✓         | (8 x 2) | (16) |

**1.2 MATCHING ITEMS**

- |       |  |         |     |
|-------|--|---------|-----|
| 1.2.1 | I – Buying and selling equities ✓  |         |     |
| 1.2.2 | F – Give advance warning of change in economic activity ✓                    |         |     |
| 1.2.3 | H – Shows income and expenditure estimates for three years ✓                 |         |     |
| 1.2.4 | A – Price of one country's currency in terms of another country's currency ✓ |         |     |
| 1.2.5 | C – A trade policy that leads to an increase in local production ✓           |         |     |
| 1.2.6 | B – Rich industrial countries of the world ✓                                 |         |     |
| 1.2.7 | E – Education and health ✓   |         |     |
| 1.2.8 | D – Aims to reduce the centralisation of industries ✓                        | (8 x 1) | (8) |

**1.3 GIVE ONE TERM**

- |       |                           |         |     |
|-------|---------------------------|---------|-----|
| 1.3.1 | Multiplier ✓              |         |     |
| 1.3.2 | Money / financial ✓       |         |     |
| 1.3.3 | Merit / public ✓          |         |     |
| 1.3.4 | Foreign / international ✓ |         |     |
| 1.3.5 | Gini ✓                    |         |     |
| 1.3.6 | Life expectancy ✓         | (6 x 1) | (6) |

**TOTAL SECTION A: 30**

**SECTION B**

Answer any TWO of the three questions.

**QUESTION 2: MACROECONOMICS**

- 2.1      2.1.1      **Give TWO examples of injections in the circular flow.**
- Export income / X ✓
  - Investments / I ✓
  - Government expenditure/spending / G ✓
- Any (2 x 1) (2)
- 2.1.2      **What effect will quotas have on imports?**
- It will restrict imports (decline) ✓✓
  - Imports become more expensive ✓✓
- (1 x 2) (2)
- 2.2      **Data Response**
- 2.2.1      **What method of calculation was used in the table above to determine the gross domestic product?**
- Income method / GDP (I) ✓ (1)
- 2.2.2      **Give ONE example of taxes on products.**
- VAT ✓
  - Sins tax / excise duty ✓
  - Fuel levy ✓
- (1)
- 2.2.3      **Name the missing item labelled (A).**
- GVA (GDP) at basic prices ✓✓ (2)
- 2.2.4      **How would you convert GDP to GNP?**
- GDP plus primary income from the rest of the world ✓ minus primary income to the rest of the world ✓ / GDP plus/minus ✓ net primary income ✓ (2)
- 2.2.5      **Calculate the compensation of employees as a percentage of GDP at market prices in 2013. Show ALL calculations.**
- $1\,576/3\,385 \times 100 = 46,55\% \text{ or } 47\%$  ✓✓ (4)

## 2.3 Data Response

### 2.3.1 What message is conveyed in the cartoon above?

Free trade is benefitting the developed countries / less developed countries are disadvantaged ✓✓  
(Accept any other relevant answer)

(2)

### 2.3.2 Which international organisation promotes free trade?

World Trade Organisation (WTO) ✓✓

(2)

### 2.3.3 Suggest ONE way in which a country can be disadvantaged by free trade.

- Dumping can take place ✓✓
  - It can lead to economic instability ✓✓
  - Exploitation of natural resources ✓✓
  - It can compromise a country's economic independence ✓✓
  - Infant industries may not grow (mature) ✓✓
  - Lead to increased unemployment ✓✓
  - The environment, safety and labour regulations are undermined ✓✓
  - Foreign companies can sue governments for losses ✓✓
- (Accept any other relevant answer)

(2)

### 2.3.4 How does South Africa benefit from trade relations with China?

- Greater variety of products on South African markets ✓✓
  - Many products are cheaper ✓✓
  - Chinese investment greater in South Africa: boost the economy ✓✓
  - Both countries form part of BRICS - it will benefit them even more ✓✓
- (Accept any other relevant answer)

Any (2 x 2)

(4)

