



NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2022

ECONOMICS
MARKING GUIDELINES

Time: 3 hours

300 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

SECTION A**QUESTION 1**

1.1	C ✓✓
1.2	D ✓✓
1.3	A ✓✓
1.4	B ✓✓
1.5	B ✓✓
1.6	D ✓✓
1.7	C ✓✓
1.8	B ✓✓
1.9	B ✓✓
1.10	C ✓✓
1.11	B ✓✓✓
1.12	C ✓✓✓
1.13	B ✓✓✓
1.14	A ✓✓✓
1.15	B ✓✓✓
1.16	B ✓✓✓
1.17	B ✓✓✓
1.18	C ✓✓✓
1.19	C ✓✓✓
1.20	A ✓✓✓

50 marks

SECTION B**QUESTION 2 MACROECONOMICS**

- 2.1 2.1.1 The total value of all final goods and services ✓ produced within a country's borders ✓ for a specific period, normally one year. (2)
- 2.1.2 A: Change in inventories ✓
 B: –5 440 ✓
 C: 3 206 833 ✓ (3)
- 2.1.3 • Income ✓
 • Expenditure ✓
 • Production methods. ✓ Any 2 × 1 = (2)
- 2.1.4 • All three methods have to balance one another. ✓✓
 • All three methods determine the total value of output; this value can then be compared to the previous year to determine economic growth. ✓✓
 • The income of all the factors of production, taxes and subsidies constitutes the income method. ✓✓
 • total expenditure is determined by adding consumer, investment, government spending and exports, and deducting imports. ✓✓
 • Production is determined by adding the primary, secondary and tertiary sectors and taking taxes and subsidies into account. ✓✓
 – Standardisation ✓
 – Government planning and extrapolations for budgets and infrastructure ✓
 – International comparisons ✓
 – to determine the extent of growth ✓
 – to determine change in standard of living ✓
 – to lend legitimacy to figures and statistics. ✓ Any 2 × 2 = (4)
- 2.1.5 A small initial increase in income (and spending) results in a proportionally larger change in national income. ✓✓ (2)
- 2.1.6 • A higher GDP refers to higher income levels, higher spending/demand and positive economic growth. ✓✓ (There will be high levels of investment and additional income for consumers.) ✓✓
 • This will lead to a higher mpc in the economy. (Consumers tend to spend additional income.) ✓✓
 • e.g., for every extra R100, the consumers will be prepared to spend a higher fraction. i.e., R70, resulting in an mpc of 0,7. ✓✓
 • This increase in income/spending will have a snowball effect, i.e., an even higher GDP. ✓✓ (10)

2.2 Economic indicators:

Change in indicator	Type of indicator	Impact on the GDP (increase or decrease)
Decrease in new building plans approved.	Leading ✓	Decrease in GDP ✓
Increase in M1 money supply.	Leading ✓	Increase in GDP ✓
Decrease in the number of hours in construction.	Leading ✓	Decrease in GDP ✓

(6)

2.3 2.3.1 Calculate GDP at constant prices for 2020 and 2021.

2020:
 $4\,350\,314 \checkmark \times 100 / 107,011 \checkmark = 4\,065\,296,091 \checkmark \checkmark$

(4)

2021:
 $4\,651\,785 \checkmark \times 100 / 105,3 \checkmark = 4\,417\,649,57 \checkmark \checkmark$

(4)

2.3.2 Calculate the GDP growth rate for 2021.

$$\frac{\text{Current real GDP} - \text{Previous real GDP}}{\text{Previous real GDP}} \times \frac{100}{1}$$

$$\frac{4\,417\,649,57 - 4\,065\,296,091}{4\,065\,296,091} \times \frac{100}{1} \checkmark$$

$$= 8,67\% \checkmark \checkmark$$

(3)

2.4 2.4.1 A diagram demonstrating the continuous movement of goods and services, factors of production and money between the participants in the economy. ✓✓ (2)

2.4.2

Leakages	Injections
Taxes ✓	Government spending ✓
Imports ✓	Exports ✓
Savings ✓	Investments ✓

Any 2 x 2 = (4)

2.4.3 **Injections:** means the introduction of income into the circular flow – increase the flow of income. ✓✓

Leakages: are the non-consumption use of income (outflows of an economy). ✓✓

(4)

[50]

QUESTION 3 MICROECONOMICS

- 3.1 3.1.1 **A:** 22 ✓
 B: 99 ✓
 C: 77 ✓
 D: 13 ✓
 E: 15 ✓ (5)

