



PREPARING FOR PAPER 1

Checklist

Paper 1 consists of the following:

Macro-Economics	Economic Pursuits
<ul style="list-style-type: none"> • Circular flow • Business cycles • Public sector • Foreign exchange markets • Protectionism and Free Trade 	<ul style="list-style-type: none"> • Growth & Development • Industrial development policies • Economic concepts and social performance • indicators

LAYOUT OF THE PAPER

- Total marks: 150 MARKS.
- The duration of each paper is 1½ HOURS.
- The paper consists of THREE sections
 - SECTION A: QUESTION 1 is COMPULSORY.
 - SECTION B: Consists of THREE questions: QUESTIONS 2–4 You must choose only TWO
 - SECTION C: Consists from TWO questions: QUESTIONS 5–6 You must choose only ONE

SECTION A

(COMPULSORY)

TOTAL: 30

QUESTION 1

1.1	Multiple-choice items	(8 x 2) (16)
1.2	Matching COLUMN A and B	(8 x 1) (8)
1.3	Identify the concept	(6 x 1) (6)

SECTION B

(ANSWER TWO QUESTIONS FROM THIS SECTION)

TOTAL: 80

QUESTIONS 2–4 (THREE QUESTIONS)

ONE question per MAIN TOPIC and ONE combination question (marks not necessarily equally distributed in the combination question) between the 2 MAIN TOPICS

2.1	Short items	
2.1.1		(2 x 1) (2)
2.1.2		(1 x 2) (2)



- 2.2 Data response: Study the following graph/cartoon/table/extract, etc. and answer the questions follow. (10)
- 2.3 Study the following graph/cartoon/table/text, etc. and answer the questions that follow. (10)
- 2.4 ONE single question (2 x 4) OR (4 x 2) (8)
- 2.5 ONE single question (2 x 4) OR (4 x 2) (8)
- [40]

SECTION C (ANSWER ONE QUESTION FROM THIS SECTION) TOTAL: 40

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Explain/Assess/Debate 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	Max 26 Max 10
Conclusion	Max 2
Total	40



SECTION A

(COMPULSORY)

TOTAL: 30

QUESTION 1

1.1 Various options are provided as possible answers to the following questions.

Choose the answer and write only the letter (A–C) next to question number (1.1.1 – 1.1.8) in the ANSWER BOOK.

1.1.1 Business cycle diagrams are drawn in the shape of ...

- A bar graphs.
- B waves.
- C circles.

1.1.2 The systematic record of all the transactions of a country's inhabitants with the rest of the world, is known as the ...

- A international budget.
- B quarterly bulletin.
- C balance of payments.

1.1.3 During an economic recession ...

- A unemployment will increase.
- B production increases.
- C spending increases.

1.1.4 The new economic paradigm is embedded in ... side policies.

- A demand-
- B supply-
- C demand-and-supply-

1.1.5 According to the UN classification, South Africa's HDI ranking is categorised as a ... level.

- A low
- B middle
- C high



1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–J) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK.

Column A	Column B
1.2.1 Residual item	A balancing figure in the calculation of the gross domestic product – GDP(E)
1.2.2 Real Flow	B lowest turning point
1.2.3 High	C marginal revenue received
1.2.4 Tariffs	D production by citizens
1.2.5 Trough	E rates paid to discourage imports
1.2.6 Depression	F economy in recession for two consecutive quarters
1.2.7 GDP	G flow of goods and services
1.2.8 National income	H production inside borders
	I total income of citizens

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6).

- 1.3.1 The group of economists that believe markets are inherently unstable.
- 1.3.2 A deliberate measure by the state to reduce the value of a currency.
- 1.3.3 The Act that prohibits unfair discrimination in the workplace.
- 1.3.4 Redistribution of income in South Africa is effected through this system.
- 1.3.5 Trade and financial penalties applied by one or more countries to another country.
- 1.3.6 Monitors and liberalises international trade.