## 2.4 Briefly explain the different kinds of *tariffs* as a method of import substitution.

- **Ad valorem** ✓ a percentage of the value on luxury goods ✓✓ such as motorcars, jewellery and perfumes ✓
- **Specific** ✓ an amount per unit, mass or size ✓✓ e.g. food, animals and plants ✓
- **Composite / multiple** ✓ when a specific tariff and an ad valorem tariff are levied on imported products ✓✓ e.g. R10 is levied on a product plus a percentage of 20% of the value of the product ✓

(Accept any other relevant answer)

(4 x 2)

(8)

2.5 **How can the household as an important participant in the circular flow model contribute to building the economy?**

- The owners of the four factors of production can try to increase the quality thereof to make a better contribution to the economy ✓✓
- Households can sell their factors of production at lower rates to help to lower the inflation rate and build the economy ✓✓
- Households (labourers) can limit labour unrest and strikes where they usually claim unreal increases in payment (much more than the current inflation rate) ✓✓
- Households can increase their savings and contribute indirectly to increased production in the manufacturing sector ✓✓
- Households can limit their spending on luxury goods that will limit the aggregate demand and stabilise prices ✓✓
- Households can concentrate on buying South African goods to stimulate local production, future exports and increased penetration of markets internationally ✓✓
- Households can pay their relevant taxes and claim better service delivery and infrastructure development ✓✓

(Accept any other relevant answer)

Any (4 x 2)

(8)  
**[40]**

**QUESTION 3: ECONOMIC PURSUITS**

3.1 3.1.1 **Name any TWO redress measures currently used in South Africa.**

- BBBEE Act ✓
- Employment Equity Act ✓
- Land Restitution Act ✓
- Land Redistribution Act ✓
- Policy Promoting Equality ✓
- Poverty reduction policy ✓
- Affirmative Action ✓

(Accept any relevant answer)

Any (2 x 1) (2)

3.1.2 **How does economic growth relate to economic development?**

*When an economy is growing the following may result:*

- More jobs will be created ✓✓
- More people will receive income ✓✓
- The standard of living will improve ✓✓
- You need economic growth for economic development to take place. Economic growth does not guarantee economic development ✓✓

(Accept any other relevant answer)

Any (1 x 2) (2)

3.2 **Data Response**

3.2.1 **What is the difference in the per capita income between countries in the North and countries in the South?**

- South has low per capita income / which constitute 15% of the world's income ✓
- North has high per capita income / which constitutes 85% of the world's income ✓

(Accept any other relevant answer)

(2 x 1) (2)

3.2.2 **What message is conveyed in the cartoon above?**

North/South divide / North is controlling the South / The North benefits more than the South / The North has all the wealth compared to the South / The South are marginalised ✓✓

(Accept any other relevant answer)

(2)

3.2.3 **Why will the subsidising of agricultural produce by wealthy countries make it difficult for developing countries to participate?**

- Subsidies lead to lower market prices for wealthy countries and developing countries experience unfair competition internationally ✓✓
- Most African countries are dependent on agricultural produce that determine their national income in a large way. Most people are influenced negatively by the hothouse effect – produce decreases ✓✓

(Accept any other relevant response) (2)

3.2.4 **How do countries in the North contribute to the destruction of the environment?**

- Mass production of goods and services causing pollution ✓✓
- High levels in industrial activities cause climate change ✓✓
- Over industrialisation lead into the exhaustion of natural resources ✓✓
- Deforestation due to over industrialisation ✓✓ (2 x 2) (4)

(Accept any other relevant response)

3.3 **Data Response**

3.3.1 **What does the abbreviation *SDI* stand for?**

Spatial Development Initiative ✓✓ (2)

3.3.2 **Give ONE example of an SDI in South Africa.**

- Maputo Development Corridor ✓✓
- Richards Bay SDI ✓✓
- Wild Coast SDI ✓✓
- Lubombo SDI ✓✓
- Fish River SDI ✓✓
- West Coast Investment Initiative ✓✓
- Platinum SDI (Coast to coast) ✓✓
- Phalaborwa SDI ✓✓ (2)

3.3.3 **Explain the term *corridors*.**

A corridor is a spatial area that forms a passage way allowing access from one area to another and offering advantages to mining, manufacturing and other businesses ✓✓

(Accept any other relevant answer) (2)