3.1.2 Example: Water and electricity accounts increase as more is produced. ✓✓ (Any relevant answer) (2)

3.1.3 All factors of production are variable in the short run ✓ but at least one factor of production is fixed in the long run. ✓ (2)

3.2 3.2.1 **Allocative efficiency:** is a state of the economy in which production represents consumer preferences. In addition, goods are produced at the lowest possible cost. ✓✓ (2)

3.2.2 **Law of diminishing marginal utility:** marginal utility decreases as you consume more of a good, because you do not obtain the same satisfaction the more you consume. ✓✓ (2)

3.3 Market structures

Characteristic	Perfect competition	Monopoly
Number of participants	Many businesses, not one, can dominate the market and there are many buyers. ✓	One enterprise or producer and many buyers ✓
Nature of the product	Homogeneous ✓	Unique – no close substitutes ✓
Access to market information for the consumer	Perfect market for all ✓	Imperfect market knowledge for the consumer ✓

(6)

3.4 3.4.1 Use the **arc elasticity** of demand to calculate the price elasticity of demand. Show your calculations.

Formula/ Application of formula ✓✓ (2 marks), Answer (2 marks)

$$\text{price elasticity of demand} = \frac{\left| \frac{60 - 40}{50} \right|}{\left| \frac{3 - 5}{4} \right|} = \frac{\left| \frac{20}{50} \right|}{\left| \frac{-2}{4} \right|}$$

$$= (2 / 5) / (2 / 4)$$

$$= 4 / 5$$

OR: 0,8 ✓✓

(4)

3.4.2 Price elasticity is inelastic (Since elasticity is below 1) ✓✓ (2)
 (Reference to the previous answer)

3.4.3 **Substitutes** ✓

- The more substitutes a good or service has, the more price elastic it will be or the fewer substitutes, the more inelastic, ✓✓

Period of time under consideration ✓

- Goods or services tend to become more price elastic as the time period increases or very inelastic in the short term. ✓✓
- The reason for this is that with time more substitutes become available. ✓✓

Proportion of income spent on good or service ✓

- The higher the proportion of a person's income being spent on a good or service, the more price elastic the good tends to be. ✓✓

Habit-forming/ Life-saving substances (Addiction) ✓

- Habit-forming/addictive substances tend to have a very price inelastic demand. ✓✓

Durability of a good ✓

- Durable goods tend to more price elastic than perishable goods. ✓✓

Branding / Marketing ✓

- More marketing and branding make the product more inelastic. ✓✓

Complements ✓

- A good or service with a lot of complements tends to be more price inelastic compared to a good or service with few or no complements. ✓✓

Definition of a product ✓

- The more specifically a product is defined, the more price elastic it tends to be. ✓✓

Any 3 × 1 factors (3 × 1)

Discuss (3 × 2)

Any 3 × 3 = (9)

3.5 Non-price competition includes the following:

- Product differentiation: product is slightly different from the others. ✓✓
- Advertising: these firms advertise their products heavily. ✓✓
- Sponsorships: businesses sponsor sports teams and models etc. ✓✓
- They compete with each other on product differentiation and efficient service delivery. ✓✓ (Any other relevant answer)

Any 2 × 2 = (4)

3.6 **Externalities** ✓

(4 causes, 3 marks each)

Externalities are economic side effects that affect an uninvolved third party, someone not directly involved in the production. ✓✓

Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on those people in the area because

they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution. ✓✓

Merit/demerit goods ✓

Merit goods are goods that society feels should be consumed by its citizens, e.g., education and healthcare. ✓✓

Merit goods are under-produced and under-consumed under conditions of perfect competition. ✓✓

Demerit goods are goods that society feels its citizens should not consume, e.g., South Africans are not free to own as many guns as they like.

Demerit goods are over-produced and over-consumed. ✓✓

Therefore, under-allocation of resources to merit goods and over-allocation of resources to demerit goods.

Public goods ✓

The main characteristic is non-excludability. This means that if the good or service is produced for one consumer, no other consumer can be prevented from consuming it, e.g., street lighting, defence force. So, people will wait and see if someone else pays for it and then just go ahead and use it. ✓✓

It is no wonder then that public goods are under-produced by the market system.

