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Study Guide

Via Afrika Economics

Grade 10

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Our Teachers. Our Future.

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Introduction to Economics

Why is Economics important?

Economics is an exciting and interesting subject to study because it touches every area of your life. There is nothing that you do that is not related to economics. We all make economic decisions every day of our lives, and economics can help to improve our decision-making. Economics offers a way of thinking about the world that enables us to make the best of what we have.

In your Economics studies this year, you will look at major challenges in South Africa, such as unemployment and poverty. You will gain insight into how our government makes plans and policies to deal with issues such as these.

Economics not only provides you with the knowledge and insight necessary to understand the impact of developments in business, society and the world economy, but it also helps you to understand the decisions of households, firms and governments. Economics is about choice, scarcity, opportunity, and the impact of decision-making on aspects of society.

Economics is concerned with understanding how society sets about meeting people's demands for things they want to consume. It also compares alternative ways of using the limited resources that countries and individuals possess and considers how efficient and/or fair such alternatives are. You will find it interesting to compare how different countries solve the problem of limited resources.

Economics also relates to a whole range of other subjects. Economics is closely related to history because in order to have a good understanding of how economies function, it also helps to be able to see economic problems in their historical context and how economic ideas have developed over time. Other subjects that are closely related to economics include business studies, human geography and psychology. To be able to analyse economic problems, you will use a number of techniques. Some of these are mathematical and/or statistical.

Start studying early for your exams! This study guide is designed to help you with your final revision before exams. It will take you through the text book with which you are working and also gives you practice examples, exam papers and answers. It does not replace your text book. The study guide will give you:

- sample exam questions and answers
- an overview of each module

- a review of the main concepts in each module
- practice   use the exams and questions to get a feel for the style of the questions you might be asked.

Economics is a dynamic and worthwhile field of study because it deals with important and interesting subjects such as capitalism versus socialism, management of inflation and unemployment, economic development of poor countries, pollution and many specific government policies, such as deregulation of electricity, the minimum wage, agricultural price supports, and rent control. Enjoy your studies!

Topic 1

What is Economics?

Overview

TOPIC 1 Page 1
What is Economics?

UNIT 1 Page 2
Branches of economics international, monetary, public, development, labour and environmental

The difference between micro- and macro-economics

Types of economic systems: Traditional, command, market and mixed

The economic problem Scarcity, limited means and unlimited wants

UNIT 2 Page 4
Economic models and theories – positive and normative statements

Economic questions and decisions: What, how and by whom?

Difficulties faced by economists

UNIT 3 Page 6
Economics as a social science – relationship to other sciences and career opportunities

Topic 1 looks at the basic concepts or ideas that you will encounter in the study of Economics. It is important that you be familiar with these concepts because they will be used a lot during your studies. You also need to understand how economics is studied by economists and how it relates to other branches of science.

Unit 1

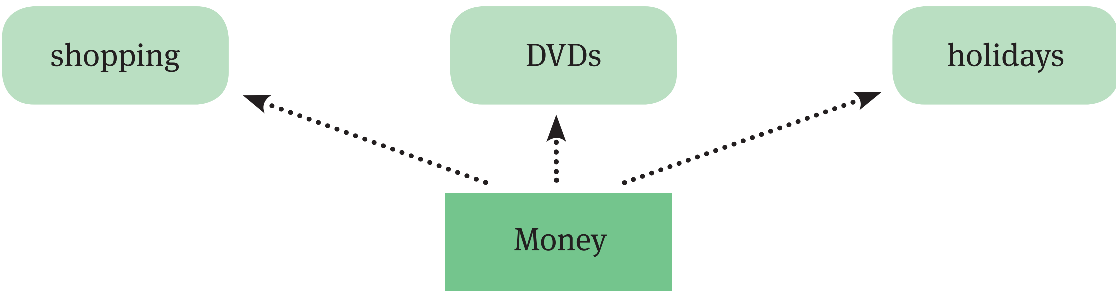
Basic concepts

1.1 Basic concepts

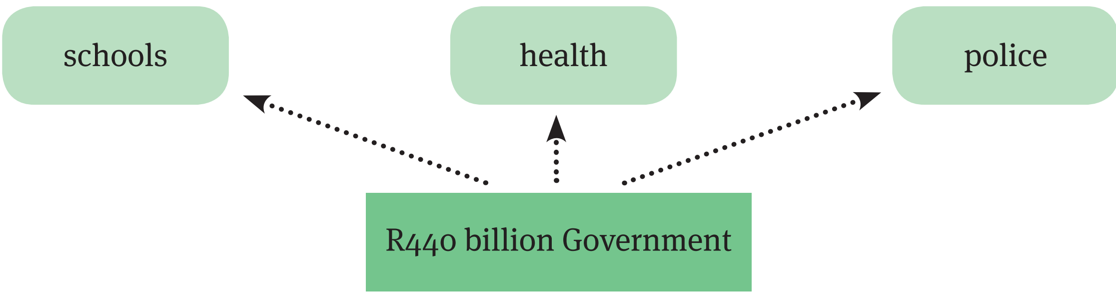
- Economics is the study of how individuals, businesses, governments and other organisations within our society choose to use scarce resources to satisfy their unlimited wants and needs.
- Resources are limited so we need to know how to work with them without wasting them.
- Because we cannot satisfy all our wants and needs, we have to make choices about which needs to satisfy and which not.

1.1.1 The economic problem

- THE BASIC ECONOMIC PROBLEM is scarcity: the problem arises because resources are scarce, but human wants are unlimited.
- Humans only have a limited amount of money. Yet they have lots of needs and wants to satisfy.



- The government also has a limited amount of money and is unable to satisfy all its wants.



The economic question is:

- What should be produced?
- How should it be produced?
- For whom will it be produced?

1.1.2 Branches of Economics

- Microeconomics looks at individual decisions. This includes the decisions of firms as well as consumers.
- Macroeconomics studies the operation of the economy as a whole and deals with issues such as unemployment, inflation, growth, and monetary and fiscal policy.

Scarcity (the limited supply of resources relative to people's needs and wants) is an issue in both macro- and microeconomics.

Economics can be further subdivided into various sections

- Monetary economics studies money, how it is controlled and how it is used.
- Public sector economics studies the role of the government in economics.
- Developmental economics studies policies and strategies that help developing countries to grow.
- Labour economics studies the demand and supply of labour and its effects on the economy of a country.
- Environmental economics looks at issues which affect the environment.
- International economics studies international trade and finance.

1.1.3 Approaches of Economics

- Economists study the world around them and gather the facts and observations about how people behave when they produce, exchange and consume goods and services.
- Economists use what they observe to create theories and principles.
- They either:
- make deductions by drawing up theories and testing them against the facts to see whether a certain theory fits the facts
  or
  induce theory by processing facts to create a theory
  or
  use a combination of deduction and induction.

Economics studies how people behave with regard to money.

The so-called 'laws' in economics are in fact more like general statements than laws.

The methods of economics

1.2 The Methods of Economics

1.2.1 Economic models

An economic model is an attempt to explain or predict how a set of circumstances will behave if a variable changes. We use data or information to build economic models.

1.2.2 Positive and normative statements

Positive economics deals with objective explanation and the testing and rejection of theories. For example:

- A rise in consumer incomes will lead to a rise in the demand for new cars.
- A fall in the exchange rate will lead to an increase in exports overseas.
- More competition in markets can lead to lower prices for consumers.
- Normative economics deals with opinions about what ought to be. These are subjective statements rather than objective statements – i.e. they carry value judgments.

For example:

- The level of duty on petrol is too unfair and unfairly penalises motorists.
- The government should increase the national minimum wage to R60 per hour in order to reduce relative poverty.
- The retirement age should be raised to 75 to combat the effects of our ageing population.

1.2.3 The scientific method

Economics is a science, and economists remain as objective as possible about the topics that they study. They use the scientific method:

- They formulate a question.
- They conduct an investigation.
- They draw a conclusion.

1.2.4 Difficulties faced by economists

Economics is a social science. Economists study how people behave with regard to money. It is a difficult field of study because:

- People all think and behave differently. You cannot run laboratory tests to check how people will react to a specific change in one variable, as you could with a physical science.
- It is difficult to run a controlled test to see how people will react to a change.
- It is difficult to change just one variable and keep all other variables constant.
- Economists are often biased.
- Results are less precise than in physical sciences.
- Economic laws are more like general statements than laws; they are not exact.

The settling of economics within the field

1.3 The settling of economics within the field

1.3.1 Economics and other sciences

Economics overlaps other subjects because Economics studies people and their behaviour.

Economics has most in common with the following subjects:

- Accounting
- Business studies
- Commercial law
- Mathematics of finance

1.3.2 Relationship with other sciences and career opportunities

Economics is useful for many career choices. The table in your textbook shows how economics overlaps with other fields of study and how this provides career opportunities.

Career opportunities using economics can be found in:

- Statistics
- Mathematics
- Information technology
- Law
- Politics
- Sociology
- Geography

Topic 1

Questions

Question 1: Fill in the missing words

1.1. The problem of scarcity in the economy centres around … means and unlimited wants. (2)

1.2. The … method means that from specific assumptions certain deductions and conclusions can be made. (2)

1.3. From the definition of economics it is clear that … is the key problem of economics. (2)

Question 2: True or False

1. Economics is a social science. (2)
2. Macro economics studies the economic behaviour of the individual consumer and the individual business enterprise. (2)
3. Economic goods are found in unlimited quantities. (2)

Question 3: Multiple choice

Select the correct alternative:

3. 1 Economics is the study of people's behaviour in their attempts to satisfy their

A limited wants with unlimited means
B limited means with unlimited wants
C unlimited wants with unlimited means
D unlimited wants with limited means. (2)

3.2 Economics is a social science and for this reason, it is more correct to refer to its basic principles as:

A economic tendencies
B economic laws
C economic trends
D economic by-laws. (2)

Questions

3.3 Economics is a science which studies how to:

A make money

B make the best use of scarce resources

C redistribute income to the working classes

D give people all they want.

Question 4

Use your textbook to fill in the following table to show the differences between positive and normative economics.

Positive economics	Normative economics

Question 5

Use your textbook to fill in the following chart explaining how economics overlaps with other subjects and creates job opportunities.

Subject	Content of subject	Suggested careers
Statistics		
Mathematics		
Information technology (IT)		
Law		
Politics		
Sociology		
Geography		

Topic 2

The basic economic problem

Overview

- TOPIC 2 Page 9 — The basic economic problem of scarcity
  - UNIT 1 Page 10 — Absolute and relative scarcity
    - Opportunity costs – of one good over another
  - UNIT 2 Page 12 — Production factors land, labour, capital and entrepreneurship
    - Sectors of production primary, secondary and tertiary
    - Public and private sectors of the economy Formal and informal sectors of the economy
    - Consumer groups households, businesses, government
    - Consumption capital and consumer
    - Exchange and bartering disposable income, exchange rates
    - Types of Goods durable, semi durable, non durable and services
    - Economic and free goods
  - UNIT 3 Page 15 — Human rights and economic development sustainable development and government actions

In Topic 2, you will look at how we attempt to solve the economic problem. You will also study the components of the economy: production, exchange and consumption, and the importance of protecting both human rights and the environment when making economic decisions.