**3.3.4 How will South Africa benefit from SDIs?**

- Improving logistics and policy environment ✓✓
  - New investments ✓✓
  - Job opportunities ✓✓
  - New business opportunities ✓✓
  - New export opportunities ✓✓
- (Accept any other relevant answer)

Any (2 x 2) (4)

**3.4 Briefly discuss special economic zones (SEZs) in South Africa.**

- It is a geographical demarcated area where specific economic activities have been identified to develop ✓✓
  - Main aim is to expand the manufacturing sector ✓✓
  - Produce for the export market ✓✓
  - Create additional industrial hubs so that the national industry base will be diversified ✓✓
  - These areas may enjoy incentives such as tax relief and support systems to promote industrial development ✓✓
  - There are plans to reduce tax to 15% as an incentive to attract new industries ✓✓
  - The **aim** of creating SEZ is to attract:
    - only new businesses ✓✓
    - business which are developing a new product line ✓✓
    - business which are expanding their volume ✓✓
  - The DTI has indicated that the existing IDZs where special tax incentives do not apply, would be graduated into SEZs ✓✓
  - It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment ✓✓
- (Accept any other relevant fact)

Any (4 x 2) (8)

**3.5 To what extent has the government's fiscal policy succeeded in ensuring a desirable redistribution of income?**

- Progressive personal income tax implicates higher tax rates levied on high income earners and lower rates of taxes applying to lower income earners - it leads to a desirable redistribution of income ✓✓
- A too progressive personal income tax system has led to tax evasion and avoidance – this might cripple the system. The number of people responsible for most of the income of the state is decreasing ✓✓
- Taxes on assets owned as well as wealth taxes (CGT) are both categories where those who can afford it; must pay the taxes concerned ✓✓
- Cash benefits include grants to the poor – old age pensions; disability grant; UIF are amounts paid to those who form part of the lower income groups of people without any income ✓✓
- Benefits in kind comprises lower fees or no fee for certain income categories, e.g. health care, education, protection, municipal services tries to redistribute income successfully although major problems of nepotism, apathy, lack of motivation and inefficiency occurs in these sectors where money allocated for these groups are not spent accordingly ✓✓
- Land reform programme involves returning of land to people that were previously dis-owned without compensation as well as people excluded from owning land in the past. Implementation of this policy remains problematic due to certain decisions being taken that might reduce mass production dramatically and we might not be able to feed the nation – disadvantaging the poor even more ✓✓
- Cash and financial benefits to SMMEs where Government provides training, employment subsidies and financing of SMMEs - previously disadvantaged groups will enjoy preference and income would be successfully redistributed ✓✓
- Public works programmes provide employment but usually on a temporarily basis e.g. where unemployed are appointed to build stadiums for a World Cup ✓✓
- Property subsidies are paid to persons earning less than R3 500 per month ✓✓

(Accept any other relevant facts)

Any (4 x 2)

(8)  
**(40)**

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS**

- 4.1      4.1.1      **Name any TWO phases of a business cycle.**
- Recession ✓
  - Depression ✓
  - Prosperity ✓
  - Recovery ✓
- (Accept any other relevant fact) Any (2 x 1) (2)
- 4.1.2      **How does a high level of education influence the ability of an individual to get employed?**
- It provides skills to do a specific job ✓✓
  - It provides knowledge to do a specific job ✓✓
- (Accept any other relevant answer) Any (1 x 2) (2)
- 4.2      **Data Response**
- 4.2.1      **Identify the institution responsible for publishing the data above.**
- South African Reserve Bank / SARB ✓ (1)
- 4.2.2      **What is the trend in the index of import prices?**
- The index of import prices is increasing ✓ (1)
- 4.2.3      **Explain the term *terms of trade*.**
- The ratio of the index of export prices to the index import prices /  
The relationship between export price and import prices / It  
expresses a country's export prices in terms of its import prices ✓✓  
(Accept any other relevant fact) (2)
- 4.2.4      **Briefly explain why an increase in the terms of trade will have a positive effect on the welfare of the country.**
- There will be increasing economic welfare because more revenue  
is earned with the same expenditure ✓✓  
(Accept any other relevant fact) (2)
- 4.2.5      **Calculate the terms of trade for 2011 (A). Show ALL calculations. Round off your answer to ONE decimal place.**
- $\frac{191}{153} \times 100 = 124,8$  ✓  
(Max 4) (4)

