

# SENIOR SECONDARY INTERVENTION PROGRAMME 2013



**education**

Department: Education

**GAUTENG PROVINCE**

**GRADE 12**

**ECONOMICS**

**LEARNER HOMEWORK SOLUTIONS**

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# TABLE OF CONTENTS

## LEARNER HOMEWORK SOLUTIONS

SESSION	TOPIC	PAGE
1	Topic 1. Circular flow Topic 2. The multiplier	3 – 4
2	Topic 1. Business cycle composition and reasons Topic 2. Government policy and forecasting for business cycles	5 – 7
3	Topic 1. Necessity of public sector and problems of public sector provisions Topic 2. Fiscal policy, laffer curve and public sector failure	8 – 10
4	Topic 1. Perfect market cost and revenue curves Topic 2. Profit maximising in a perfect market	11 – 12
4	<b>Self Study:</b> Topic 1. Imperfect market - monopoly Topic 2. Imperfect market – oligopoly	13
5	Topic 1. Market failure Topic 2. Cost benefit analysis	14 – 15
6	Topic 1. Economic growth and development Topic 2. North-south divide	16 – 17
6	<b>Self Study:</b> Topic 1. South Africa’s industrial development policies Topic 2. Free trade and protectionism Topic 3. Import substitution and export promotion	18 – 20
7	Topic 1. Balance of payments Topic 2. Foreign exchange market	21 – 22
7	<b>Self Study:</b> Topic 1. Economic Indicators Topic 2. Economic Indicators Topic 3. Social Indicators	23 – 25

**SOLUTIONS TO HOMEWORK****TOPIC 1: CIRCULAR FLOW****QUESTION 1**

- 1.1.1  $A = R8\ 000$  ✓✓ (2)
- 1.1.2 Savings / Taxes / Imports ✓✓ (2)
- 1.1.3 Final goods and services / Factors of production ✓✓ (2)
- 1.1.4 Because export's is an injection ✓✓ and an increase in injections will increase consumption. ✓✓ (4)
- 1.1.5  $GDP = C$  ✓ +  $I$  ✓ +  $G$  ✓ +  $X$  ✓ -  $Z$  ✓ (5)
- [15]**

**QUESTION 2**

- 2.1  $GDP = C + I + G + X - Z$   
 $= 343$  ✓ +  $79$  ✓ +  $147$  ✓ +  $23$  ✓ -  $18$  ✓  
 $= 610$  ✓ (6)
- 2.2.1 1990 ✓✓ (2)
- 2.2.2 Nominal GDP (current prices) includes inflation ✓✓ and Real GDP (constant prices) excludes inflation. ✓✓ (4)
- 2.2.3 12% ✓✓ (2)
- 2.3.4 Real GDP = Nominal GDP x 100/deflator  
 $= 27\ 800$  x  $\frac{100}{105}$  ✓✓  
 $= 26\ 476$  ✓✓ (4)
- [18]**

**TOPIC 2: THE MULTIPLIER****QUESTION 1**

- 1.1.1  $Y = 20$  ✓✓✓ (3)
- 1.1.2  $k = \frac{1}{(1-mpc)}$  ✓  
 $k = \frac{1}{(1 - 0.5)}$  ✓✓
- $k = 2$  ✓✓✓ (6)

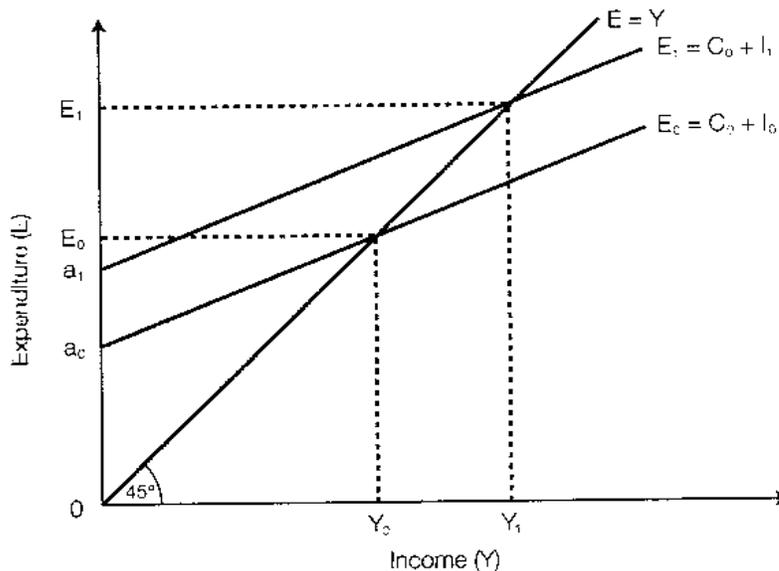
- 1.1.3 The multiplier process occurs in the economy, when injections into the circular flow of spending, production and income take place. ✓✓