Too few consumers are prepared to pay for the good, would rather be free-riders. ✓✓

Therefore, there is under-allocation of resources to the production of public goods and the market fails. ✓✓

Imperfect competition ✓

Monopolies and oligopolies restrict supply in order to maximise profits. Resources are therefore under-allocated to the production of goods and services produced under conditions of imperfect competition. ✓✓

Imperfect information ✓

Under conditions of perfect competition, consumers and producers are assumed to have access to all the information that is necessary to enable them to make the most-informed decisions about production and consumption. In the real world there is asymmetric information, e.g., seller of a used car has more information about the car than the buyer. ✓✓

In some markets the producer has information about their products that they do not make available to buyers, e.g., in cigarette industry. ✓✓

Under these conditions cigarettes are over-produced and under-consumed and allocative efficiency is generally not achieved. ✓✓

Unequal distribution of income ✓

Unequal distribution of income is caused by the fact that some people are born to wealthy parents and have access to a good education and others not. ✓✓ Therefore, people vary in their skill levels and their ability to produce output. ✓✓ Unequal distribution of income is viewed as a market failure. The market fails to ensure that everyone gets equal access to the output of the economy. Too many of the resources are used to produce output for the rich and too few for the poor. In the South African economy, a few people are very well off while 50% of the population lives in poverty. ✓✓

Immobility of factors of production ✓

Under conditions of perfect competition, the factors of production are assumed to be perfectly mobile. ✓✓ However, in the real world factors of production are not free to move from one area to another. ✓✓ Capital is fixed. It is not easy to move a factory or machinery. The government often has strict controls on the movement of labour between countries. As a result of immobility of factors of production, the economy's capacity to produce output is reduced. ✓✓

Any 4 × 3 marks = (12)
[50]

QUESTION 4 CONTEMPORARY ECONOMIC ISSUES

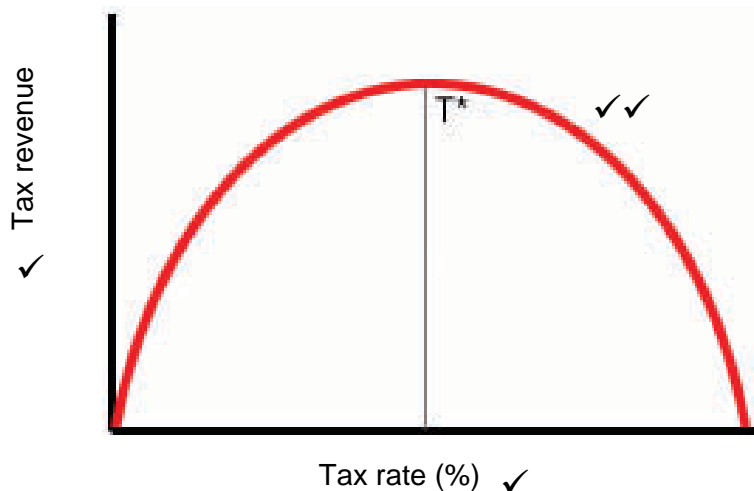
4.1 4.1.1 Personal Income Tax (R516 billion) ✓✓ (2)

4.1.2 Progressive – Personal Income Tax ✓
Regressive – VAT, ✓ Excise duty, ✓ Fuel levies ✓ (2)

4.1.3 An increase in VAT will decrease consumer spending as consumers will pay more for goods and services. ✓✓
Government spending will increase as the government will receive more revenue from VAT and can spend more on infrastructure, etc. ✓✓ (4)

4.1.4 **Progressive tax system:** a tax that takes a larger percentage of income from high-income groups than from low-income groups. (The more you earn the higher tax you pay) ✓✓
Regressive tax system: a tax that takes a larger percentage of income from low-income groups than from high-income groups. ✓✓ (4)

4.1.5 The Laffer curve



(4)

4.2 4.2.1 (a) **Life expectancy:** If the life expectancy is high, it suggests a high standard of living and good health facilities in an economy. OR vice versa. ✓✓
 This would lead to a healthy and productive work force which will attract investors. ✓✓ (4)

(b) **Expected years of schooling:** The higher the number, the better the education and skill levels of a country's labour force. OR vice versa. ✓✓
 This would lead to higher production levels and more specialised occupations. Investors would be attracted – no need for training and skills upliftment. ✓✓ (4)