4.3 **Data Response**4.3.1 **Which curve is depicted in the graph above?**

Laffer curve ✓✓

(2)

4.3.2 **What tax rate will generate maximum revenue for the government?**

40% ✓✓

(2)

4.3.3 **What is the correlation between a tax rate of zero and a tax rate of 100 % for the government?**

In both scenarios government will receive no income ✓✓

(2)

4.3.4 **Explain the implication of a tax rate of 60% on the taxpayer.**

- Tax evasion or tax avoidance will occur because too much tax is levied on the taxpayer ✓✓
- Taxpayer's burden will increase (by 20%) ✓✓
- Some of the tax payers will stop working due to the increased tax load ✓✓

(2 x 2)

(4)

4.4 **Differentiate between *devaluation* and *appreciation* of a currency.****Devaluation:**

- A decrease in the value of a currency ✓ by authorities (government) ✓
- Refers to a fixed exchange rate system ✓✓
- The government might devalue a currency to improve exports ✓✓
- The government can change the rate from \$1 = R10 changes to \$1 = 12 ✓✓

(Max 4)

**Appreciation:**

- An increase in the value of a currency ✓ due to market forces ✓
- Typical of a floating exchange rate system ✓✓
- \$1 = R10 changes to \$1 = 8 ✓✓

(Max 4)

(8)

4.5 **How can the South African government improve *efficiency in service delivery*?**

- Goods and services should be provided in the desired quantity and quality ✓✓
- Public goods can be efficiently provided if pareto efficiency is achieved ✓✓
- Minimising *red tape* / avoid bureaucracy ✓ rules and procedures should be streamlined to minimize the negative impact on the delivery of services ✓
- Increase training ✓ effective training must be provided for government officials e.g. in-service training, reskilling ✓
- Improve motivation ✓ by providing *awards* to productive workers, financially or payment in kind ✓
- Eliminate corruption ✓ put effective monitoring measures in place ✓

(Accept any other relevant answer)

Any (4 x 2)

(8)

**[40]****TOTAL SECTION B:****80**

**SECTION C**

Answer ONE of the two questions in this section in the ANSWER BOOK.

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain /Assess/Debate	Max. 26
<b>Additional part:</b> 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	Max. 10
<b>Conclusion</b> Any higher order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or valued judgement 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 MACROECONOMICS**

The new economic paradigm is embedded (rooted) in demand-and-supply-side policies to influence the economy.

- Discuss the use of monetary and fiscal policies to influence demand-and-supply in the smoothing of business cycles. (26 marks)
- How has the Keynesian (endogenous) school of thought influenced business cycles? (10 marks)

**INTRODUCTION**

- Theories by the Monetarists (Friedman) and Keynesians (Keynes) are extreme and only true under specific circumstances /
- Under real circumstances, government pursues economic growth irrespective of being inherently stable or unstable market conditions prevalent /
- According to the New Economic paradigm, it is possible for output rise over extended periods of time without being hampered by supply constraints and inflationary pressures/-does not render ideal policies /
- Smoothing of the business cycle is when policy is used to prevent dramatic peaks and troughs /
- Consecutive periods of increasing and decreasing economic activities ✓✓  
(Accept any other relevant introduction) **(Max 2)**

**BODY****MAIN PART**

- Governments' 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 ✓✓
- Governments use monetary and fiscal policies to do this ✓✓
- Fiscal policy - more successful in stimulating a depressed economy ✓✓
- Monetary policy is more effective when 'dampening' an overheated economy that has inflation rising ✓✓

**Monetary policies**

When the level of economic activity changes the SARB can use expansionary and contractionary measures 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 ✓✓
- Household and firms can therefore borrow more and 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 ✓✓
- If the supply of goods and services does not increase in line with increase in demand inflation will increase. This means that demand will be greater than supply ✓✓
- Inflation can be curbed by reducing money supply and availability of credit ✓✓
- To dampen the demand at the peak the government will be able to reduce money supply by increasing interest rates ✓✓ selling government bonds and securities (open market transactions) and reduce the supply of money in circulation ✓✓ increase the cash reserve requirements 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 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 can 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 ✓✓
- 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 shortages of skilled labour ✓✓