Unit 1

The problem of scarcity

2.1 The problem of scarcity

The basic economic problem involves scarcity, making choices and the opportunity costs of those choices.

2.1.1 Absolute and relative scarcity

- Absolute scarcity exists when we have enough resources to buy a good but it is just not available, for example if the potato harvest failed there would be an absolute scarcity of potatoes because none would be available.
- Relative scarcity exists when there are enough goods to satisfy a population's needs but most of the population are too poor to buy them. This situation exists in developing countries.

2.1.2 Economic goods and free goods

- Free goods are those we don't pay for, such as sunlight or rain.
- Economic goods are produced at a cost from scarce resources, so people have to pay for them. The differences between economic and free goods are shown in Table 2.1 in your textbook.

2.1.3 Alternatives and opportunity costs

Choice is part of the economic problem. Because we have limited (scarce) resources, we have to make a choice how best to use them. We have to choose between alternatives.

- If you have R40 in your pocket, you can decide to spend it in a number of ways. You can save all of it, or use some of it to buy snacks or see a movie. You can choose how to spend your money. There are a number of alternatives you can consider but you cannot do everything. This is called Opportunity Cost because you choose one alternative over another.
- Individual – if we plant potatoes in our garden, we have less room for carrots.
- Firm – if the resources of a chocolate factory are used to make milk chocolate then they have less resources available for plain chocolate.
- Government – if more schools are built, there is less money for hospitals.

Examples of Opportunity Cost

Assuming I have R100 to spend, and I can only buy magazines at R25 each or take-away burgers, also at R25 each, then I can use my money in several ways.

If I buy 4 burgers, how many magazines can I buy? None.

Complete the chart underneath showing the different choices you can make with R100.

No of burgers	4	3	2	1	0
No of magazines					

Who is making the choice?	What they choose	The opportunity cost (what they could have had)
Business	☐ New computers ☐ New workers ☐ Office party	☐ New fax ☐ Delivery van ☐ Pay for boss!
Government	☐ Unemployment benefit ☐ Weapons	☐ New roads ☐ More hospital beds
Individuals	☐ Mars bar ☐ T-shirt ☐ Beach holiday	☐ Twix bar ☐ DVD ☐ Fixing the roof

2. 2 Production, Exchange and Consumption

The three basic processes in a modern economy are:

- production
- exchange
- consumption.

2.2.1 The four production factors are

- Land – the natural resources on the planet. It includes space on the ground, minerals, food, timber and water.
- Labour – the human input (workers, managers, etc) into the production process. Each individual has a different level of skills, qualities and qualifications. This is also called human capital.
- Capital – all the money used to buy capital goods (for example, buildings, machinery, vehicles, tools and materials) to produce goods and services.
- Entrepreneurship – the person who organises the other three factors of production to produce goods and services to sell. They risk their own resources in business ventures.

2.2.2 Public and private sectors

- The public sector – all the industries and enterprises that are owned and controlled by the government, such as public hospitals and clinics, public schools, correctional facilities (prisons), provincial and municipal offices, water supply and the railways.
- The private sector – all the industries owned and controlled by private individuals or groups.

2.2.3 Formal and informal sectors of the economy

- The formal sector: this is made up of all the registered businesses in the country. Only the production that takes place in the formal sector is taken into account when we calculate the GDP of the country.
- The informal sector: this is made up of all the businesses that are not registered, such as street vendors. Because these businesses are not registered, there is no official record of their production, expenditure, income and profit/loss. We don't include them when we calculate the country's GDP.

2.2.4 Primary, secondary and tertiary sectors of the economy

- The primary sector of the economy involves the collection of raw materials, for example, mining, agriculture, fisheries and forestry. Farmers plant crops and harvest them when they are ripe. Miners take coal and gold from the mines. The primary sector does not involve any processing of the raw materials. This sector is the most important sector in the economies of most developing countries.
- The secondary sector of the economy involves processing or manufacturing. In other words turning the raw materials from the primary sector into finished products. Factories that process food, paper-making, oil refineries and assembly plants where trucks and cars are built are all part of the secondary sector of the economy.
- The tertiary sector of the economy is the service sector of the economy. The tertiary sector includes goods that people consume and services that are offered, such as hairdressing, taxis, etc.

2.2.5 Consumption

People and businesses consume two types of goods:

- capital goods, which are goods that are used to produce other goods and services; tools and machinery are examples of capital goods.
- consumer goods, which are goods that are the final products we buy from shops.

We use capital goods to produce consumer goods.

2.2.6 Types of goods

There are three types of consumer goods:

- Durable goods, which are goods that can be used over a long time, for example, a refrigerator, a car or carpets.
- Semi-durable goods include goods such as clothing, footwear, textiles and furnishings that last for some time but not as long as durable goods.
- Non-durable goods (which also include perishable goods) are goods that you can only use once, for example, food, washing powder and petrol. Food is a perishable good.
- Services include items such as banking, health care, telecommunications, entertainment and transport.

2.2.7 Three groups of consumers

- Households, which mainly spend their income on durable goods, perishable goods and services.
- Businesses, which mainly spend their money to invest in capital (raw materials, machines, buildings) for their production process.
- Government, which mainly spends its money on public goods (for example, national parks, street lighting and roads) and merit goods (for example, education).

2.2.8 Exchange and bartering

- Disposable income is the income we have to spend after tax has been deducted. We exchange money (income or savings) for goods or services we wish to consume. We could also swop (barter). For example, we could barter some books we have read for some DVDs that we have not yet watched and which are owned by a friend. In bygone times, most economic activity was done by bartering. Money makes for a more convenient system.
- Exchange rates are the amount of one currency that you can exchange for another. If we wish to buy goods or services from another country, we first have to change our currency into the currency of the other country. The exchange rate is the value at which we make this exchange.

2.3 Sustainable development and human rights

It is important that as we develop our economy, we do not do so in a way that is harmful to either people or our environment.

Harmful labour practices include:

- child labour
- sweat shops
- working with dangerous substances.

2.3.1 Sustainable development includes

- recycling
- taking care of the environment
- not using up non-renewable resources
- technological progress
- treating workers fairly, particularly in developing countries.

2.3.2 Economic behaviour which may harm sustainability

- polluting the environment
- greenhouse effect
- child labour exploitation
- using up natural resources in meeting the huge demands of today's population
- exploitation of labour in developing countries

It is important for the government to take action against any business or economic activity which harms sustainability by creating social/external costs.

2.3.3 Examples of government action

- bans on traffic in certain areas
- increases on taxes on petrol
- fines for firms who pollute the environment
- subsidies to firms who produce in an environmentally friendly way
- a tax has to be paid by firms who dump waste
- encouragement of public transport

Topic 2

Questions

Question 1: Fill in the missing words

The group of consumers who spend their income mainly on goods and services are called … as opposed to … who mainly spend on capital goods. (2)

Question 2: True or False

2.1 A car is an example of a non-durable good. (2)

2.2 Because the informal sector is so large in South Africa, we include it in our GDP calculations. (2)

2.3 Air and rain are examples of free goods. (2)

2.4 R6 will buy either a bar of chocolate or a cool drink; then the opportunity cost of buying a bar of mint chocolate must be two cool drinks. (2)

Question 3: Select the correct alternative

3.1 The cost of one commodity in terms of another is known as

A opportunity cost

B sacrifice cost

C scarcity cost

D problem of choice (2)

3.2 Which of the following best describes the term 'economic resources"?

A all the factors of production, i.e. land, labour, capital and entrepreneurship

B all the world's resources

C the stock of manmade wealth

D all the free goods that nature provides (2)

3.3 The fact that product A is sacrificed so that product can be afforded, illustrates the principle of ….

A opportunity cost

B consumer surplus

C production cost

D possibility (2)

3.4 The basic problem faced by all nations is ...

A scarcity
B distribution
C production
D consumption (2)

3.5 The value of durable goods ... over time

A increases
B decreases
C does not change
D multiplies (2)

Question 4

Explain consumer expenditure on goods and services. (16)

Topic 3

Circular Flow and Quantitative Elements

Overview

TOPIC 3 Page 18
The flow of money and goods in the economy

UNIT 1 Page 19
Participants in the circular flow
- households
- businesses
- government
- financial institutions
- foreign sector

UNIT 2 Page 22
Markets
- the goods market
- the real market
- the flow
- the equation for production

Leakages and injections
- savings
- investment
- taxes
- subsidies
- imports
- exports

UNIT 3 Page 24
Gross domestic product
- calculating GDP
- problems with GDP

UNIT 4 Page 26
Gross national income
- calculating GNI
- problems with GNI

UNIT 5 Page 27
Comparing GDP and GNI calculating per capita income

Topic 3 will give you an overview of how the economy of a country works, and we will create a simplified model of a real worked economy which is called a circular flow diagram. It is important that you understand how to create this model and how it works.

Unit 1

The participants in the economy

3. 1 The participants in the economy

- The participants in the economy are known as households, businesses, financial institutions (banks), the government and the foreign sector.
- Goods, services and money flow between the various participants in the economy.
- The flow of goods and services is known as the real flow.
- The flow of payments for goods and money for salaries is known as the monetary flow.
- Each of these participants is involved in the production, income and spending within the economy.

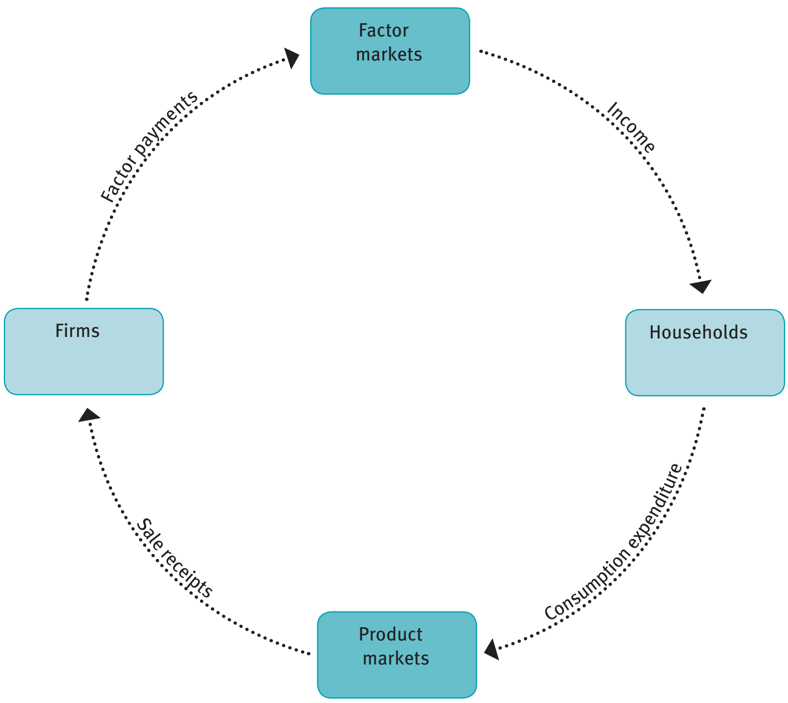
3.1.1 The circular flow model

Households

- A simple circular flow diagrams just households and businesses.
- Households provide labour (jobs) for the market for factors of production and receive income (wages) to buy goods and services.