The injection is investments and it has increased from 10 to 30, therefore  $E = 0.5Y + 30$ . ✓✓

Income will have gone from 20 to 60; a change in the equilibrium. ✓✓

The multiplier refers to the ratio used to work out the difference between the initial investment and the eventual change in income. ✓✓ (8)

- 1.2 Draw a 45° diagram to illustrate the two expenditure functions and the respective equilibrium levels of income. (6)



- 1.3 Calculate the multiplier in each case:

1.3.1  $MPC = 0,9$

$k = 10$  ✓✓✓

(3)

1.3.2  $MPS = 0,1$

$k = 10$  ✓✓✓

(3)

1.3.3  $MPS = 0,25$

$k = 4$  ✓✓✓

(3)

1.3.4  $MPC = 0,5$

$k = 2$  ✓✓✓

(3)

- 1.4 If the national income increases by R100m and the multiplier is 4, what is the change in investment?

$100 \div 4 = 25$  ✓✓

∴ The change in investment was R25 m ✓✓

(4)

[39]

**SOLUTIONS TO HOMEWORK****TOPIC 1: BUSINESS CYCLE COMPOSITION AND REASONS****QUESTION 1**

1.1 All business cycles have the following:

- Two periods, i.e. contraction (downswing) and expansion (upswing). ✓✓
- Two turning points, i.e. trough and peak. ✓✓

The upward and downward periods divide into the following phases:

- prosperity phase (boom)
- recession
- depression
- recovery

The expansion period:

- Level of economic activity increases ✓✓
- More goods and services are being produced ✓✓
- Households expenditure increases ✓✓
- Interest rates decrease ✓✓
- Inflation increases ✓✓

Peak:

- The economy is using most of its resources, such as skilled labour and capital ✓✓
- There is an upward pressure on prices and the balance on the current account worsens as a result of higher imports. ✓✓

Contraction period:

- Level of economic activity decreases ✓✓
- Less goods and services are being produced ✓✓
- Decline in spending ✓✓
- Interest rates increase ✓✓
- Inflation decreases ✓✓

Trough:

- Turning point at the end of the contraction period. ✓✓

(16)

### 1.2 Exogenous reasons (explanations)

- The monetarist school of thought started in 1960 by Professor Milton Friedman. ✓✓
- The classical economists believed that the markets were inherently (naturally) stable. ✓✓
- They then presented exogenous explanations (conditions that originate outside of the market system) for periodic recessions and revivals. ✓✓
- They saw these fluctuations in economic activity as temporary due to external factors. ✓✓
- (E.g.) inventions, technological innovations, natural causes etc. ✓✓
- These fluctuations can also occur because of ineffective government policy. ✓✓
- This results in fluctuations in the rate of increase in the money supply, which causes changes in the rate of increase in prices, production and employment. ✓✓

Any (4 x 2) (8)

### Endogenous reasons (explanations)

- Also known as the interventionist approach. ✓✓
- The Keynesians hold the view that markets are inherently unstable. ✓✓
- These economic fluctuations are caused by endogenous (Internal) causes. ✓✓
- There is a self-correcting mechanism in the market system that acts to correct any economic boom or recession. ✓✓
- (e.g.) If business conditions improve, there will be an increase in economic output, resulting in increased interest rates, increase in imports and a fall in foreign exchange. ✓✓
- All of these factors combine to dampen the economic growth and curb the boom ✓✓
- The reverse is also true; interest rates and import rates can decrease and foreign exchange can increase, leading to a recession. ✓✓
- The Keynesians believe that these fluctuations are part of the market economy and governments have a duty to use monetary and fiscal policy to intervene. ✓✓
- When the government intervenes, this brings stability to the economy and helps to smooth out the peaks and troughs in the business cycles. ✓✓

Any (4 x 2) (8)

[16]

[32]

**TOPIC 2: GOVERNMENT POLICY AND FORCASTING FOR BUSINESS CYCLES****QUESTION 1**

## 1.1 Monetary policy:

- It focuses on the money supply and interests rates and is controlled by the Reserve Bank.
- When the economy is in a contraction, the central bank can increase the money supply by decreasing the interest rates.
- Instruments the Reserve Bank can use:
  - Interest rates
  - Cash reserve requirements
  - Open-market transaction
  - Moral suasion
  - Exchange rate policy (free-floating policy (supply and demand determine currency) or managed policy (central bank intervenes) (8)

## 1.2 Fiscal policy:

- It's about Government's budget, how it raises money and how it spends money.
- When the economy is in an expansion, Government can increase taxation (leakage) and decrease expenditure (injection).
- When the economy is in a contraction, Government can increase expenditure and decrease taxation (8)

## 1.3 Leading indicators

- It shows you in advance what is going to happen.
- It is before the aggregate economic activity.
- E.g. Net gold and other foreign reserves.

## Co-incident indicators

- They move together with the aggregate economic activity.
- Provides us with current information on the state of the economy.
- E.g. Real GDP.