- Aggregate supply needs to be managed as well - focus on increased flexibility of supply components ✓✓
- If the costs of increasing production is completely flexible, a greater output can be supplied at any given price level ✓✓

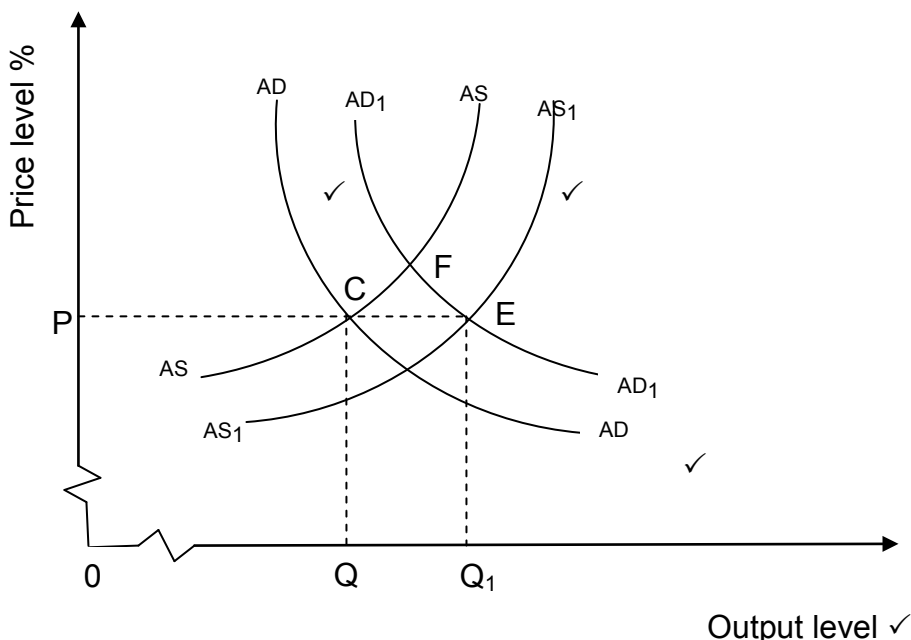
**Supply-side policies** governments can arrange things in the economy in a way that is cooperative to changes in demand.

- **Reduction of costs** ✓ Greater output supplied at any given price level. AS shifts to  $AS_1$  and AD to  $AD_1$  ✓✓ output expands from Q to  $Q_1$  with prices stable ✓✓
- **Government measures that can reduce costs** ✓
  - Infrastructural services like communication, transport and energy costs ✓✓
  - Administrative costs like inspections and regulations - add to overall costs ✓✓
  - Cash incentives like subsidies ✓✓ and compensation to exporters ✓✓
- **Measures to improve efficiency of inputs** ✓
  - Tax rates - high rates of personal income tax are disincentives ✓✓ and shifts AS to the right - usually achieved with incentive schemes and measures such as tax rates ✓✓
  - Capital consumption by replacing capital goods on a regular basis that will create opportunities for businesses to keep up with technological development ✓✓
  - Human resources development where the quality of labour can be improved by improving health care, education and training which will increase the efficiency of businesses ✓✓
  - Free advisory services to promote opportunities to export and establish business activities in foreign countries which includes weather forecasts, veterinary services and research ✓✓
- **Improving efficiency of markets** ✓
 

Measures to improve efficiency include

  - Deregulation where laws and regulations are removed to make markets free ✓✓
  - Competition are encouraged to establish new businesses, invite foreign direct investment and remove power imbalances ✓✓
  - Levelling the economic playing fields because private businesses cannot compete with public enterprises due to legislative protection ✓✓

**AGGREGATE DEMAND AND SUPPLY ✓**



MARK ALLOCATION FOR GRAPH	
Correct heading	= 1 mark
Correct position of curves	= 2 marks
Labelling of axis	= 1 mark
Labelling of curves	= 1 mark
TOTAL = 5 MARKS	