TOTAL SECTION A: 30

SECTION B

QUESTION 2: MACROECONOMICS 40 MARKS – 20 MINUTES

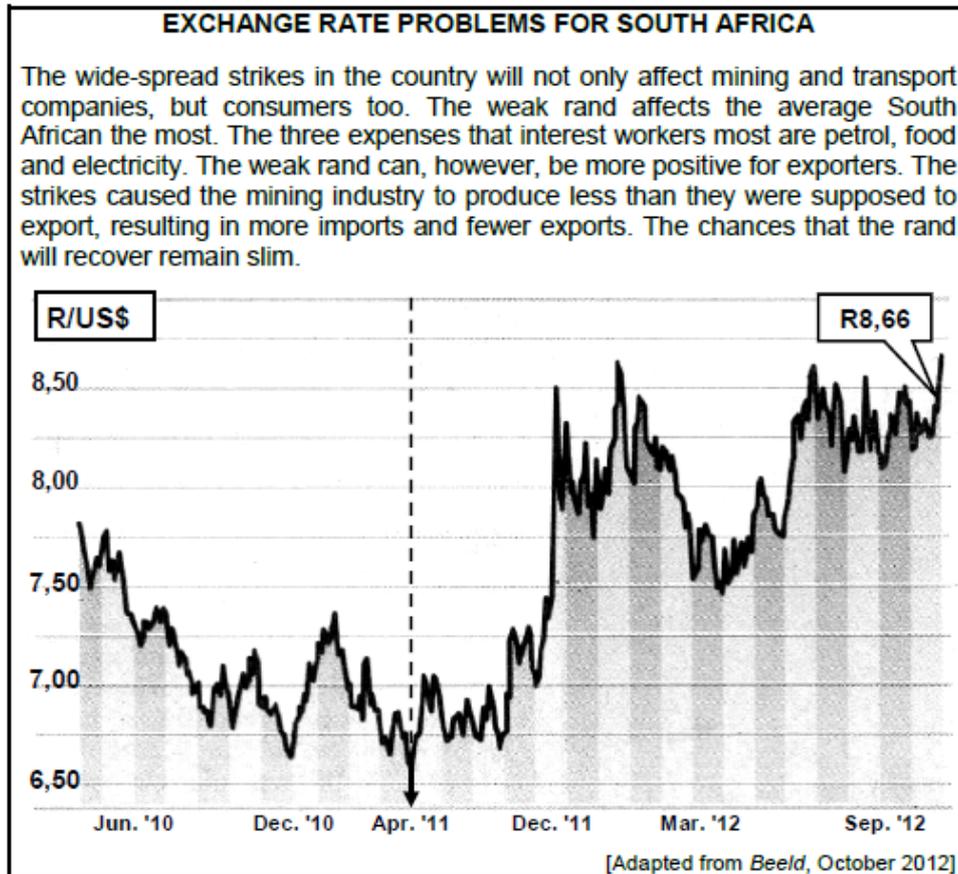
ANSWER ONLY TWO QUESTIONS FROM THIS SECTION

2.1 Answer the following questions.

2.1.1 Define the concept: Balance of Payments. (2)

2.1.2 List any TWO indicators underpinning forecasting in business cycles. (2)

2.2 Study the extract and graph below and answer the questions that follow.



2.2.1 Define the term exchange rate. (2)

2.2.2 Explain the negative impact of strikes on the South African economy. (4)

2.2.3 Do you think South Africa attracted more direct foreign investment during April 2011? Motivate your answer. (4)



2.3 Study the table below on the calculation of GDP and answer the questions that follow.

CALCULATION OF GDP ACCORDING TO THE INCOME METHOD	
METHOD	
(2013 figures)	
R million	
Compensation of employees.....	1 576 784
Net operating surplus.....	961 201
.....	442 028
Consumption of fixed capital.....	2 980 013
.....	64 914
Gross value added @ A	B
.....	374 284
Taxes on production.....	19 178
.....	3 385 369
Subsidies on production.....	64 441
.....	135 765
Gross value added @ basic prices.....	3 314 045
C on products.....	
.....	
Subsidies on products.....	
.....	
Gross domestic product @ market prices	
Primary income from rest of world.....	
.....	
Primary income to rest of world.....	
.....	
GNI @ market prices	
.....	