4.2.2 **Most developed:**

Norway ✓

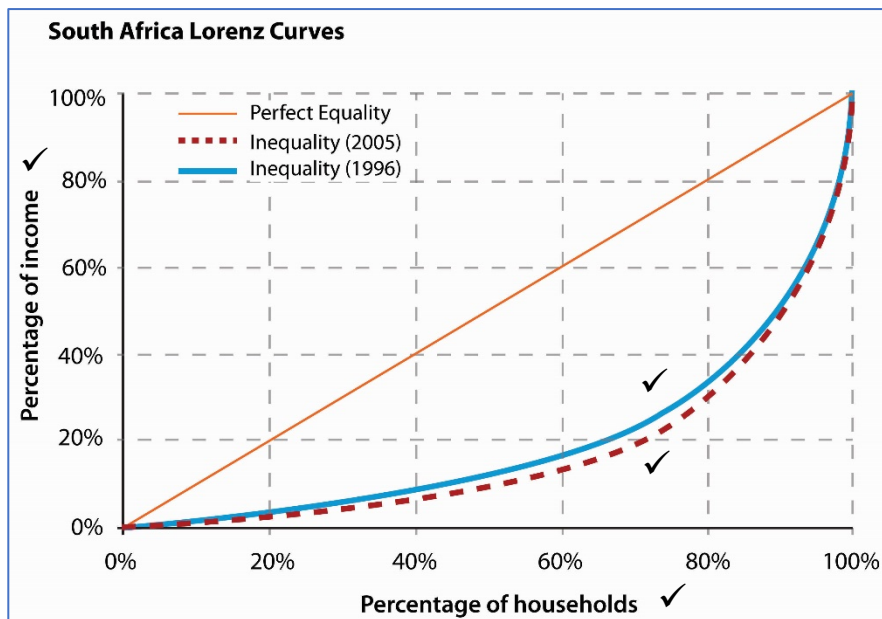
Highest HDI value at 0.953 and highest schooling years of 17,9 and highest GNI per capita \$68,012, lowest inequality at 0,24. ✓✓

Least developed:

Mozambique ✓

Lowest HDI value at 0,437 and lowest schooling years of 9,7 and lowest GNI per capita \$1,093, high inequality at 0,390. ✓✓ (6)

4.3 **Lorenz curve:**



[Source: joshchacko.wordpress.com]

(4)

4.4 Demand- and supply-side policies:

- **Demand-side policies: (3 arguments × 2 marks each)**

Driven by the expenditure/total demand formula of $C+I+G+(X-Z)$ ✓✓

Consumer spending can be increased via expansionary fiscal policies:

Welfare grants (reduce poverty); progressive taxation system; reduce taxes; increase land ownership; ✓✓

Investment via FDI's can be increased if government spending on infrastructure increases, this will also stimulate employment, government must also follow a policy of export promotion and import substitution. ✓✓

Demand-side policies can also use expansionary monetary instruments: increase money supply by means of open-market transactions to stimulate demand; ✓✓ lowering of interest rates to stimulate demand and borrowing; moral persuasion; exchange control to prevent capital leaving SA. ✓✓ (any 3 arguments × 2 marks)

Potential success of the demand-side policy: (2 marks)

Demand-side policies must be used carefully as a sharp increase in spending could lead to higher demand, which could lead to higher prices (inflation) ✓✓

• **Supply-side policies: (3 arguments × 2 marks each)**

- Driven by the improvement of the quantity and quality of the factors of production: labour, natural resources, entrepreneurship and capital. ✓✓
- Size and quality of the labour force: Labour is a function of education and training. An educated and well-trained worker is going to be more motivated, productive and willing to work. ✓✓
- Quantity and quality of capital: this is the availability and improvement of capital in the form of machinery and equipment in an economy. Businesses cannot expand or improve if the infrastructure is poor. Modern technology will attract FDIs and improve production.
- Natural resources: The presence of natural resources is a major strength to an economy. SA's sun, wind, sea must be effectively utilised to optimise economic growth via employment and production. ✓✓
- Entrepreneurship: new ideas and production are needed to drive an economy. This will diversify the economy and take pressure of the public sector to create jobs. ✓✓

Potential success of the supply-side policy: (2 marks)

- If the supply in the economy cannot adjust to higher demand, inflation will increase leading to other problems in the economy. ✓✓
- Supply will have to be increased, but it doesn't happen quickly – IT TAKES TIME AND MONEY ✓✓