## Lagging indicators

- They are behind the aggregate economic activity.
- They serve to confirm what has happened.
- E.g. Hours worked in construction.

**(16)**  
**[32]**

## SOLUTIONS TO HOMEOWRK

## TOPIC 1: NECESSITY OF PUBLIC SECTOR AND PROBLEMS OF PUBLIC SECTOR PROVISIONS

## QUESTIONS 24 minutes

1. Discuss public goods.

a. Community goods: ✓✓

i. E.g. defence, police, street lights, etc. ✓✓

ii. Non-excludability means that individuals cannot be charged a price on the basis of use. ✓✓

iii. They are non-rival goods, which mean that the consumption by one does not exclude consumption by another. ✓✓

b. Collective goods: ✓✓

i. E.g. parks, beaches, streets, roads, bridges, etc. ✓✓

ii. It is possible to exclude free-riders by levying fees, charges or tolls. ✓✓

iii. **Free-rider:** Individuals who realise that they will benefit from goods or a service even if they do not pay for it. Therefore, free-riders do not pay for goods or a service but continue to consume it. ✓✓

Merit goods: ✓✓

iv. E.g. education, health care, research, libraries, etc. ✓✓

v. Supplied by Government, because they would be inadequately consumed, either through lack of income or spending preferences if they were supplied by the private sector. ✓✓

vi. **Merit goods:** Consuming increases the welfare of the country. ✓✓

vii. **Demerit goods:** Goods that are harmful. ✓✓ (Any 2 x 8) [16]

2. Why is accountability an issue in the public sector?

- Does government deliver the desired quantities and quality of goods and services for which taxes are raised? ✓✓

- Does government abuse the powers it was granted, for example, by creating monopolies? ✓✓

- **Accountability:** Means being required to give an explanation of one's decisions, actions and expenditure. ✓✓

- In South Africa accountability is underpinned by the following:

- Ministerial responsibilities ✓✓

- Parliamentary questioning ✓✓

- Treasury control ✓✓

- The Auditor-General (AG) ✓✓

(Any 2 x 4) [8]

3. Differentiate between Parastatals and Privatisation.

a. *Parastatals*

- Parastatals are SOEs and they are created in one of two ways:

- Government starts an enterprise, or ✓✓

- An existing enterprise is nationalised. ✓✓

- SOEs are companies with limited liability. ✓✓

- Non-profit enterprises are referred to as entities. ✓✓

b. *Privatisation*

- Privatisation means that Government sells more than 50% of the shares of state owned enterprises to the private sector. ✓✓
- Privatisation provides Government with additional funds ✓✓
- Privatisation increases efficiency in the economy. ✓✓

[16]

TOTAL: 40

**TOPIC 2: FISCAL POLICY, LAFFER CURVE AND PUBLIC SECTOR FAILURE****QUESTIONS: 23 minutes**

1. Name the 5 macro-economic objectives of government.

- Economic Growth ✓✓
- Price stability ✓✓
- Exchange rate stability ✓✓
- Full employment ✓✓
- Economic equity ✓✓

[10]

2. Name the 2 types of budgets that Government uses.

- Medium term budget frame work ✓✓
- Annual (main) budget ✓✓

[4]

3. Name the reasons for public sector failure.

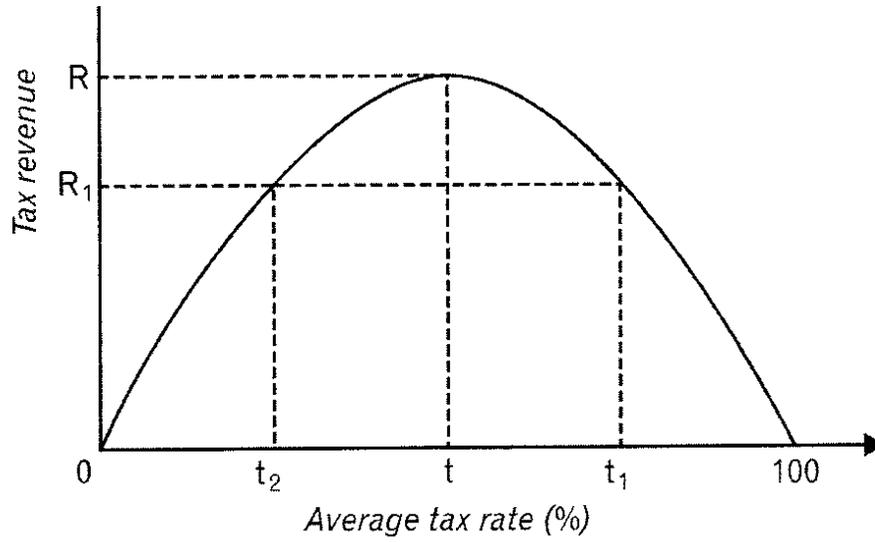
- Management failure ✓✓
- Apathy ✓✓
- Lack of motivation ✓✓
- Rent-seeking interest groups (enterprises, unions and individuals that try to influence government to act in a way which benefits them) ✓✓