- 2.3.1 Which alternative term is used for GDP in the national accounts? (2)
- 2.3.2 Provide labels for A and C. (4)
- 2.3.3 Calculate the gross value added at basic prices (letter B). (4)
- 2.4 Explain the Laffer Curve with the aid of a graph. (8)
- 2.5 Discuss privatisation as a problem of public sector provisioning. (8)
- [40]**

QUESTION 3: ECONOMIC PURSUITS 40 MARKS: 20 MINUTES

**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS 40 MARKS –
20 MINUTES**

TOTAL: SECTION B [80]



SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Explain/Assess/Debate 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	Max 26 Max 10
Conclusion	Max 2
Total	40

QUESTION 5 MACRO-ECONOMICS

40 MARKS: 20 MINUTES

QUESTION 6 ECONOMIC PURSUITS

40 MARKS: 20 MINUTES

South African government is implementing both trade protectionism as well as free trade in an effort to grow the economy.

- Argue a case in **favour** of trade protectionism **and against** free trade. (26)
 - Explain if South Africa has been successful in promoting free trade. (In your answer, refer to various trade **protocols** South Africa has entered into in support of free trade.) (10)
- [40]**

TOTAL SECTION C: [40]

GRAND TOTAL: [150]





Solutions to Paper 1 Questions

2.1.1 Define the concept: Balance of Payments. (2)

The Balance of payments is a record of all the transactions between a country and the rest of the world

2.1.2 List any TWO indicators underpinning forecasting in business cycles. (2)

Leading indicators

Lagging indicators

Coincident indicators

Length

Amplitude

Trend

Extrapolation

Moving averages

2.2.1 Define the term exchange rate. (2)

The rate at which one currency is exchanged for another currency

2.2.2 Explain the negative impact of strikes on the South African economy. (4)

Loss of labour hours

Loss of production

Loss of income

Decrease in exports/Balance of Payment problems

Job losses

2.2.3 Do you think South Africa attracted more direct foreign investment during April 2011? Motivate your answer. (4)

No. The exchange rate is not favourable / rand is stronger and therefore you get less value for their currency.

2.3.1 Which alternative term is used for GDP in the national accounts? (2)

Gross Value Added

2.3.2 Provide labels for A and C. (4)

A = Factor cost

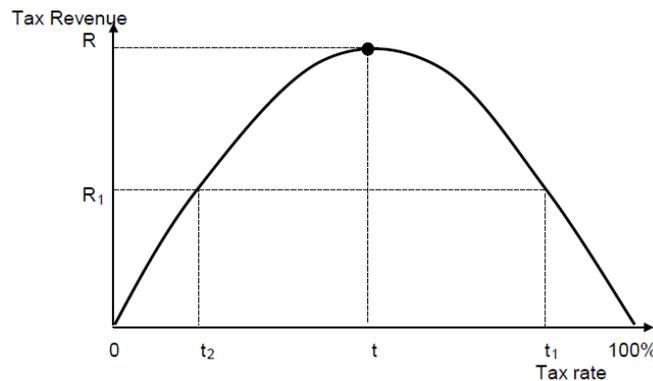
C = Taxes

2.3.3 Calculate the gross value added at basic prices (letter B). (4)

2 980 013 + 64 914 – 14 664 = R 3 030 263 million

2.4 Explain the Laffer Curve with the aid of a graph. (8)

- The Laffer curve shows the relationship between tax rates and tax revenue collected by the government
- The curve shows that as tax increase government revenue increases up to a certain point (e.g. t_2)
- If the tax rate rises beyond 't', (e.g. at t_1 there will be a decline in government revenue
- When the tax rate is high people are less likely to work hard
- If tax is 100% then nobody will work because all income would go to the government
- Too high tax rates may lead to tax evasion and avoidance
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest
- If tax rate is zero, no government revenue will be raised
- Economists use this to justify a reduction in the level of income tax
- The apex of the curve shows the tax rate where government revenue can be maximized
- This point can vary from country to country – the Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate
- Evidence suggests that tax rates in most countries are below t.