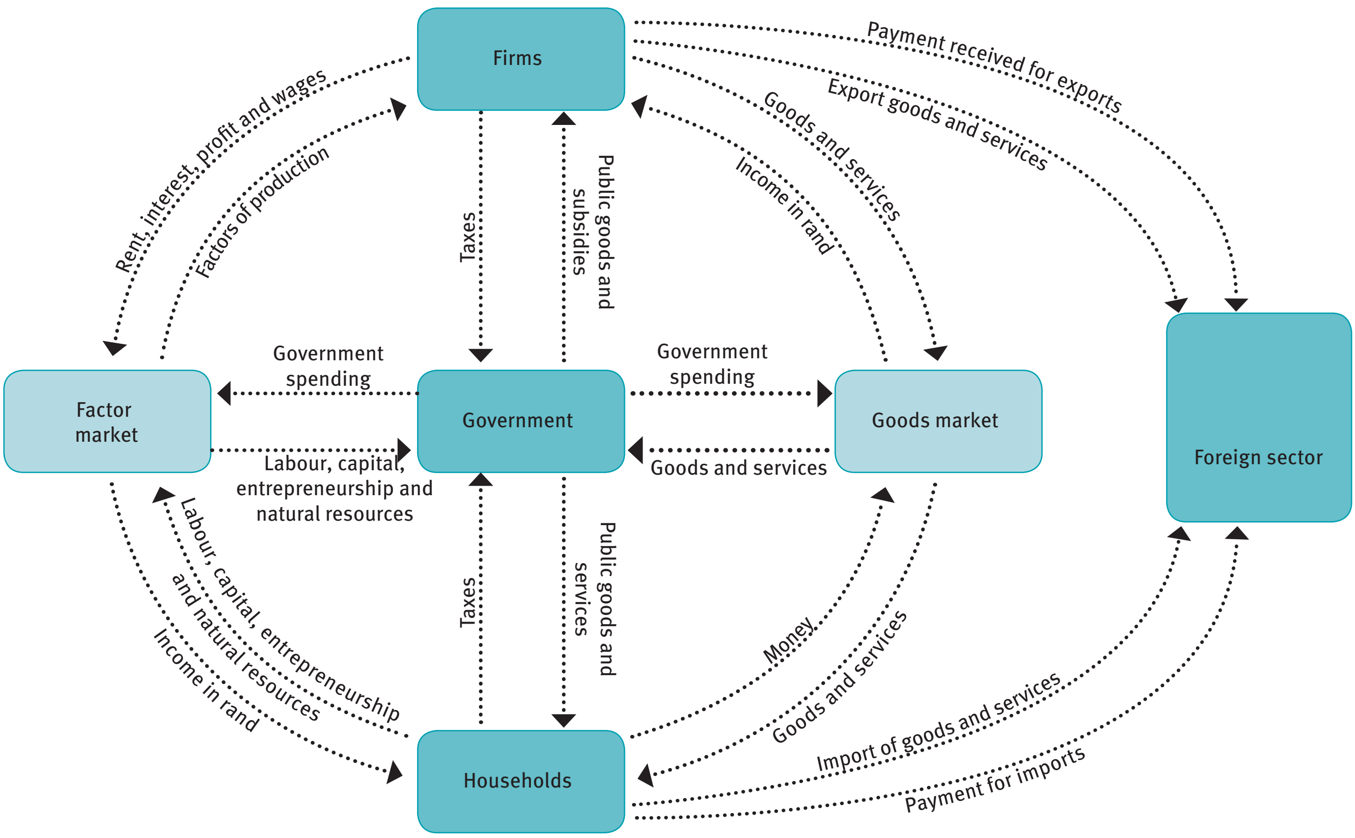
Business enterprises

- Firms buy factors of production (hire people) and produce goods and services.
- This gives a circular flow of money, goods and services between households and firms.
- With just households and businesses in the model, there are two circular flows, one of goods and services and the other of money.
- Households and businesses both save and borrow. This means that money enters the circular flow model as loans from banks and leaves the circular flow model as savings.



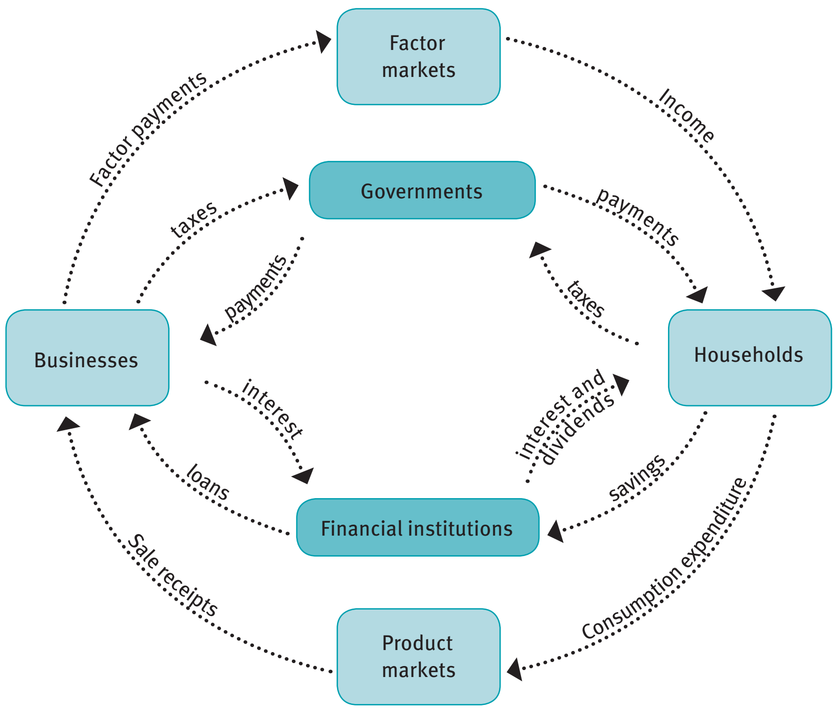
The government

- Money leaves the circular flow model in the form of taxes and enters in the form of public services and infrastructure.
- The government buys goods and services and pays factors of production.



The foreign sector

- South Africa has an open economy, because we trade with other countries.
- This means that money leaves the country when we buy goods from overseas (imports).
- Money enters the country when other countries buy our goods and services (exports).
- An economy with no foreign trade is called a closed economy and an economy with foreign trade is called an open economy.



3.2 Markets

The market brings together all participants in the economy, all the economic means and the processes.

There are two main types of markets:

- goods market, the market for goods and services
- factor market, the market for factors of production

Flows of variables

The circular flow consists of two important flows:

- the real flow of products and services
- the flow of money (the monetary flow).

These two flows happen in opposite directions because:

- the money that one person spends becomes another person's income
- the goods or services that one person buys are production from another person

The real flow is the flow of goods and services and people in the economy.

- Factors of production are sold on the factor markets to the businesses
- Businesses turn factors of production into products
- The products are bought on the goods markets

Money flows in the opposite direction to the flow of goods and services in the economy.

- Households earn an income by selling labour on factor markets
- Households spend income by buying goods and services on the goods market

Flows and stocks

The three main economic flows are production, income and spending.

Economic flows result in stocks. We can only measure stocks at a certain time.

As soon as any flow happens, stock levels change.

Other examples of economic flows are profit, savings and sales.

Leakages and injections

Not all money stays in the circular flow of the economy the flow. We call this leakages and injections.

- Savings, taxes and exports are leakages out of the flow
- Loans, subsidies, grants and imports are injections into the flow

When we draw the model of the markets in the economy we use the following letters to represent the different parts:

C = consumer spending
G = government spending
I= money firms use to buy capital goods and all the money they borrow from financial institutions
X = money we receive for our exports
M = money we spend on imports
T = tax money that is paid to the government
S = money that is saved by households and businesses in financial institutions

Injections	Leakages
Exports (X) Government spending (G) Investment by financial institutions (I)	Saving (S) Taxes (T) Imports (M)

3.3 Deriving GDP

For the country as a whole income, product and expenditure are all equal.

We show this as an equation:

Income = Product = Expenditure

3.3.1 What is gross domestic product?

Gross domestic product (GDP) = the market value of all the final goods and services that people produce within the borders of a country.

GDP is a good indication of the amount of wealth that a country creates.

We use GDP as a measure of how well the population in a country live.

We call this the standard of living in a country.

- gross refers to all the production
- domestic means all the production within the borders of the country

3.3.2 Calculating GDP

There are three approaches that economists use to calculate GDP:

- **The product approach**: this is the sum of all the output of all producers in the country
- **The expenditure approach**: this is the total spending in the country
- **The income approach**: this is the total of all the income producers receive sales

According to the expenditure approach, the GDP of a country is:

GDP = private consumption + gross investment + government spending + (exports – imports)

or: GDP = C + I + G + (X – M)

GDP only measures production which has a money value attached to it.

3.3.3 The importance of GDP

Used to measure the standard of living in a country.

Problems encountered in using GDP as a measure of standard of living

- The total GDP of a country depends on the size of the country and its population.
- A country such as China may have a large population that lives in poverty even though their GDP is high.
- Calculating the GDP per person in a country will give you the average GDP in the country but does not tell you how evenly it is spread.
- GDP measures the production within the borders of a country but includes production by foreign workers and firms.
- A high GDP does not always mean a high standard of living for all the citizens in a country.

Deriving gross national income

3.4 Deriving gross national income

Gross national income (GNI) also measures production: the total production by all the citizens and businesses from a country.

3.4.1 The composition of GNI

- GNI counts the production from people and businesses from a specific country, whether that production happens inside the country or not
- GNI also adds in interest that businesses and citizens earn from investments in other countries
- Any money that is sent out of a country is deducted when calculating GNI

3.4.2 The importance of GNI

- GNI measures how much the people and businesses of a country earn
- GNI still needs to take into account how broadly that income is spread amongst the population

Comparing GDP and GNI

3.5 Comparing GDP and GNI

- GDP measures all production within the borders of a country.
- GNI measures all production by the nationals (people and businesses) of a country.
- Both GDP and GNI only count production which produces income.
- GNI decreases when money goes out of a country, for example to pay back loans, whereas GDP stays the same.
- If a country sells assets (such as a power station) to a foreign firm, the GNI will decrease over time, but the GDP will not.
- Politicians prefer to use GDP as a measure of economic activity because as a measure it looks better than the GNI, especially if a country has a lot of debt and decreasing assets.
- Economic activity is not the same as standard of living.