[8]

4. Explain the Laffer-curve by using a graph.

- A Laffer curve shows the relationship between tax rates and government revenue. ✓✓
- The principal of the Laffer curve state that if average tax rate were zero ,no revenue would be raised. ✓✓
- As the tax rate is raised above zero, tax revenues increase. ✓✓
- After the curve peaks, tax rates become so high that the resulting fall in output more than offsets the rise in the tax rate. ✓✓
- Tax revenue decreases. ✓✓
- The curve also suggests that by reducing a high tax rate, Government can increase its tax revenue, as more people are willing to work and it reduces the number of people evading tax. ✓✓

[16]



The Laffer-curve

TOTAL: 38

**SOLUTIONS TO HOMEWORK****TOPIC 1: PERFECT MARKET COST AND REVENUE CURVES****QUESTION 1:****5 minutes***(Source: Focus study guide)*

1. Large number of buyers and sellers ✓✓
2. All products are homogeneous ✓✓
3. Complete freedom of entry and exit ✓✓
4. All factors of production are mobile ✓✓
5. Both buyers and sellers has got full knowledge ✓✓
6. Collusion between sellers does not occur ✓✓
7. No government intervention. ✓✓

(Any 4 x 2)

**[8]****QUESTION 2:****21 minutes***(Source: Oxford Economics)*

- 2.1 Total Cost (TC) ✓✓  
 Average Variable Cost (AVC) ✓✓  
 Average Total Cost (ATC) ✓✓  
 Marginal Cost (MC) ✓✓

(8)

2.2

(27)

Q	P	TR	AR	MR
0	11.20	0✓	11.20✓	-✓
1	11.20	11.20✓	11.20✓	11.20✓
2	11.20	22.40✓	11.20✓	11.20✓
3	11.20	33.60✓	11.20✓	11.20✓
4	11.20	44.80✓	11.20✓	11.20✓
5	11.20	56✓	11.20✓	11.20✓
6	11.20	67.20✓	11.20✓	11.20✓
7	11.20	78.40✓	11.20✓	11.20✓
8	11.20	89.60✓	11.20✓	11.20✓

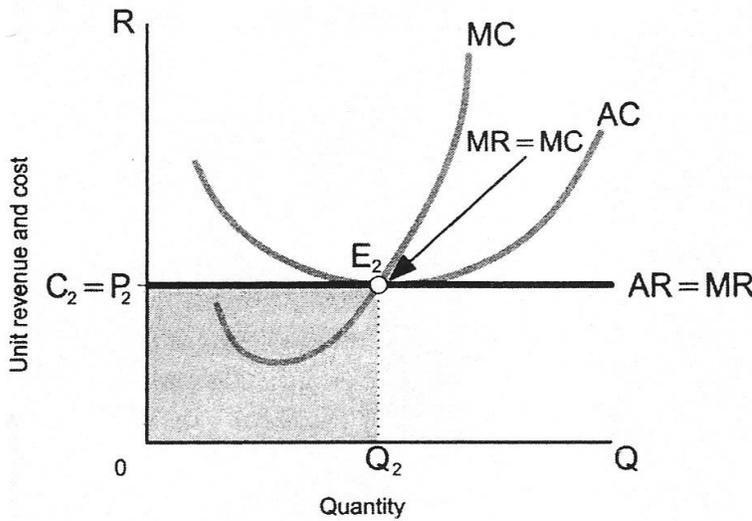
**[35]****TOPIC 2: PROFIT MAXIMISING IN A PERFECT MARKET****QUESTION 1:****17 minutes***(Source: Oxford Economics)*

1.1

*Normal profit*

- Normal profit is equal to the best return that the firm's self-owned, self-employed resources could earn elsewhere. ✓✓
- A firm makes a normal profit when the TC of production is equal to the TR that the firm makes from the sale of the output. ✓✓
- In other words, the normal profit is part of the cost of production. ✓✓
- The normal profit is the profit that the firm must make to ensure that it remains in the industry. ✓✓
- $AR = AC$  or  $RT = TC$  ✓✓