**The effects of demand-side and supply-side policies:**

- **Inflation ✓** Aggregate demand and supply are in equilibrium at point C ✓✓ Aggregate demand is stimulated and moves to AD<sub>1</sub>, supply responds and relocates at AS<sub>1</sub> ✓✓ larger real output without price increases ✓✓
- **Supply often sticky and fixed in short term ✓** with increase in demand to AD<sub>1</sub>, supply stays constant - intersects at point F - real production and prices increase ✓✓ (inflation) - creates conditions where supply is more flexible - through the use of supply-side measures ✓✓
- **Unemployment ✓** Demand-side policies effective in stimulating economic growth ✓✓ increases demand for labour ✓✓ reduces unemployment ✓✓ then inflation rises ✓✓ (Max 26)



**ADDITIONAL PART****How has the Keynesian (endogenous) school of thought influenced business cycles?**

- The Keynesian (endogenous) view is that markets are inherently unstable, therefore government intervention is necessary to stabilise the economy ✓✓
- They argue that changes in value of total expenditure bring about changes in demand ✓✓
- Government can intervene through fiscal policy which includes taxes and government spending ✓✓
- During a recession, government can increase its spending and reduce taxes. (stimulate) ✓✓
- This will increase the level of economic activity e.g. production, employment, income and demand ✓✓
- During a peak the government can increase taxes and reduce government spending ✓✓
- This will result in reduced income, reduced demand for factors of production, and expenditure ✓✓

(Max. 10)

(Accept any other relevant response)

**CONCLUSION**

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

(Accept any other relevant conclusion)

(Max. 2)

**(40)**

**QUESTION 6: ECONOMIC PURSUITS**

**Economists use different indicators that help in decision-making.**

- **Discuss, in detail, the following economic indicators that are used to assess the performance of the economy:**
  - Inflation rate
  - Employment **(26 marks)**
- **How successful is the South African Reserve Bank in stabilising prices on the different markets as its main objective?** **(10 marks)**

**INTRODUCTION**

Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take ✓✓

(Accept any other suitable introduction)

(Max. 2)

**BODY****MAIN PART****THE INFLATION RATE**

Inflation can be described as an increase in the general level of prices in an economy that is sustained over a period of time ✓✓

SARB aims to keep the inflation rate stable between 3 and 6% ✓✓

The following instruments are used to measure inflation:

- **Consumer Price Index (CPI) / Headline inflation** ✓
  - This is the weighted average of the prices of a general basket of goods and services likely to be bought by consumers ✓✓
  - The weights are obtained from expenditure of different income categories of households ✓✓
  - Decides on a base year for calculating the CPI which is similar for all SNA items ✓✓
  - Decides on a formula for calculating the CPI ✓✓
  - Decides on the collection of prices – in SA it is obtained by means of surveys ✓✓
  - It shows changes in the general purchases of a currency (e.g. rand) ✓✓
  - It is also used for inflation targeting ✓✓
  - Pertains to cost of living ✓✓
  - Capital and intermediate goods are excluded ✓✓
  - Prices include VAT ✓✓
  - Interest rates are taken into account ✓✓
  - Prices of imported goods are not shown explicitly ✓✓

- **Producer Price Index (PPI) ✓**

- PPI measured prices of locally produced goods when they leave the factory gate and imported goods when they enter the country ✓✓
- It consist of a basket of local, exported and imported goods ✓✓
- It includes capital and intermediate goods, but not services ✓✓
- Prices exclude VAT ✓✓
- Interest rates are excluded ✓✓
- It measures the cost of production and not the cost of living ✓✓
- It also serves as an indicator to predict consumer inflation (CPI) ✓✓

- **GDP deflator ✓**

- The GDP deflator is ratio that indicates the relationship of the GDP at nominal prices to the GDP at real prices (formula) ✓✓
- The GDP deflator is calculated for all goods produced in a country for a certain year and is not based on a certain basket of goods ✓✓
- GDP at constant prices is used to measure economic growth and inflation ✓✓