3.5.1 Problems regarding GDP and GNI

- Neither measure takes wealth distribution into account.
- Both measure only production that earns income; they exclude activities such as household production or volunteer services.
- Neither measure counts the activities of the underground economy.
- Neither measure counts bartering and informal transactions.
- Neither measure counts subsistence production, i.e. where people produce for their own needs.
- Neither measure tells us whether the growth is sustainable.
- The figures of both measures have to be adapted to account for the effects of inflation.

3.5.2 Per capita income

Per capita income is the amount of income each person in a country would receive if it were shared out equally. To calculate GDP per capita income you divide the GDP by the total population. To calculate GNI per capita you divide the total GNI by the total population.

Topic 3

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 If C = R10 million, I = R240 million, G = R25 million, X = R56 million and M = R10 million, GDP is equal to ….

A R229 million

B R275 million

C R321 million

D R341 million (2)

1.2 A circular flow diagram represents …

A money flows in the economy

B real flows in the economy

C only government flows

D money and real flows

1.3 "Closed economy" refers to the absence of …

A a foreign sector

B a banking sector

C a government sector

D none of the above

Question 2: Choose the correct word from those in brackets

2.1 Payments received on goods exported are recorded as a/an (leakage injection). (2)

2.2 If the GNI of a country is R1 500 million per annum and it has a population of 5 million, the GNI per capita is (R250/R300). (2)

2.3 The market for labour is known as the (factor/job) market. (2)

2.4 Businesses cannot make investments without (savings/consumption) from households. (2)

Topic 3

Questions

Question 3: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 The GDP of a country includes all sectors of the economy including the informal sector. (2)

3.2 A homemaker's services are excluded from national income figures because a market price cannot be allocated to these services. (2)

Question 4

In an open economy, national income is spent by four sectors. List these sectors. (8)

Question 5

Discuss any TWO problems encountered when using GDP and a measure of a country's economic growth. (8)

Topic 4

Business Cycles

Overview

TOPIC 4 Page 30
Business cycles

UNIT 1 Page 31
What is a business cycle?
- economic growth
- changes in GDP

SA business cycles
- 1945–1975
- 1975–1994
- 1994 to now

Economic indicators
- leading
- lagging
- co incident
- pro-cyclic
- counter-cyclic

UNIT 2 Page 33
Representing the business cycle
- time series
- CPI
- cyclical patterns

Phases in the business cycle
- slump
- recession
- recovery
- boom

Measuring business cycles
- dating system
- GDP
- employment growth rate
- inflation rate
- certain goods and services

UNIT 3 Page 38
Causes of business cycles
- endogenous reasons
- exogenous reasons

Effects of changes in business cycles changes in aggregate supply and demand

UNIT 4 Page 41
Effects of business cycles
- economic growth
- employment rates
- price levels
- exchange rates

UNIT 5 Page 42
Effects on the economically vulnerable
- standard of living
- prices
- unemploy-ment

This topic examines the concept of the business cycle, explains how they occur and their impact. You need to make sure you understand the impact of changes in the business cycle on the economy.

Unit 1

The phenomenon of business cycles

4.1 The phenomenon of business cycles

The business cycle is a series of upward and downward movements in the level of economic activity of a country over a period of months or years. All countries have periods of rapid economic growth and periods of slow, zero or negative growth.

Because of the interconnectedness of trade, there are also global upswings and downturns (recessions).

- Economic growth means the increase in production of a country over a period of time.
- We measure economic activity as a change in real GDP.

4.1.1 Economic indicators

Economic indicators are signs or pointers that economists use to analyse changes in the business cycle. We classify economic indicators in terms of timing and direction.

Classification by timing

Leading indicators

These change direction ahead of the cycle, that is, before the economy itself changes. Economists use leading indicators to predict what is going to happen in the economy in the following months. An example is the Johannesburg Securities Exchange (JSE). Share prices increase before an upswing in the economy and fall before the downturn.

Lagging indicators

Lagging indicators change a few months after the economy has changed. They confirm that the economy has changed. An example of a lagging indicator is the unemployment rate.

Coincident indicators

These are economic indicators that change at the same time as the economy changes. They give us information about the state of the economy. An example of a coincident indicator is company payrolls. Wages and salaries increase when the economy is strong and decrease when economy is weak.

Classification by direction

Procyclic indicators

These move in the same direction as the change in the economy. They increase during expansion and decrease during recession. An example is GDP, which rises during expansion and falls during contraction.

Countercyclic indicators

These move in the opposite direction to the change in the economy. They decrease during expansion and increase during recession. An example is the unemployment rate. The unemployment rate falls during expansion of the economy and rises during contraction of the economy.

4.2 South African business cycles

The South African Reserve Bank monitors and keeps records of business cycles.

Your text book gives you detailed tables showing the GDP of South Africa over a period of time. You should be able to identify the periods of growth and recession in the economy.

4.2.1 Cyclical nature of the South African economy

- 1945 -1975 A period of economic growth and prosperity, mainly due to our mineral wealth.
- 1975-1994 A period of economic decline, increased unemployment and decreased demand for our products because many countries imposed sanctions due to apartheid and stopped trading with us.
- 1994 – 2007 Economic growth has started again with increased demand for our goods and services but with lower employment levels.

Unit 2

Ways of representing business cycles

4.2 Ways of representing business cycles

4.2.1 Time Series

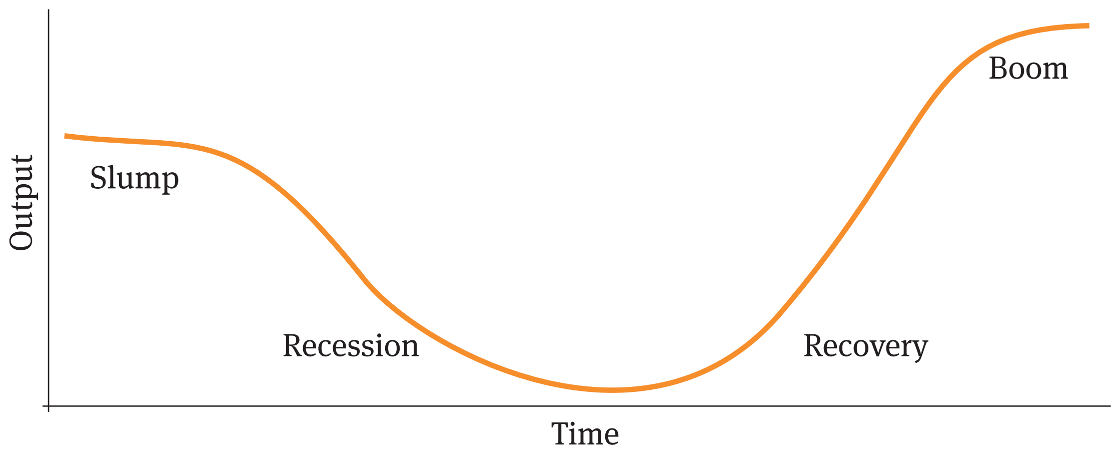
A time series uses data which is measured at successive time intervals. This can be weekly, monthly, quarterly or yearly.

The Consumer Price Index and real Gross Domestic Product are both time series which measure changes in the business cycle.

Real means with the effects of inflation removed so that we can make meaningful comparisons.

4.2.2 Cyclical patterns

Business cycles follow a continuous cycle of upswings and downturns. These patterns vary from one cycle to another. Some cycles are long; others are short. Others are very 'deep' – that is, there is a very big difference between the peak (the prosperity phase) and the trough (the recession or depression phase) in the cycle.



- Business cycles therefore have four phases: prosperity, recession, depression and recovery.
- Business cycles are divided into two main periods, namely, expansion and contraction.
- Expansion (also known as upswing) is a period when economic activity increases. It is made up of two phases called recovery and prosperity (also known as boom).
- Contraction (also known as downswing) is a period when the economy is falling. It is made up of two phases called recession and depression.

4.2.2.1 Prosperity phase

- There is an increase in the economic activity in a country.
- There is an increase in output, the employment rate and wages.
- People's standards of living are improving.
- Prosperity is official when the economy has grown for a period of six consecutive months.
- Prosperity ends when the cycle reaches its peak.

Consumption: During prosperity consumers have more money. When they spend that money, the level of consumption increases. This increases aggregate demand in the country.

Real GDP: Businesses make more profit because there is an increase in demand. This attracts more entrepreneurs to enter the market, and output increases. The increase in output increases real GDP. This means the economy is growing.

Investment: In order to produce more goods to meet demand, businesses increase investment in their enterprises. They do this in various ways:

- Buildings: New businesses may buy, build or rent new buildings. Businesses may also add new branches in other areas.
- Machinery: New and existing businesses buy more machines and equipment in order to produce larger quantities of goods and services.
- Inventories: During prosperity there is an increase in inventories (stock) to satisfy increased demand.

Employment: The increase in demand for goods creates an increase in the demand for labour to produce the goods. More workers are employed. People who were unemployed before may now get jobs.

Other factors of production: There is an increase in the demand for the other factors of production as well – for natural resources, capital and entrepreneurship.

Prices usually rise during prosperity.

- Consumer Prices Index: During prosperity, aggregate demand (total demand) is more than aggregate supply (total supply). This creates a shortage of goods and services, which causes a rise in prices. This is called inflation.
- Exchange rates: An open economy trades with other countries. A system of exchange rates for currencies is used in international trade. The exchange rate is determined by the supply of and demand for the currencies of our trading partners. An increase

in the demand for our products by our trading partners appreciates our exchange rate (makes it stronger).

- Interest rates: Interest rates usually increase during prosperity, because there is more demand for capital to boost production.
- Wages: An increase in real GDP per capita causes wages to increase. Consumers live better, because they earn more.

4.2.2.2 Recession

- Economic growth decreases.
- There is a negative economic growth rate.
- Businesses reduce output.
- A decrease in the employment rate as some workers are laid off.
- A reduction in income.
- A recession is defined by economic growth having decreased for two consecutive quarters.
- A recession ends with the trough.

Consumption: People have less money in their pockets. As a result they consume less. Therefore, aggregate demand decreases.

Real GDP: The quantity of goods and services produced decreases because of the fall in demand. As output decreases, so does real GDP. Economic growth decreases.

Investment: Businesses reduce investment. Less money is spent buying capital goods. Producers may close some of their operations. Because demand is lower, producers have no reason to increase investment.

Employment: Decline in demand forces businesses to reduce output. They may dismiss some of their workers. The unemployment rate increases. People's standard of living decreases.

Prices

Consumer prices index (CPI): Demand decreases so prices decrease. As prices decrease, so does the CPI.

Exchange rates: Lower demand for our goods in foreign markets. Demand for our currency decreases so the rand exchange rate against other currencies depreciates (loses some of its value).

Interest rates: Interest rates fall. Lower interest rates mean borrowing is cheaper for consumers. In order to stimulate demand the Reserve Bank may reduce interest rates.