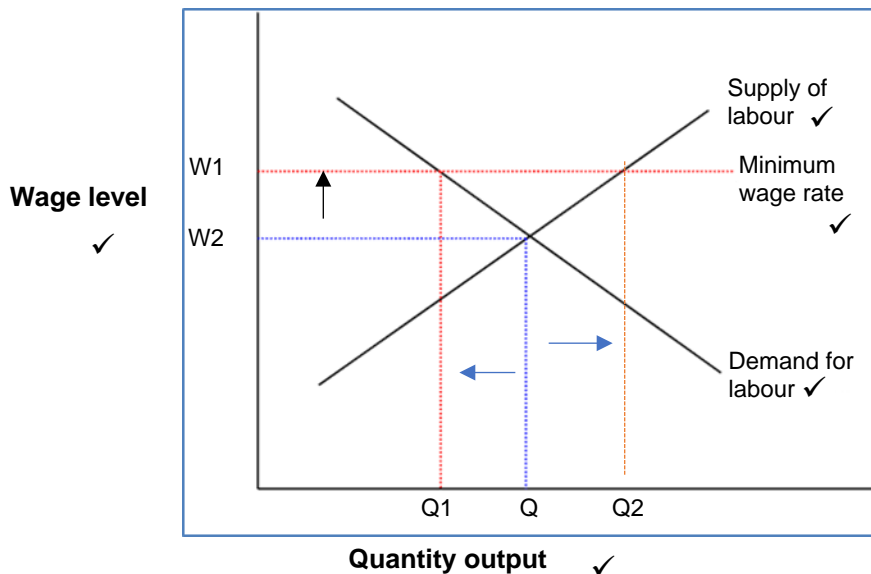
(8 marks for demand-side and 8 marks for supply-side)

**(16)
[50]**

QUESTION 5 MIXED QUESTIONS

- 5.1 5.1.1 It is the minimum pay per hour/ per day workers are entitled to by law. ✓✓ (2)
- 5.1.2 A government wage increase will increase government spending. ✓✓
 Will lead to a higher budget deficit. ✓✓
 Government might increase taxes to cover the increase in salaries. ✓✓
 (Any other reasonable answer) (6)

5.1.3 Minimum wage:



As the wage rate increases from W_2 to W_1 , the supply of labour will increase, but the demand for labour will decrease because of the higher cost. ✓

This will result in an over-supply of labour ✓ and subsequent unemployment. ✓

(Graph x5 Explanation x3) (8)

- 5.2 5.2.1 Inflation ✓✓ (2)
- 5.2.2 Cost-push inflation ✓✓ (2)
- 5.2.3 Businesses trying to cover the cost lost due to production, therefore production costs increase leading to cost-push inflation. ✓✓
 (Accept any correct and relevant responses) (2)
- 5.2.4 Causes of cost-push inflation:

Increase in wages. ✓ In SA remuneration of labour constitutes 60% of the cost of production. Cost of production increases if firms have to pay more wages **OR any other valid point.** ✓✓

Increase in the price of imported goods ✓ e.g., oil. The local cost of production is pushed up **OR any other valid point.** ✓✓

Increase in profit margins. ✓ Producers recover higher profits by increasing prices **OR any other valid point.** ✓✓

Low levels of productivity. ✓ Productivity may decrease while workers receive the same remuneration **OR any other valid point.** ✓✓

Natural disasters ✓ Will decrease production. ✓✓

Exchange rate depreciation. ✓ Imported goods and services will become expensive, pushing up the prices of local goods. ✓✓

For any cause mentioned: 4 × 1 marks = 4 marks max

Any form of expansion / explanation on the cause mentioned: 4 × 2 mark = 8 marks max

(Accept any correct and relevant responses)

(12)

5.3 5.3.1 **The impact on lenders and borrowers:**

- Inflation can favour borrowers because the value of the money that they borrowed was more at the time than when it must be paid back. ✓✓
- Inflation disadvantages the lender because it erodes the real value of money. ✓✓

(4)

5.3.2 **The impact on the rand:**

- Decreases in real value of money. ✓✓
- Money loses its value and people lose confidence in money as the value of savings is reduced. ✓✓

(4)

5.4 If inflation rises above the accepted bracket, the SARB will implement restrictive monetary policy measures. ✓✓

Money supply will be reduced so that credit/ debt costs more and consumers will borrow less. ✓✓ OR

Interest rates will be increased so that consumers pay back money on debt and savings will be encouraged. ✓✓ This will curb demand and decrease prices. ✓✓

(4)