2.5 Discuss privatisation as a problem of public sector provisioning.

- Privatisation refers to the transfer of functions and ownership from the public to the private sector
- Privatisation leads to higher prices which excludes people from its consumption
- State-owned enterprises are sometimes bureaucratic, inefficient, and unresponsive to consumer needs and therefore often a burden on the taxpayer
- Public enterprises do not pay tax; privatised enterprises must pay tax – therefore privatization will broaden the tax base
- Privatised enterprises will have greater access to investment, be more innovative and be able to adapt more easily to changing economic conditions
- Privatisation will give more people a share in the economy and general welfare and can serve as an instrument of black economic empowerment



- **Advantages of privatisation: privatization stimulates growth and improves the overall efficiency and performance of the economy**
- **Privatisation provides additional funds to the government Explain how the gross domestic product**
- **(GDP) at market prices is derived by using the expenditure method – GDP(E).**

(8)

[40]

SECTION C

Question 6

INTRODUCTION:

- Free trade occurs when there is trade without any protectionist activities or trade barriers between countries.
- Businesses are free to import and export goods, as well as to invest in foreign countries, without the imposition of restrictive tariffs.
- Protectionism involves a deliberate policy by the government to create trade barriers, such as tariffs and quotas in order to protect domestic industries.
- Protection is the application of a trade policy whereby the state discourages importing of certain goods and services with a view to protecting home industries against unequal competition from abroad.

(2)

BODY:

Arguments for trade protectionism:

- **Raising revenue for the government:**
The introduction of tariffs produces revenues for governments. In developing countries the tax base is often limited, because of low incomes of individuals and businesses.
- **Protecting the whole industrial base:**
 - (i) *Maintaining domestic employment.*
 - Countries with high levels of unemployment are forced by politicians to stimulate employment creation.
 - Developing countries often tend to resort to protectionism in order to stimulate industrialization.
 - (ii) *Protecting workers.*
 - An argument is that imports from countries with fairly low wages represent unfair competition to the highly paid workers of the local industries. - Protection is thus necessary to prevent local wage levels from falling or even to prevent local businesses from closing down.
 - (iii) *Diversifying the industrial base.*
 - All countries need to develop diversified industries to prevent over-specialisation.
 - A country relying too heavily on the export of one or a few products is very vulnerable.
 - Such a country is exposed to world fluctuations in prices and supply and demand-side problems could lead to the imposing of import restrictions.
 - (iv) *Developing strategic industries.*



- Industries such as iron and steel, agriculture, chemicals and energy are regarded as strategic industries.
- Developing countries feel that they need to develop these industries in order to become self-sufficient.
- **Protecting particular industries:**
 - (i) *Dumping/Protect country against Dumping.*
 - - Foreign countries may engage in dumping, because government subsidies
 - permit them to sell at very low prices, or they want to achieve larger profits.
 - - The long term objective may be to drive out domestic producers and gain a
 - strong market position.
 - - The consumers will lose out as a result of the reduction in choice and the higher
 - prices that the exporters will be able to charge.
 - (ii) *Infant industries.*
 - Infant industries are usually newly established industries.
 - The enterprises in such industries could find it difficult to survive, due to their average costs being higher than that of established foreign competitors.
 - If these new industries are protected in the starting years, they may be able to grow and take advantage of economies of scale, lower their average costs and become competitive.
 - (iii) *Declining industries.*
 - Structural changes in the supply and demand of a good may severely damage an industry.
 - Declining industries are likely to be industries that no longer have a comparative advantage.
 - If they go out of business quickly there may be a sudden and large increase in unemployment.
 - Protection may enable an industry to decline gradually, and to slowly move to other industries.
- **Stabilising exchange rate and balance of payments**
 - Traders buy in the cheapest markets and sell in the most expensive markets.
 - Countries export primary products and import manufactured goods, causing disrupted balance of payments and exchange rates.
- **Economic self-sufficiency**
 - In times of conflict, cut-off or friction between countries occurs.
 - Protectionism should be granted, especially to key industries to ensure the availability of these key products.
- **Protecting domestic standards**
 - Trade restrictions like food safety, human rights and environmental standards
 - Protecting natural resources from being exploited
 - Greater economic stability
 - Natural resources not depleted