Wages: Fall in demand forces businesses to reduce wages or dismiss some workers in order to reduce production costs.

Depression

- If a recession continues for a long time, it becomes a depression.
- Depression is a severe form of recession.
- During a depression there is large-scale unemployment and severe shortage of goods and services.
- Depressions are rare because governments take steps to prevent recessions from becoming depressions.
- The most famous depression was the Great Depression of 1933 in the Western world.

4.2.2.3 Recovery

- The economy starts to grow again.
- Recovery usually starts slowly and speeds up over time.
- There is a gradual increase in demand and an increase in output which will eventually change to prosperity.

4.2.2.4 Turning points

The business cycle has two turning points, a peak and a trough.

Peak: Prosperity does not go on forever. Economic activity increases up to a certain point and then stops. We call this point the peak. The economy is at full employment and producing at full capacity. After the peak, economic activity decreases. The peak is the upper turning point of the cycle.

Trough: Recessions do not continue forever. The recession reaches a point where economic activity stops decreasing and starts to rise again. A trough marks the end of a recession or depression. A trough is the lower turning point of the cycle.

4.2.3 Measuring business cycles

The dating system

The National Bureau of Economic Research (NBER) uses the dating system to measure business cycles. Statistics are recorded on a daily, weekly and monthly basis and then compiled quarterly. Only the quarterly statistics is used for the final analysis of the business cycle.

The Gross Domestic Product

GDP is important as a measure of the state of the economy.

The employment growth rate

Figures are compiled to show how many people are employed in the country and if there are any changes in the number employed.

The inflation rate

The figures for the inflation rate are compiled by the South African Reserve bank and show changes in prices. This gives a good indication of where we are on the business cycle.

The production of certain goods and services

Certain figures such as numbers of new building and amount of gold mined, give an indication of where we are on the business cycle.

Reasons for business cycles

4.3 Reasons for business cycles

4.3.1 Exogenous reasons

These are external causes from outside the economy of the country.

Natural disasters

Natural disasters such as earthquakes, floods or tsunamis cause a disturbance in the production of goods and services.

Political reasons

The decisions and actions of politicians, such as declaring a war, can cause the economy to go into a particular phase of the business cycle.

Foreign trade

A country that trades a lot with other countries is likely to be affected by the business cycles of its trading partners.

Psychological reasons

Sometimes business cycles are caused by what people believe about the economy. If most people are positive about the future of the country, the economy may enter the expansion phase.

Weather

Changes in the weather can either cause an expansion or a contraction in the economy.

Monetary reasons

An increase in the supply of money from the Reserve Bank encourages consumers to increases consumption, because they can borrow money at lower interest rates. A decrease in money supply makes the economy contract.

4.3.2 Endogenous Reasons

Endogenous reasons for business cycles are those that come from inside the economy itself.

Investment

An increase in investment causes an increase in economic activity.

Technological change and innovation

New technology and innovation increases economic activity and causes the economy to expand.

Savings

More savings makes more funds available for investment.

4.3.3 Changes in aggregate demand and supply

Aggregate demand (AD)

Aggregate demand is the total sum of consumption by households (C) plus investment by businesses (I) plus government spending (G) plus imports (M). In symbols we say:

$$AD = C + I + G + M$$

- A decrease in any of the components of aggregate demand forces businesses to reduce output.
- This causes all other variables (investment, income, employment) to start to decline.
- The economy contracts.
- An increase in aggregate demand increases economic activity in a country.

Aggregate supply (AS)

- An increase in total supply makes the economy expand. For example, a discovery of new mineral deposits will activate all other sectors of the economy. The economy will expand.
- New methods of production (innovation) increase output and make the economy expand.

4.3.4 Monetary policy

- An increase in interest rates discourages economic activity. When interest rates are high, entrepreneurs borrow less money and invest less. This decreases productivity and reduces economic activity. Repeated increases in interest rates can therefore put the economy in recession.
- Reducing interest rates encourages investment. When the cost of borrowing money is lower, businesses are more likely to borrow funds which they use to produce more goods and services. This causes expansion in the economy.

Effects of business cycles

4.4 Effects of business cycles

4.4.1 Changes in aggregate supply and aggregate demand

You need to be able to draw the diagrams in your textbook to demonstrate changes in aggregate supply and demand.

- When the economy expands there is an increase in aggregate demand which in turn cause aggregate supply to increase.
- A contraction in the economy causes aggregate demand to decrease which in turn causes a decrease in supply.

4.4.2 Changes in economic growth

- Economic growth rates follow the phases of the business cycle.
- Economic growth rate is positive during the expansion phase.
- Economic growth rate is negative during the contraction period.

4.4.3 Changes in the employment rate

- Employment levels change with changes in the business cycle.
- Employment increases in the expansion phase of the business cycle.
- Employment rates decrease during contraction.

4.4.4 Changes in price levels

- Prices of most goods and services increase during expansion and the first part of the prosperity phase. This is inflation.
- When a recession starts, prices are still high. This phase is accompanied by stagflation (economic stagnation). Then most prices begin to fall.

4.4.5 Changes in the level of the rate of exchange

- The expansion and boom phases increase demand in other countries for goods imported from South Africa. Exports from South Africa increase.
- The demand for the rand increases, the rand appreciates.
- In a global recession the demand from other countries for South African products decreases.
- The demand for the rand decreases , the rand exchange rate depreciates.

When a currency appreciates it grows stronger and when it depreciates it grows weaker.

Effects on people who are economically vulnerable

4.5 Effects on people who are economically vulnerable

- These are people without a secure livelihood or enough financial reserves to meet their basic needs on an ongoing basis. It includes pensioners, people living with disabilities or chronic diseases such as AIDS, rural women, children, immigrants from poorer countries, and illiterate and unskilled persons.
- Business cycles generally affect economically vulnerable people more than the rest of the population.

Reasons for this:

4.5.1 Standard of living

- With economic growth the general standard of living for the country's population rises.
- Government spending increases during prosperity.
- People who are economically vulnerable suffer most when standards of living decrease during a recession.
- Businesses are less productive and less profitable during recession and depression, individual incomes fall and the government receives less revenue from taxes.
- There is less money to spend on social upliftment projects and grants to assist people in need.
- A recession leads to greater numbers of unemployed people (and their dependants) without any regular income.

4.5.2 Prices

- Price increases have negative effects on economically vulnerable groups.
- People on fixed incomes have to wait until the government increases their social security grants.
- Most income received by poor households is spent on basic necessities such as food, shelter, fuel and essential transport such as taxi or train.
- Cutbacks in spending lead to major health risks or discomfort for economically vulnerable groups.

4.5.3 Unemployment

- Illiterate and unskilled people are often the first to lose their jobs during a recession.
- Many casual workers do not have long-term contracts of employment.

- Small businesses in the informal sector struggle to make a profit in the recession phase.
- Illiterate or low-skilled employees often do repetitive manual tasks and can be replaced by technology as businesses focus on cutting costs and increasing productivity during recession.

Topic 4

Questions

Question 1: Multiple choice questions

Choose the correct answer. Only write the letter of the answer you select.

1.1 The lwest turning point of a business cycle is known as the …

A trough

B downswing

C recession

D depression (2)

1.2 During an upswing in the economic cycle … will increase and … will decrease

A unemployment; prices

B employment; bankruptcies

C exports; demand

D interest rates; incomes (2)

1.3 When aggregate supply increases without an increase in aggregate demand …

A price levels will automatically rise

B price levels will fall

C the demand for labour will decrease

D A and C (2)

Question 2

How can the government use an increase in interest rates to affect the business cycle? (6)

Question 3: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 During times of prosperity profits tend to be higher than during a recession. (2)

3.2 A downturn in the business cycle affects the wealthy more than the poor because the wealthy have more to lose. (2)

3.3 A depreciation in the value of the rand means that other countries pay more to buy our currency. (2)

Questions

Question 4

List THREE exogenous factors that affect business cycles. (6)

Question 5

Explain THREE effects of changes in the business cycle on the standard of living. (12)

Topic 5

The dynamics of markets

Overview

TOPIC 5 Page 46
The dynamics of markets

UNIT 1 Page 47
Value, price and utility
- price and value
- marginal utility
- diminishing marginal utility

Description of a market
- definition
- characteristics
- world markets

UNIT 2 Page 49
Types of markets
- consumer markets
- factor markets
- perfect markets
- imperfect markets
  - monopolies
  - oligopolies
  - monopolistic competition

UNIT 3 Page 51
Importance of prices in a market economy
- signals
- production
- output

UNIT 4-6 Page 52-56
Demand and supply
- laws of demand and supply
- factors influencing demand and supply
- equilibrium in the market
- determination of price

UNIT 7 Page 58
Functions of markets
- allocation of resources
- self-regulation
- price setting

In Topic 5, you study the dynamics of markets. Markets play a vital role in the establishment of prices and quantities of goods and services. It is important that you understand the market mechanism as well as the types of markets that are found. Make sure you know how to draw demand and supply curves and can show what happens when changes occur.

Unit 1

The market as a phenomenon

5.1 The market as a phenomenon

The 'market' is any place where buyers and sellers get together to exchange goods and services for money. This includes newspapers, advertisements, the internet and any other way that buyers and sellers use to make contact with one another.

A market must have

- Sellers (suppliers) who have goods or services that they want to sell.
- Buyers (consumers) who want to buy these goods or services; they demand these goods or services.
- A place where the buyers and the sellers meet.

Characteristics and activities of markets

- The sellers compete with one another.
- The buyers also compete to get the best price
- Negotiation (bargaining) takes place.
- An exchange of goods or services between the buyer and the seller at the agreed upon price takes place.

5.1.1 Value, Price and Utility

Price

The quantity of goods that producers are willing to supply/sell at a given price.

Value

Is the ability that goods or services have to demand other goods (including money) or services in exchange. **Value in use** means that something is needed and it has value such as sunlight or fresh air. A product has **value in exchange** when people are willing to pay for it, for example, a car or electricity. The 'value in exchange' of a product is the price of the product.

Utility

- **Utility** is the degree of satisfaction that a consumer gets from a product or service.
- A product or service that has utility meets customers' needs.
- The more utility goods or services have, the greater the demand will be for those products or services.

Marginal utility: the extra satisfaction a consumer gets by purchasing one more unit of a product.

Diminishing marginal utility: the more units one buys, the less additional satisfaction one gets from buying each extra unit.

5.1.2 Relationship between price, value and utility

- The more satisfaction a product gives, the more utility it has.
- If a commodity has utility and is **scarce**, people will pay money for it. The commodity therefore has a price.
- The price of a commodity is its exchange value.
- People usually exchange goods and services for money.

Types of markets

5.2 Types of markets

Consumer market

- **A consumer market** (also called a commodity market) is a market for goods or services
- A consumer market is where you buy finished products.

Factor market

- A factor market is where you buy production factors
- Production factors such items such as labour or natural resources.