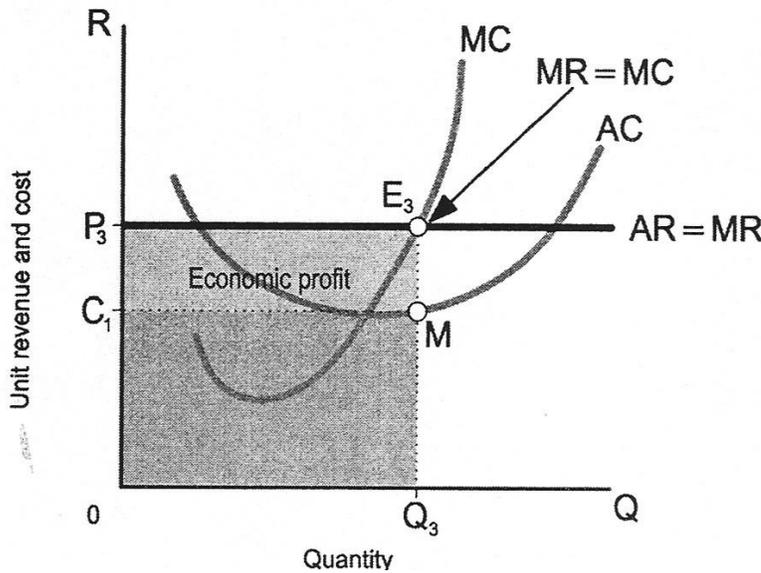
(Any 2 x 2) (4)



(4 marks for graph)

*Economic profit*

- Economic profit is equal to the total revenue that exceeds the total cost. ✓✓
- This is when the firm is making more than the normal profit. ✓✓ (4)



(4 marks for graph)

- 1.2 Break-even is when the firm makes a normal profit. ✓✓ And  $AR=MR$ . ✓✓ [16] (4)
- 1.3 Profit maximisation output is the output at which the firm makes the largest (or maximum) profit possible, *ceteris paribus*. ✓✓ ( $MC = MR$ ) ✓✓ (4)
- 1.4 If the firm makes less than a normal profit then it is making an economic loss. ✓✓ (4)  
This is when the firms cost is more than its revenue. ✓✓ [28]

**SOLUTIONS TO HOMEWORK****SELF STUDY:****TOPIC 1: IMPERFECT MARKET – MONOPOLY****QUESTION 1:****20 minutes***(Source: Economics for all Grade 12)*

1.1 Complete the following table.

Price (R)	Quantity (Q)	Total revenue (TR)	Marginal revenue (MR)
50	1	50✓✓	50✓✓
45	2	90✓✓	40✓✓
40	3	120✓✓	30✓✓
35	4	140✓✓	20✓✓
30	5	150✓✓	10✓✓

(20)

1.2 No competition – one business controls the supply of a good or service. ✓✓

- No substitutes – no substitutes on the market for the consumer to choose from. ✓✓
- Price makers – one business controls the price of the goods or services. ✓✓
- Barriers to entry – e.g. technology or patents, may keep new companies out. ✓✓
- Imperfect information – the consumer doesn't have all the information, e.g. profit margin. ✓✓
- No homogenous products – they will produce only one product or different varieties. ✓✓
- Large amount of starting capital is needed. ✓✓
- Legal considerations – new inventions are protected by patent rights. ✓✓

(Any 4 x 2)

(8)

1.3 Profit maximisation occurs when marginal revenue (MR) ✓✓ is equal to marginal cost (MC). ✓✓

(4)

**[32]****TOPIC 2: IMPERFECT MARKET - OLIGOPOLY****QUESTION 1:****16 minutes***(Source: Economics for all Grade 12)*

1.1 Cell phones✓✓, cigarettes✓✓, banking services✓✓, etc. (any 2) (4)

1.2 Explicit✓✓ and implicit✓✓ (4)

1.3 A cartel is a group of producers whose goal is to fix prices✓✓, to limit supply✓✓ and to limit competition. ✓✓ (6)

1.4 Product differentiation: ✓✓ product is slightly different from the others. ✓✓

- Product proliferation: ✓✓ different range of products to cater for many different markets. ✓✓
- Advertising: ✓✓ oligopoly firms advertise their products heavily. ✓✓

(12)

**[26]**

**SOLUTIONS TO HOMEWORK****TOPIC 1: MARKET FAILURE****QUESTION 1:****17 minutes***(Source: The Answer Series)*

Market failures	Reason
Negative and positive externalities	When price and output decisions are made in the market, only private costs and benefits are taken into account.
Public goods	Because of the non-excludability and non-rivalness of public goods, the market is not willing to supply these goods.
Merit and demerit goods	Although the market is willing to supply these goods, the market either supplies too little (in the case of merit goods) or too much (in the case of demerit goods).
Imperfect market structure	An imperfect market structure causes prices to be higher and output to be lower than under perfect competition, and a technical inefficiency of production occurs as a result of the absence of competition.
Lack of information	For markets to function efficiently information is required. Where there is a lack of information the wrong decisions are made.
Immobility of factors of production	For markets to function efficiently factors of production need to be mobile to adapt to changes in demand and technology. In general, factors of production tend to be immobile.
Unequal distribution of income	The distribution of income and wealth determines for whom goods and services are produced. Markets tend to distribute income unequally.