## **EMPLOYMENT**

- **Employment**

- The number of employed persons expressed as percentage of the EAP gives the employment rate ✓✓
- The South African employment rate was 75% during 2014 and is not accompanied by a similar growth in employment numbers ✓✓
- Employment indicators are important and used to calculate trends in employment in different sectors or industries ✓✓ that indicates structural changes in the economy ✓✓ to calculate productivity ✓✓ or to show the success of the economy in utilising its full potential ✓✓
- Full employment or high levels of employment is an indicator of a strong economy with high levels of growth and development ✓✓
- High levels of unemployment are normally a sign of deep-seated problems in an economy ✓✓ lack of domestic and foreign direct investment, low levels of labour productivity and rigid labour laws or high levels of poverty ✓✓
- Employment indicators are used to calculate: (1) trends in different sectors or industries ✓✓ (2) productivity ✓✓ and (3) successes of the economy in utilising its full potential ✓✓

There are various employment indicators that are used to monitor employment progress:

- **The economically active population (EAP / labour force) ✓**

- The official employment ages in South Africa are between (15 - 65) who are willing to work ✓✓
- It includes workers in the formal sector, informal sector, employers, self-employed persons and unemployed persons ✓✓

- **Unemployment** ✓
  - Strict definition - the unemployed are those people within the economically active population who; did not work during the seven days prior to the interview, want to work are available to start work within two weeks of the interview and have taken active steps to look for work or start some form of self-employment in the four weeks prior to the interview ✓✓
  - Expanded definition includes everyone who desires employment, irrespective of whether or not they actively tried to obtain one ✓✓
  - The unemployment rate is expressed as the percentage of unemployed persons out of the total number of people willing and able to work, in other words the labour force ✓✓
  - StatsSA obtains labour data from the Quarterly Labour Force Surveys to calculate unemployment ✓✓
  - In South Africa the official unemployment rate was 25% in 2014 and is the most important cause of poverty ✓✓

**There are various methods of calculating the number of unemployed:**

- **Census** ✓ questionnaires are distributed to respondents and included in the questionnaires are questions relating to the work status of people ✓✓
- **Surveys** ✓ Every year Statistics South Africa undertakes a workforce survey to calculate the unemployment rate ✓✓
- **Registration** ✓ The unemployed can register with the Department of Labour - registered unemployed persons may receive payments from the unemployment insurance fund and registration is the most accurate method of calculating the unemployment rate because not all unemployed persons are registered ✓✓
- **Employment** ✓
  - The employed are those who performed work for pay, profit or family gain in the seven days prior to the survey interview for at least one hour, or who were absent from work during these seven days but did not have some form of work to return to ✓✓
  - Data linked to employment is an important indicator used to determine labour productivity, the rate of employment in different economic sectors, the income per worker and the success of a country's economy ✓✓
  - If employment is compared with the EAP the unemployment rate can be calculated ✓✓
  - StatsSA publishes the *Labour Force Survey* in March and September every year and contains information such as the employment rate, the unemployment rate and the levels of employment in the formal and informal sectors ✓✓

(Max 26)

**ADDITIONAL PART**

- The CPI breached the upper range of the inflation target during 2014. SARB has increased interest rates to bring the inflation rate back into lower ranges, thus stabilising prices. ✓✓
- Setting the inflation target of 3 – 6% was a major initiative by the state that helped SARB to stabilize prices ✓✓
- A decline in international crude oil prices in recent months suppressed global inflationary pressures. This contributed largely to lower domestic inflation ✓✓ - favourably affecting Producer price inflation. Due to this the Reserve Bank were able to keep the repo rate unchanged ✓✓ PPI for intermediate manufactured goods has a positive impact on the stabilising of prices ✓✓
- Although the Reserve Bank has been very successful in stabilizing prices, certain external factors which influenced the global economy like the World recession has impacted negatively on the SARB efforts in stabilizing prices ✓✓
- Other factors like disinvestment due to poor governance led to a sharp decline in stability which hampered the stabilizing effects of SARB ✓✓
- The poor value of the Rand on international markets is a major negative contributing factor on the inflation rate due to a major dependency on imports ✓✓

(Accept any other relevant fact)

(Max. 10)

**CONCLUSION**

Economic indicators are some of the most important and powerful tools that the government can use to influence the direction that the economy should take as against other countries ✓✓

(Max. 2)

**[40]**

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