5.2.1 Characteristics of perfect markets

- There are a large number of buyers and sellers.
- The buyers and sellers have full information about the market.
- Buyers and sellers are free to enter or leave the market.
- All the goods or services on the market are identical.
- No government interference with buyers or sellers.
- No collusion (working together to influence prices) between sellers.
- Neither the buyers nor the sellers can influence the price of the goods or service.

5.2.2 Imperfect markets

Conditions for a perfect market do not really exist, so all markets are imperfect to a greater or lesser degree.

- Sellers or buyers can influence the price of a product.
- Some sellers can drop their prices and so force other sellers out of the market.
- Producers can reduce the quantity of a product that they make and so cause the price of the product to increase.
- The goods or services on the market are not identical.
- Buyers and sellers are not free to enter or leave the market.

There are three types of imperfect markets

- A monopoly – where there is only one seller of a good or service, and consumers have no substitute for the good or service. The seller can ask any price and offer goods of any quality. For example, Eskom is the only producer of electricity in South Africa.

- An oligopoly –where there are a few large firms who dominate the market. For example, Vodacom, MTN and Cell-C dominate the mobile phone service market in South Africa.
- A monopolistic competing market –certain features of a monopoly and competition are combined. Telkom for many years had a monopoly on providing telecommunication services by landline. Telkom therefore could ask as much as they liked for their service. However, if they became too expensive, people would switch to using their cell phones and Telkom would lose business.

5.2.3 World markets

These are markets that operate world-wide and are not limited by national boundaries. Internet, telephone networks and facilities for electronic money transfers make more markets world markets.

Why prices are important in a market economy

5.3 Why prices are important in a market economy

- Prices act as signals to buyers and sellers. When prices are low enough, they send a "buy" signal to buyers (consumers). When prices are high enough, they send a "sell" signal to sellers (retailers).
- Encourage efficient production. The less it costs to produce an item, the more likely it is that its producers will earn a profit.
- Firms that are efficient will produce more goods with fewer raw materials than firms that are inefficient.
- Prices help to determine who will receive the economy's output of goods and services, for example, when grapes are out of season they are imported and expensive so only the wealthy can afford to buy them, however, when they are in season they are plentiful and cheap so everyone can buy them.

5.4 Demand, supply and price

5.4.1 Demand

- Definition of demand: the quantity that an individual or individuals are willing to buy at any given price.
- Effective demand: this means that people actually have the money to make the purchases.
- Individual demand: the quantity one individual or one household plan to buy.
- Market demand: the total demand of all the consumers in a particular market.

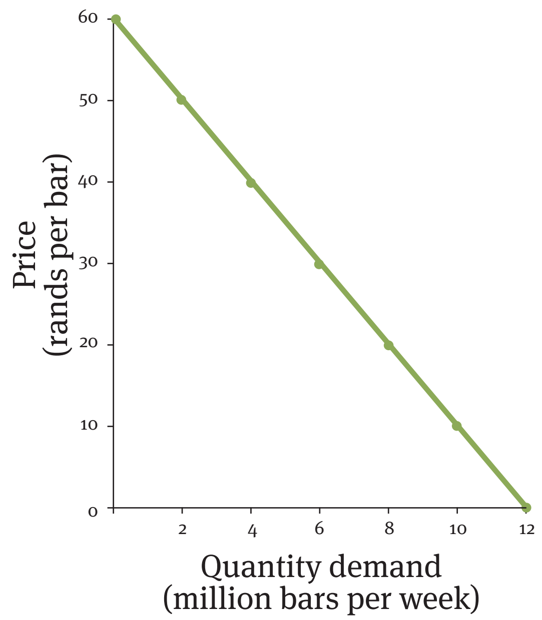
The relationship between demand and price

Demand for a product increases as the price falls and falls as the price increases.

The demand curve

This shows the relationship between demand and price.

Price (rands per bar)	Quantity demand (million bars per week)
0	12
10	10
20	8
30	6
40	4
50	2
60	0
70	0

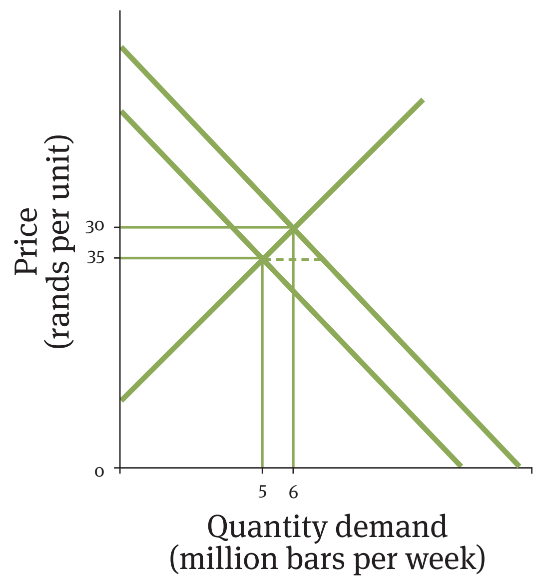


5.4.2 Other factors that influence demand

- Advertising.
- Economic cycles; in a recession people have less disposable income to spend, which reduces demand.
- Fashion.
- Weather.
- New or better alternative products come onto the market.
- Technological changes.

Changes in price cause a movement along the curve.

A change in the factors that influence demand will move the whole curve.



Unit 5

Supply and price

5.5 Supply and price

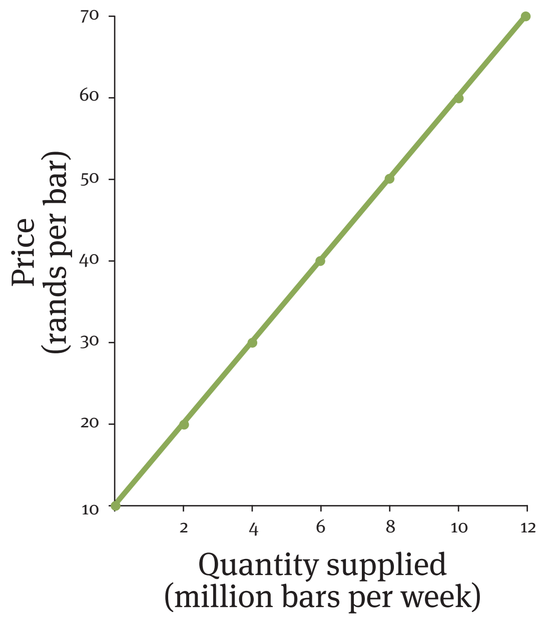
Definition of supply: the quantity that firms are willing to supply at a given price.

Supply increases as price increases and decreases as price decreases. This is because producers are aiming to make profit.

5.5.1 The supply curve

This shows the relationship between supply and price.

Price (rands per bar)	Quantity demand (million bars per week)
0	0
10	0
20	2
30	4
40	6
50	8
60	10
70	12

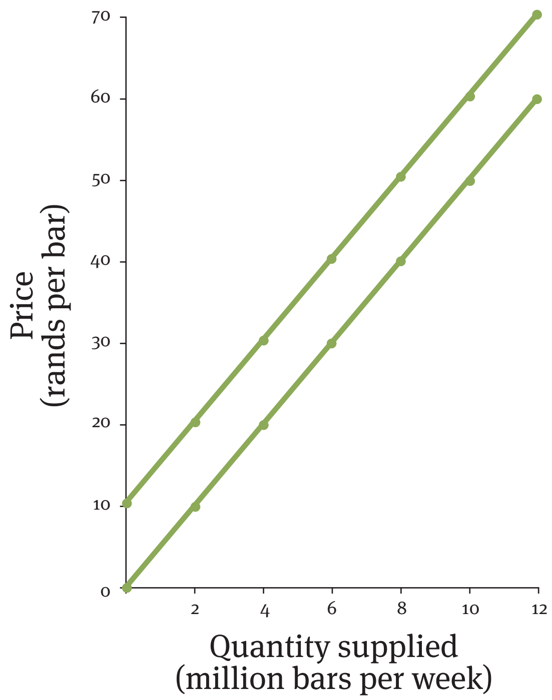


Other factors that influence supply

- Natural factors such as a drought, hail or floods may lower supply of agricultural products; large harvests may increase supply.
- Cost of production may change.
- Changes in technology make new, cheaper production processes possible.
- Other producers may enter or leave the market.

A change in the factors that influence supply will shift the whole curve.

A change in prices causes a movement along the existing curve.



5.6 Price formation

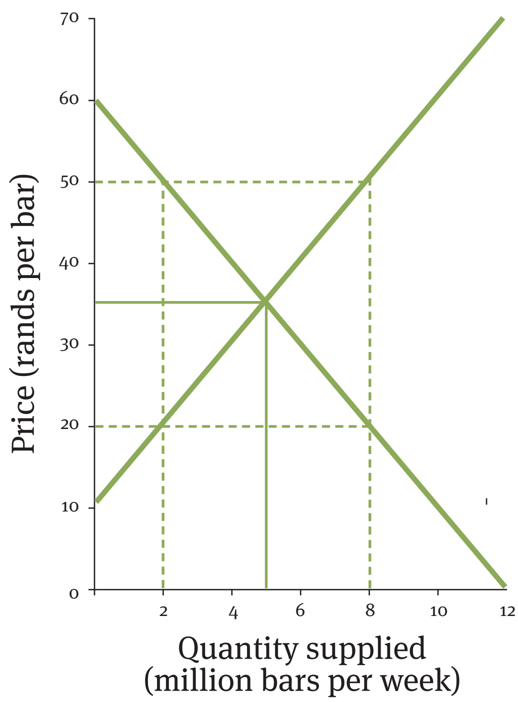
Price formation (or price determination) takes place where the market forces of supply and demand reach a balance, or equilibrium point.

This equilibrium point is the equilibrium price for a product.

The equilibrium point also gives the equilibrium quantity, that is, how many units of the product consumers will want to buy and suppliers will want to provide.

The market is in equilibrium (in balance) if the demand for a certain product is equal to the supply of the product. The equilibrium price is determined by:

- The price that consumers are willing to pay for the product, and
- The price for which producers are willing to supply the product.



Price equilibrium is found where supply and demand are equal. This is the point where both sellers and buyers are happy with the price and quantity.

5.6.1 The price mechanism

- The price mechanism means that markets continually correct themselves. Prices constantly move above or below the equilibrium price, and then the price mechanism corrects the situation.
- If the price of a good rises then supply increases, but demand falls. We call this a surplus. Prices will then drop until demand and supply are equal.
- If the price of a good drops then supply will decrease and demand will increase. We call this situation a shortage. The price will rise until demand and supply are equal.
- Excess supply or excess demand will both act as triggers to move the market back to equilibrium.

Functions of markets

5.7 Functions of markets

The functions of markets allow choice.

It is possible for the government to make price decisions on behalf of citizens.

The government would decide:

- What we need
- How much of each product
- At what price

Producers would know how much to produce and they would never sit with a surplus.