**(14 x 2) [28]****TOPIC 2: COST BENEFIT ANALYSIS****QUESTION 1:****16 minutes***(Source: The Answer Series)***1.1**

- Cost-benefit analysis (CBA) is a standard method used to compare the social cost and benefits of alternative projects or investments. ✓✓
- Cost and benefits are measured and then weighed up against each other in order to generate criteria for decision-making. ✓✓
- The numerator of this ratio is defined as the present value of all of the expected economic benefits attributable to a proposed undertaking. ✓✓
- E.g. to calculate the monetary value for a public park or an art museum, shadow prices (benefits) may be used to calculate the value of the enjoyment of these facilities. ✓✓
- The denominator of the CBR is defined as the present value of the cost of undertaking and operating the project. If it is a large capital investment project, there are 2 types of costs: capital cost and operation, maintenance and repair cost. ✓✓

**(10)**

1.2

- Rubble – environment will be affected✓✓
  - Time – traffic✓✓
  - Cost of conducting the school building✓✓ (6)
- (Learner must make up their own costs)**

1.3

- Job creation✓✓
  - Sports grounds✓✓
  - Education – merit good✓✓ (6)
- (Learner must make up their own costs)**

1.4

$$\text{CBR} = \frac{\text{Present value of economic benefits}\checkmark\checkmark}{\text{Present value of economic costs}\checkmark\checkmark} \quad (4)$$

**[26]**

**SOLUTIONS TO HOMEWORK****TOPIC 1: ECONOMIC GROWTH AND DEVELOPMENT****QUESTIONS:****20 minutes***(Source: Focus Study Guide)*

1

<b>Economic growth:</b>	<b>Economic development:</b>
<ul style="list-style-type: none"> <li>• takes place when a country produces and consumes more goods and services than before. ✓✓</li> <li>• is usually measured as the percentage change in real GDP. ✓✓</li> <li>• is a necessary condition for economic development to take place, but there is no guarantee that economic growth will ultimately lead to economic development. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>• is concerned with human development. ✓✓</li> <li>• deals with issues such as employment, education, health and environmental sustainability. ✓✓</li> <li>• requires more than just the production of more goods and services. ✓✓</li> <li>• to take place, the fruits of economic progress must lead to an improvement in the living standards of the majority of people. ✓✓</li> </ul>

(12)

2.

1. Meeting basic needs ✓✓
2. Developing human resources ✓✓
3. Building the economy ✓✓
4. Democratising the state and society ✓✓
5. Implementing the RDP ✓✓

(10)

3.

- A renewed focus on budget reform ✓✓
- A faster fiscal deficit reduction programme ✓✓
- An exchange rate policy ✓✓
- A consistent monetary policy ✓✓
- A reduction in tariffs ✓✓
- Tax incentives ✓✓
- To Introduce more flexibility into the labour market ✓✓
- Expansion of trade and investment flows in South Africa ✓✓

(any 5 x 2) (10)

**[32]**

**TOPIC 2: NORTH-SOUTH DIVIDE****QUESTION 1:****18 minutes***(Source: Focus Study Guide)*

- 1.1.1 Developing countries - A developing country is a country with less advanced technology✓✓ and lower levels of per capita income than the advanced industrial countries of the world.✓✓ E.g. South Africa✓✓ (6)
- 1.1.2 Developed countries - The term developed countries is used to refer to the richest countries✓✓ in the world with the higher per capita incomes.✓✓ E.g. USA✓✓ (6)
- 1.1.3 Newly industrialised countries - Between the extreme of developed countries and developing countries✓✓ known as newly industrialised countries.✓✓ E.g. Hong Kong.✓✓ (6)
- 1.2 Low per capita income figures✓✓  
High rates of illiteracy✓✓  
Agriculturally based economy✓✓  
Short life expectancy✓✓  
Low degree of social mobility✓✓  
Strong attachments to tradition✓✓ (12)

**[30]**

**SOLUTIONS TO HOMEWORK****SELF STUDY:****TOPIC 1: SOUTH AFRICA'S INDUSTRIAL DEVELOPMENT POLICIES**

1.1 Industrial policy can be defined as targeting measures (any government regulations of law) aimed at promoting specific industrial activities. ✓✓✓ (3)

1.2 To revitalise growth and employment creation in the manufacturing sector and adjust simultaneously to changing international environment. ✓✓✓ (3)

Richards Bay; ✓✓ Coast to coast; ✓✓ Gauteng ✓✓ (6)

1.3

- Small Medium Enterprise Development Programme (SMEDP) ✓✓
  - Businesses must be competitive in their own right without protection or subsidies. ✓✓
- Skills Support Programme (SSP) ✓✓
  - Cash grant of up to 50% of costs of training new staff resulting from an expansion or new project. ✓✓
- Critical Infrastructure Facility (CIF) ✓✓
  - Financial incentives to large enterprises whose projects require infrastructure. ✓✓
- Duty Free Incentives ✓✓
  - Import initiatives given to businesses established within an IDZ. ✓✓

(16)

[28]