Arguments against a policy of free trade:

- **Free trade creates unemployment and reduces wages:**
 - Free trade can lead to local enterprises outsourcing labour services to foreign countries.
 - This will reduce local jobs, causing higher unemployment rates locally.
- **Concentration of wealth:**
 - Free trade makes it possible for multinational enterprises to buy out local firms and then absorb all their profits. (this can create even further monopolies)
- **Creation of trade dependencies:**
 - Free trade leaves countries open to an economic shock, such as oil prices.
 - If a country specializes in a few products, it can mean that it has to rely on other countries to provide those essential services.
 - Free trade does not allow governments to provide support or subsidies to some industries, or to tax food. (other countries also provide subsidies, or charge import taxes on our goods)
- **Creates Balance of payments problems:**
 - The South African BOP shows a deficit on the current account since opening up our trade markets with China, Brazil and India. (our clothing and textile industries are placed under severe cost pressures)
- **Technical obstacles:**
 - Aspects such as strict sanitary and health standards are set by developed countries.
 - Free trade also does not allow for environmental labour and safety regulations that might limit profits; this can cause standards to the countries with the lowest standards.
- **Damage to the environment:**
 - The increase in production levels is increasingly causing damage to the environment, such as pollution, greenhouse gases, etc.
- **Cultural diversity is undermined:**
 - Free trade erodes our traditional ways of living and rural cultures.
 - The loss of rural employment and migration from the rural areas to the cities occurs.
- **Foreign companies can sue governments for losses:**
 - Foreign companies are allowed to sue a government for changing regulations(laws) after a company invests in them, such as tax conditions, labour laws, etc. (26)

ADDITIONAL PART

South Africa is very successful in promoting free trade.

- **Trade protocols South Africa entered into:**
 - **The Southern African Customs Union (SACU)**
 - The SACU consists of South Africa, Botswana, Lesotho, Namibia and Swaziland.
 - These countries jointly negotiate free trade areas with other countries.
 - Goods are traded free of duties and quotas between member states.



- **The Southern African Development Community (SADC)**
 - The main objectives are that member states work together to reconstruct and develop the entire social and economic framework of the region.
 - A free trade area would encourage economies of scale with competitive SADC-wide industries that would increase intra-regional trade and boost foreign investments.
- **The African Union (AU)**
 - The AU exists to promote cooperation between the countries of Africa.
 - Its economic development programme, called the New Partnership For Africa's Development (NEPAD), encourages regional cooperation and integration.
- **Mercusor**
 - SA signed a Framework Agreement with Mercusor in 2000, to expand trade and create free trade area between parties (Latin America) – eventually
 - FTA will include all SACU members
- **The free trade agreement with the European Union (EU)**
 - The EU-South Africa trade agreement encourages free trade, development co- operation, finance and technical assistance.
 - The agreement (2010) provides for the removal of 90% of all trade barriers.
- **Trade agreement with the United States: (AGOA)**

South Africa benefits from duty-free exports to the USA under the United States' **Generalised System Of Preferences (GSP)** and its **African Growth and Opportunity Act (AGOA)**

The BRICS Agreement (Brazil, Russia, India, China, South Africa)

Member countries are expected to gain substantial trade and investment benefits.

Membership to the BRICS does not, however, give any preferential trade or tariff treatment. (10)

Conclusion:

The South African government is successful in implementing a desirable mix of protectionism and free trade. (Accept: Any logical conclusion) (2)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [150]