Consumers would know what each product costs and how much of it is available.

We would know which raw materials we need for production and what labour we need to produce it. But we would have no free choice.

5.7.1 Markets bring supply and demand together

- Buyers want to get the products and services they need at the lowest possible price.
- Sellers want to sell their products and services at the highest possible price to make as much profit as possible.
- If the sellers make too much profit, the buyers will feel exploited. If they do not need the products, they probably will not buy them from these sellers.
- Competition between sellers helps to keep profit-making under control.
- In a perfect market sellers and buyers have all the information they need and there are many suppliers and buyers. If one supplier tries to exploit consumers, the consumers will simply buy from another supplier.

5.7.2 Markets allocate resources

- Markets show the producers what they should produce, and how many of that product they should produce.
- The market forces of supply and demand determine the price of the product – the price that consumers are willing to pay, while still allowing the producers to make sufficient profit.

- This means the market tells producers how much to invest into producing any particular product. If it costs too much to produce a product, the consumers will not pay the selling price.

5.7.3 Markets regulate themselves

The market forces of supply and demand regulate the market.

If producers ask too high a price

- the demand for that product will drop
- the producers will then be forced to drop their prices, or
- they will be left with many unsold products and make a loss.

If the price is too low

- The producers will not be willing to produce the product, because it will not be worthwhile.
- The supply of that product will then drop.
- Once prices increase, then producers start production again.

Topic 5

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 Due to the power shortages, the demand for candles increases. However, due to the power cuts factories are not able to operate all of their machines and the supply of candles declines.

Which of the following statements is correct?

A the demand curve for candles will shift to the left
B the demand curve for candles will shift to the right
C the supply curve of candles will shift to the left
D the supple curve of candles will shift to the right (2)

1.2 A monopoly is a market where there are many ...
A buyers and few sellers
B buyers but only one seller
C sellers and few buyers
D sellers but only one buyer (2)

1.3 If the price of light bulbs decreases then ...
A the demand for light bulbs will also decrease
B the supply of light bulbs will decrease
C the supply of light bulbs will increase
D no change will occur in the demand for or supply of light bulbs (2)

Question 2: Choose the correct word from those in brackets

2.1 The marginal utility is the (additional/total) satisfaction gained from the consumption of (all units/one more unit). (2)

2.2 At all prices above the equilibrium price a market (shortage/surplus) will prevail. (2)

Topic 5

Questions

Question 3

3.1 Name TWO types of markets. (4)

3.2 List any THREE factors that determine the demand for goods. (6)

Question 4: Essay question

Discuss the functions of markets explaining with the aid of a graph how prices and quantities are established. [40]

Topic 6

The production possibility curve

Overview

TOPIC 6 Page 62
The production possibility curve (PPC)

UNIT 1 Page 63
Resource allocation
- opportunity costs
- inputs and outputs
- inefficient allocations

UNIT 2 Page 66
Position of the PPC
- internal factors
- external factors
- changes in resources

UNIT 3 Page 67
Market failures
- uneven income distribution
- monopolies
- inflation
- pollution

- Effects of inefficiencies
- government intervention

This topic deals with the allocation of resources. Because resources are limited we have to make choices. This is called opportunity cost and applies to production as well as consumption.

Unit 1

Resource allocation

6.1 Resource allocation

- The problems of scarcity and choice apply to production and consumption.
- There are not enough resources to produce everything even at full capacity.
- We have to make choices.
- We use production possibility curves (PPCs) to show the concepts of scarcity, choice and opportunity cost visually.
- A PPC shows the maximum number of any two products that we can produce from a fixed amount of resources.
- PPC illustrates the opportunity cost of gaining more of one good, which means we have less of the other.

Economists use the terms inputs and outputs.

Inputs are the production factors that producers use to make products.

Outputs are the goods or services (products) that we get from the production process.

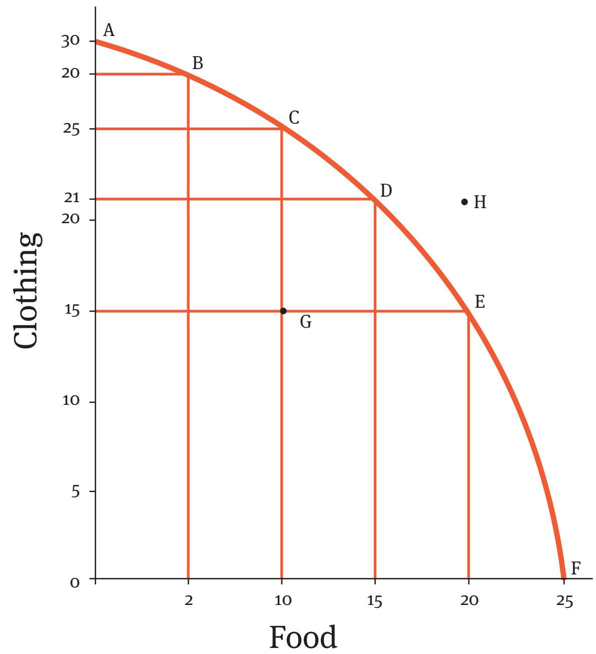
6.1.1 The production possibility curve

The PPC is based on four assumptions:

- The economy is using all its resources and is producing goods and services at the lowest cost.
- The resources (factors of productions) are fixed.
- Technology is fixed.
- The economy produces only two products.

Example:

The following diagram shows a country that can only produce two products, food and clothing.



- If the country use all their production resources and they only produce clothing, they can produce 30 units of clothing.
- If they use all their production resources and they only produce food, they can produce 25 units of food.
- At point G they can produce 15 units of clothing and 10 units of food BUT they are not using all their production resources – there are wasted resources.
- Point H would give them more of both goods but they cannot manage this yet, they do not have enough production resources.
- Points B, C, D and E are all choices that can be made.
- By studying the diagram you can work out how many units of food and clothing are made at each point. As we produce more of one item, we produce less of the other.
- The PPC demonstrates scarcity and choice.

6.1.2 Shape of a PPC

- A PPC can be shown as a straight line, a convex (bulging outwards) curve or a concave (curving inwards) curve.
- The trade-off in the resources decides the shape of the curve.
- A convex or concave curve means that the rate of the trade-off is not the same for every unit extra that you produce.

The position and shape of the PPC depends on the following aspects of an economy

- Physical resources
- Skills and technology

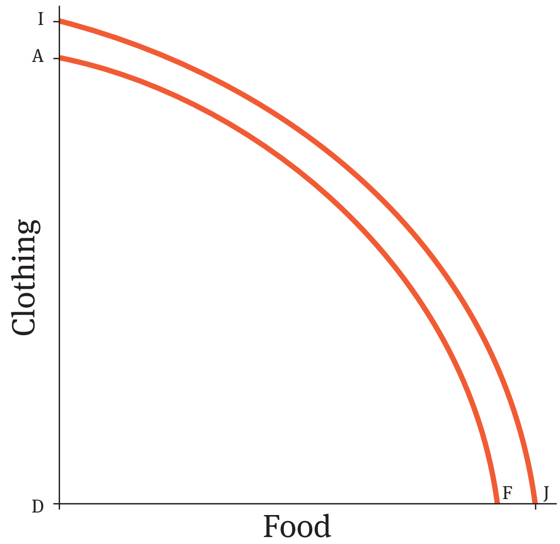
- How hard the people are willing to work
- How much was invested in the past in infrastructure, construction, research and innovation.

6.1.3 Changes in the production possibility curve

- Internal factors over which the producer/owner has control such as the number of workers or the size of the factory.
- External factors that are beyond the control of the producer such as natural disasters and the price of fuel.

Change in one of the outputs

The slope and position of the PPC will change if there is a change in technology or resources that affects only one of the products. An improvement in farming techniques will increase the amount of food that can be produced but not affect the amount of clothing that can be produced.



6.1.4 Economic growth

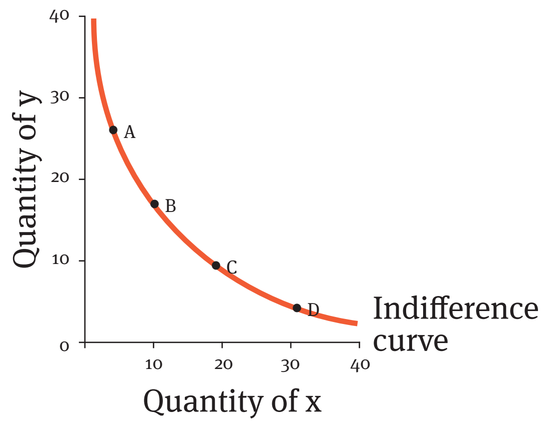
When an economy grows, we can assume that we will get

- More resources.
- Better quality resources.
- Improved technology.

All of these factors will move the PPC outwards to the right.
Trade allows countries to consume more than they would if they produced everything themselves.

6.2 Maximising satisfaction – indifference curves

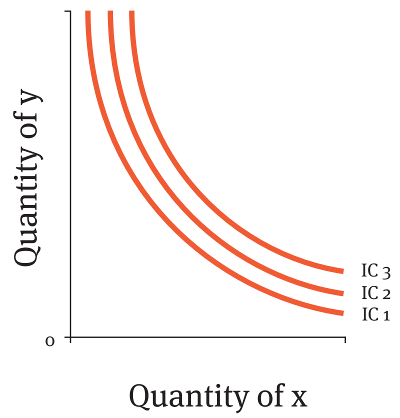
An indifference curve is a graph that shows all the combinations of quantities of goods which will satisfy the consumer equally. These combinations give the consumer equal levels of satisfaction.



At point A we have more of good y than good x and at point D we have a great deal more of good x than good y but we are equally happy with either choice. All the combinations of x and y on an indifference curve make us equally happy.

6.2.1 Changes in income

- Changes in income mean we can make different choices.
- Our original income allowed us to buy combinations of x and y on the indifference curve IC_2 below. An increase in our income would mean we can buy more of both and we would move to IC_3.
- If our income decreased, we would move to IC_1.
- If the price of one of the two goods changes, then the slope of our indifference curve would also change.



Market failures – inefficiencies

6.3 Market failures – inefficiencies

We do not live in a perfect world.

Conditions in markets are often not ideal, which causes inefficiencies in terms of how we allocate resources and distribute income.

Governments intervene in the economy to correct inefficiencies.

6.3.1 Uneven distribution of income

- Many people live in absolute poverty.
- The government then steps in and pays welfare grants and pensions to help poor people.
- These payments create a larger market and more consumers.
- More firms can therefore enjoy economies of scale and the PPC therefore moves to the right.

6.3.2 Monopolies

- If there is not enough competition in the market, monopolies may develop.
- A monopoly exists when there is only one supplier of a product.
- The monopolies can dictate the prices of certain products or groups of goods and services in the marketplace.
- This may exploit consumers, particularly if monopolies develop around the supply of essential goods and services such as basic foodstuffs.
- The government steps in to prevent monopolies by making laws to forbid monopolies.