**TOPIC 2: FREE TRADE AND PROTECTIONISM****QUESTIONS:**

**20 minutes**

*(Source: The Answerseries)*

1.1

- Protection of infant industries ✓✓ – new and upcoming businesses ✓✓
- Prevent dumping (by other countries) ✓✓ - **Dumping:** prices of export goods must not be viewed as “dumping” i.e. selling goods in a foreign market at prices that are below their cost of production. ✓✓
- National defence ✓✓ – there must be some minimum level of local production, and also to provide protection against an interruption of supply. ✓✓
- Employment ✓✓ – prevent people from losing their jobs ✓✓
- Maintain a favourable balance of payments. ✓✓

[16]

## 1.2

- Promotes competition and improves resource allocation ✓✓ and economies of scale where a country has competitive advantage. ✓✓
- Promotes increased efficiencies, ✓✓ product improvements and technological advances and, therefore, lowers costs of production. ✓✓
- Accelerates overall economic growth. ✓✓ (Increase in the production of the country) ✓✓
- Developing countries can take advantage of foreign expertise. ✓✓
- Generates foreign exchange. ✓✓

**[16]**

**SOLUTIONS TO HOMEWORK****SELF STUDY:****TOPIC 3: IMPORT SUBSTITUTION AND EXPORT PROMOTION****QUESTION 1:****20 minutes***(Source: The Answer Series)*

1.1

- Real cost of production ✓✓ – subsidies and incentives reduce the cost of production. ✓✓
- Lack of competition ✓✓ – low prices can force competitors out of the market. ✓✓
- Increased tariffs and quotas ✓✓ – overseas competitors may retaliate. ✓✓
- Protection of labour-intensive industries. ✓✓
- Dumping. ✓✓

(16)

1.2.

- Capital and entrepreneurial talent are drawn away from the areas of ✓✓ competitive advantage to areas with higher profits due to protection. ✓✓
- Technology ✓✓ from abroad may not be feasible locally. ✓✓
- Lowers competitiveness ✓✓ and efficiency. ✓✓
- Leads to more demands for protection. ✓✓
- Protection does not promote backward linkages ✓✓ to other industries that aren't protected. ✓✓

(16)

**[32]**

**SOLUTIONS TO HOMEWORK****TOPIC 1: BALANCE OF PAYMENTS****QUESTION 1: 14 minutes**

1.1 Trade balance:

Merchandise exports	380 950 ✓✓	
Add Net gold exports	25 340 ✓✓	
Less Merchandise imports	<u>(420 600) ✓✓</u>	
	-14 310 ✓✓	(8)

1.2 -41 610 ✓✓✓ (3)

1.3 The balance of payments is a record of all transactions between one country and the rest of the world. ✓✓✓ (3)

1.4 Special Drawing Rights ✓✓✓ (3)

1.5 Assets ✓✓, Liabilities ✓✓ and Net direct investments ✓✓ (6)

**[23]****QUESTION 2: 16 minutes***(Source: Focus Study Guide)*

2.1 The balance of payments is a record ✓✓ of all transactions between one country and the rest of the world. ✓✓ (4)

2.2 The current account includes 3 main sets of transactions:

- trade in goods ✓✓
- trade in services ✓✓
- primary income flows ✓✓
- Merchandise exports – includes the trade of all physical goods. ✓✓
- Net gold exports – only gold-producing countries ✓✓
- Service receipts – various kinds of services. ✓✓
- Income receipts – income earned by SA residents in the rest of the world. ✓✓
- Merchandise imports, payments for services and income payments ✓✓
- Current transfers – money, goods or services transferred without receiving anything tangible. ✓✓ (Any 2 x 4) (8)

2.3 Trade balance:

Merchandise exports ✓✓	
Add net gold exports ✓✓	
Less merchandise imports ✓✓	(6)

2.4 International transactions in assets and liabilities are recorded in the financial account. ✓✓ 3 flows are included in the financial account:

- direct investment flows (e.g. establishment of new businesses) ✓✓
- portfolio investment flows (purchase of assets like shares or bonds) ✓✓
- hot money OR other investments (e.g. loans, currency, deposits) ✓✓ (8)

**[26]**

**TOPIC 2: FOREIGN EXCHANGE MARKET****QUESTION 1: 5 minutes**

$$2006: \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

$$\frac{104}{96} \times 100 \checkmark\checkmark \\ = 108 \checkmark\checkmark$$

(4)

$$2007: \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

$$\frac{103}{98} \times 100 \checkmark\checkmark \\ = 105 \checkmark\checkmark$$

(4)