- 5.5
- Positive economic growth. ✓
 - Balance of payment equilibrium/ surplus/ exchange rate stability. ✓
 - Low unemployment or full employment. ✓
 - Equal/ fair distribution of income. ✓
 - Low inflation or price stability. ✓

Any 4 × 1 = (4)

[50]

QUESTION 6 DATA RESPONSE

6.1 6.1.1 The Balance of Payments account is a systematic record of all economic transactions between residents of a country and the rest of the world. ✓✓ (2)

6.1.2 Balance of trade:

$1\ 286\ 047\ \checkmark + 108\ 299\ \checkmark - 1\ 109\ 459\ \checkmark = 284\ 887\ \checkmark$

(4)

6.1.3 Current account:

$284\ 887 + 121\ 073 + 122\ 120\ \checkmark - 160\ 422 - 216\ 319 - 43\ 135\ \checkmark = 108\ 204\ \checkmark\checkmark$

(4)

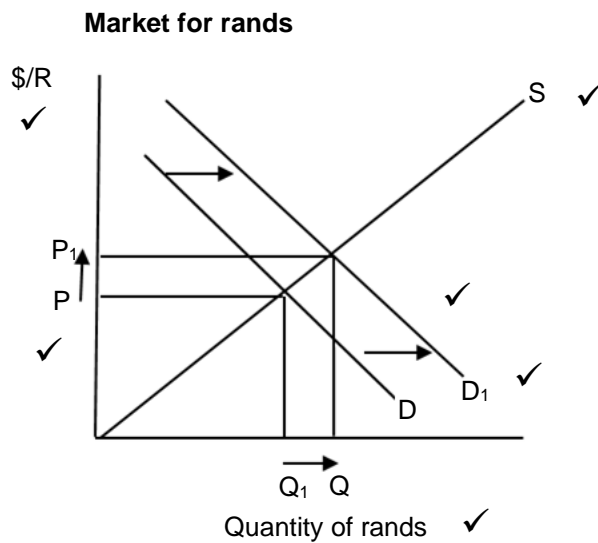
6.1.4 **Net direct investment:** Foreign direct investment (FDI) is investment in assets. This includes investment from one country to another and involves transactions related to the purchase of a business, establishing a business or buying shares in a business. ✓✓
Net portfolio investment: investment in financial assets. It refers to the purchase of assets such as shares or bonds between foreigners and South Africans. ✓✓ (4)

6.2 6.2.1 (a) **Tariffs**
 These are duties or taxes levied on imported products by the government. ✓✓ (2)

(b) **Developed countries**
 Refers to countries where the tertiary sector of industry dominates the economy. These countries have a high income per capita and a high human development index (HDI). ✓✓ (2)

(c) **Productivity**
 The effectiveness of productive effort, especially in industry as measured in terms of the rate of output per unit of input. ✓✓ (2)

6.2.2



Use a diagram of the South African market for rands and a discussion.
 Graph: (6 marks max)
THE LEARNER MUST MAKE THIS ARGUMENT CLEAR.

Short explanation: (4 marks max)

- Increased protectionism will lead to more products being produced in South Africa which can lead to higher exports. ✓✓
- This can create a higher demand for South African rands (ZAR). ✓✓

(10)

6.2.3 **Substitute goods:** are goods used instead of another. ✓✓

Increasing the price of one product increases the demand for its substitutes and reducing the price of one product reduces the demand for its substitutes. ✓✓

Complementary goods: goods that are used in conjunction with another. ✓✓

Reducing the price of one product increases the demand for its complementary products and increasing the price of one product reduces the demand its complementary products. ✓✓

Including South African imports and exports examples.

(8)

6.2.4 Protectionism means:

To restrict international trade with legislation and import restrictions like quotas, tariffs and subsidies.

Why?

- **Prevention of dumping:** ✓
Dumping occurs when goods are sold on foreign markets at below the cost in the original country. ✓✓

- **To protect the home industries against cheaper competition:** ✓
It is difficult for young & older enterprises to compete with established international enterprises that offer cheaper costs of production. ✓✓
Government can protect them by restricting trade through import tariffs.

- **Employment is encouraged:** ✓
The protection of local industries is an important mechanism to protect job opportunities in a country. ✓✓

- **Encourage economic growth:** ✓
The more local production, the more jobs are created. ✓✓
The more jobs are created, the bigger the income.
A bigger income leads to a greater demand and greater spending.

OR Diversification of industries, income for government, positive
 BOP balance 4 × 3 = (12)
[50]

Total: 300 marks