**[8]****QUESTION 2: 9 minutes***(Source: X-kit Economics)*

USA:

$$\$1 = R8 \checkmark\checkmark$$

$$\$2 \times R8 = R16 \checkmark\checkmark$$

UK:

$$£0,5 = R8$$

$$\therefore £1 = R16 \checkmark\checkmark$$

$$£1,50 \times R16 = R24 \checkmark\checkmark$$

Japan:

$$¥12\,000 = R8$$

$$\therefore R1 = ¥1\,500 \checkmark\checkmark$$

$$¥20\,000 / ¥1\,500 = 13,33$$

$$R13,33 \checkmark\checkmark$$

South Africa will import from Japan  $\checkmark\checkmark$ **[14]****QUESTION 3: 10 minutes***(Source: X-kit Economics)*

Define the following:

3.1 The value of a currency under floating exchange rates can change continuously.  $\checkmark\checkmark$   
It is determined by the forces of supply and demand on the foreign exchange market.  $\checkmark\checkmark$  (4)

3.2 These are rates given at a specific time,  $\checkmark\checkmark$  for example  $\$1 = R7,65$  at 3 pm on 15 November 2000.  $\checkmark\checkmark$  (4)

a. It is a measure enforced by the state  $\checkmark\checkmark$  to increase the exchange value of its currency.  $\checkmark\checkmark$  (4)

3.4 Depreciation

It is a decrease  $\checkmark\checkmark$  in the value of a currency because of supply and demand.  $\checkmark\checkmark$  (4)

**[16]**

**SOLUTIONS TO HOMEWORK****TOPIC 1: ECONOMIC INDICATORS****QUESTION 1:****17 minutes***(Source: Economics For All)*

1.1 GDP✓✓

Monetary conditions✓✓

Inflation✓✓

Productivity✓✓

(Any 3 x 2) (6)

1.2 Nominal GDP includes inflation✓✓✓ and Real GDP excludes inflation.✓✓✓ (6)

1.3

a. Slow economic growth✓✓

b. A drop in the rate of capital formation✓✓

c. Oversupply of unskilled labour✓✓

d. Net emigration of skilled labour✓✓

e. Restructuring of the economy✓✓

f. Relatively high wages (as compared to inflation) ✓✓

g. Labour legislation✓✓

h. Influence of the unions✓✓

i. Labour unrest and strikes✓✓

(Any 5 x 2) (10)

1.4 CPI includes interest rates on mortgage bonds✓✓✓ and CPIX excludes the interest rates on mortgage bonds.✓✓✓ (6)

**[28]****QUESTION 2:****15 minutes***(Taken from The Answer Series)*

2.1 GDP✓✓

Full employment✓✓

Inflation rate✓✓

Foreign trade✓✓

Productivity✓✓

Monetary conditions✓✓

(Any 3 x 2)

(6)

2.2 *GDP (Gross Domestic Product)*

- GDP: Total value of all final goods and services produced within the borders of a country in one year.✓✓
- An increase in GDP will cause economic growth.✓✓
- GDP gives us an indication of:
  - Economic growth
    - High economic growth is one of the main economic objectives of a country.✓✓

An increase in GDP is not *always* an indication of economic growth. It could be because of a rise in prices (inflation).✓✓

- Therefore, instead of working with GDP at current prices we need to adjust GDP to constant prices (Real GDP).✓✓
- Calculate GDP per capita to calculate whether an increase in economic welfare has occurred, i.e. if an increase in real GDP has kept up with population growth.✓✓

(4 x 2)

### *Full Employment*

- The aim of providing everyone who is willing to work at the current wage rate with a job.✓✓
- Unemployment rate =  $\frac{\text{Number of unemployed}}{\text{EAP}} \times 100$  ✓✓
- Factors that have impacted negatively on the South African labour market:
  - Slow economic growth✓✓
  - A drop in the rate of capital formation✓✓
  - Oversupply of unskilled labour✓✓
  - Net emigration of skilled labour✓✓
  - Restructuring of the economy✓✓
  - Relatively high wages (as compared to inflation)✓✓
  - Labour legislation✓✓
  - Influence of the unions✓✓
  - Labour unrest and strikes✓✓

(4 x2)(16)

**[22]**

**SOLUTIONS TO HOMEWORK****TOPIC 2: SOCIAL INDICATORS****QUESTION 1:****15 minutes***(Taken from The Answer Series)*

- 1.1 Demographics✓✓  
 Health and nutrition✓✓  
 Education ✓✓  
 HDI✓✓  
 Housing and services✓✓  
 Urbanisation✓✓  
 Income distribution✓✓

(Any 3 x 2) (6)

1.2 *Education*

- Adult literacy rate ✓✓
- School enrolment ratios✓✓
- Average number of years of schooling✓✓
- Public expenditure percentage✓✓
- Compared to other , South Africa's education expenditure percentage is high✓✓

(4 x 2)

*Urbanisation*

- **Urbanisation:** Increase in population numbers of cities and towns. ✓✓
- Happens because of:
  - natural growth of population✓✓
  - migration✓✓
  - establishment of new towns✓✓
- Important indicator to highlight land allocation and availability of workers✓✓

(4 x 2)(16)

**[22]**