If established firms cannot form monopolies, it is easier for new competitors to enter the market. More competition creates better efficiency. More efficient firms can therefore produce more with the same resources. This moves the PPC to the right.

6.3.3 Inflation and extreme fluctuations in business cycles

- High rates of inflation cause unstable economic conditions.
- The Reserve Bank tries to control inflation to stabilise the economy.

- Wild swings between troughs and peaks in the business cycle also cause instability, which undermines confidence in the economy.
- The state can spend or save to counteract the ordinary business cycle and to limit its impact.

If producers know that demand will remain fairly stable and that inflation will not get out of hand, they can plan better. A stable economy moves the PPC to the right, because producers can produce more with the same cash resources as the cost of borrowing remains stable.

6.3.4 Pollution and exhausted natural resources

- Many businesses do not care what they do to make profit and they will pollute the environment and waste natural resources if that brings more profit.
- The state puts in place and enforces laws to control the use of natural resources.
- These laws can make production more expensive for producers.
- More expensive production processes moves the PPC to the left; producers can produce less with the same resources as production is more expensive.

Topic 6

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 Market failures occur when:

A there is no demand for a product
B supply for a product is too great
C inefficiencies occur in the allocation of resources and income
D governments intervene. (2)

1.2 Productive efficiency occurs when ...

A the economy is using all its resources efficiently
B the economy is producing the right combination of goods and services
C the economy is producing on the production possibility curve
D A and C. (2)

Question 2

Choose the correct word from the words in brackets.

2.1 A point outside the production possibility curve can only be reached by improved (technology/management). (2)

2.2 An indifference curves shows quantities of goods that satisfy us (marginally/equally). (2)

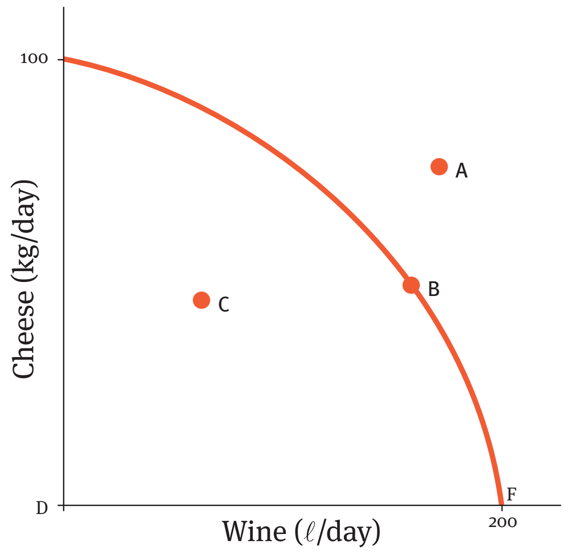
2.3 A stable economy causes the production possibility frontier to move to the (right/left). (2)

Topic 6

Questions

Question 3

Look at the diagram below and answer the questions that follow:



3.1 If all the factors of production were used to produce wine, how much wine could be produced? [2]

3.2 If all the factors of production were used to produce cheese, how much cheese could be produced? [2]

3.3 Is it possible to produce the combination of cheese and wine indicated by point A? [2]

3.4 Is it possible to produce the amount of wine and cheese indicated by point B? [2]

3.5 What is happening at point C? [2]

Question 4

Match the possibility curves below with the correct description.

4.1 A new way to grow and harvest bananas has been developed.

4.2 A new technique to increase coconuts is used.

4.3 Better-educated and trained workers cause an increase in the production of both coconuts and bananas.

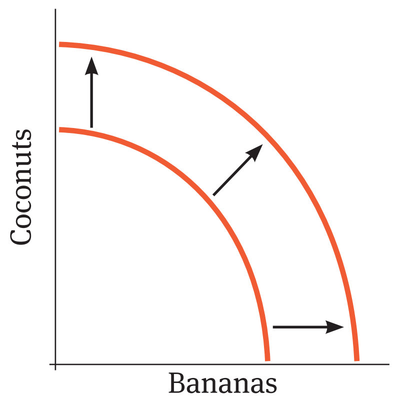
4.4 Allocative inefficiency leads to an equal/unequal distribution of income.

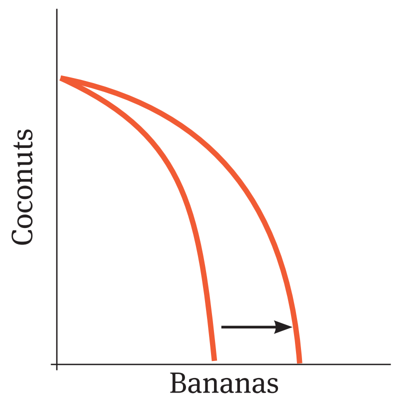
4.5 Drought has caused a decrease in the production of both bananas and coconuts.

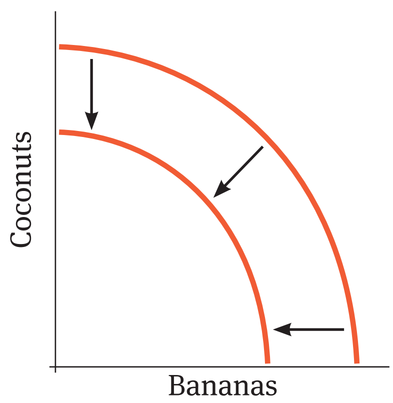
(2 x 4 = 8)

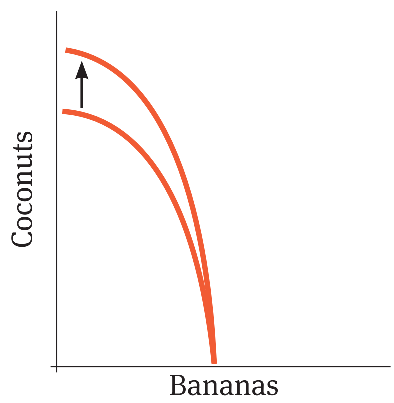
Question 5

Explain the meaning of the term 'monopoly' and its effects on the economy. (10)









Topic 7

The public sector

Overview

TOPIC 7 Page 72

The public sector

UNIT 1 Page 73

Reasons for public sector involvement in the economy

- Ways the public sector intervenes

UNIT 2 Page 74

Kinds of intervention

- direct and indirect taxes
- subsidies
- welfare grants

Minimum wages

- effect on demand for labour

State production

- public goods and merit goods
- positive and negative externalities

Maximum and minimum price levels

- price ceilings and floors
- effects on demand and supply

The public sector comprises central government, provincial government and local government as well as state-owned or state-funded businesses. All of these influence and play an important role in the economy. The public sector is a large consumer and producer of goods and services. It also tries to influence economic growth and correct imbalances such as poverty and unemployment.

Unit 1

Reasons for public sector intervention

7.1 Reasons for public sector intervention

- to protect against inefficiencies such as monopolies
- unequal opportunities
- to provide social welfare serves such as health and education
- to guard against unfair pricing
- to promote fair treatment of workers and prevent exploitation, so it sets minimum wages and maximum working hours
- to control strategic enterprises, for example to generate electricity and provide water

Government collects taxes to pay for its activities.

7.1.2 How does the public sector intervene in the economy?

- by maintaining justice, law and order and protecting property rights
- by collecting taxes
- by spending tax money through the government budget
- by owning shares in certain companies, for example, Transnet
- by providing certain services, such as education and health care
- by influencing prices of certain goods with price ceilings, floors and subsidies.

Government influences prices and quantities in the market by

- setting maximum prices (price ceilings)
- setting minimum prices (price floors)
- subsidising certain products and activities
- taxing certain products and activities.

7.2 Kinds of intervention

7.2.1 Direct taxes

Money that individuals pay out of their wages or salary, or that businesses pay out of their profits, to the South African Revenue Service (SARS).

- Taxpaying consumers and businesses have less money to spend.
- People have less disposable income or less 'take-home' pay'.
- Taxes cause the demand curve to shift to the left.

7.2.2 Indirect taxes

These are taxes charged on goods and services.

- Value-added tax (VAT) is an example of an indirect tax. It is charged as a percentage of the price of an item (currently 14%).
- Unit price tax. Taxes on cigarettes and alcohol are a unit price tax (excise tax). They are a flat rate per unit no matter what the price of the item is.

Reasons for indirect taxes

- To increase the income of government: almost 40% of the income of the government comes from indirect taxes.
- To reduce the demand for a product: because the VAT or excise duty you have to pay on a product increases the price of the product, people buy less of that product.
- Excise duty increases the price of imported goods, so South Africans are encouraged to buy locally produced goods instead.

Effects of indirect taxes

Both forms of indirect tax have the same effects on the spending of consumers:

- Indirect taxes, such as VAT or excise duty, make certain products more expensive, so consumers buy less of them. The demand for the product is reduced.
- Businesses sell fewer goods or services, because there is less demand for their products.
- People buy locally produced goods rather than imported ones, because excise duty makes the imported goods more expensive.
- People have less money to spend. Disposable income decreases.

7.2.3 Subsidies

The government receives money through taxation and uses some of this to provide subsidies to help poor citizens buy expensive items and to help producers supply basic products at fair prices.

Subsidies to consumers

- To encourage consumers to buy more of a certain product.
- The demand for the product will therefore increase.
- Governments give consumer subsidies by reducing the indirect taxes on a product.
- Governments also occasionally give consumers subsidies in the form of vouchers or grants towards buying particular items.

How subsidies can harm an economy

- Subsidies interfere with the working of a market economy.
- Government pays subsidies to change the prices and/or quantities of goods and services that consumers buy from producers.

Subsidies to producers

- The government pays an amount of money (the subsidy) to the producer on condition that the producer then sells the product or service to consumers at a lower price.
- Governments often pay subsidies to farmers, so that they can produce cheaper food.
- The South African government used to subsidise the price of bread.
- Subsidies help poorer people.
- The government pays subsidies to producers in certain sectors of the economy in the form of cash, or in the form of a tax reduction, to encourage them to export goods.

Reasons for farming subsidies

- Farming is a risky business, as farmers face natural hazards such as drought, floods and crop diseases.
- Farmers have very high input costs, in particular diesel, farm machinery, fertilisers and pesticides.
- Farmers are essential for the food security of a country.

7.2.4 Welfare

- Many governments give welfare grants each month to people who are not able to work. Examples of welfare grants include old-age pensions, disability grants and child support grants.
- Welfare grants are a form of transfer expenditure.
- Because poverty is such a widespread problem in South Africa, many people think that the government should also give a basic income grant to all poor people.
- Sometimes the government pays welfare grants to producers to benefit poor people.

7.2.5 Maximum and minimum prices

Governments sometimes intervene in the economy by fixing maximum or minimum prices for products and services. Fixing the price will influence the demand and the supply of a product or service.

Maximum prices (price ceilings)

- A price ceiling is the legal maximum price for which a certain product or service can be sold.
- This ensures that poorer people can still afford to buy that product or service.

Effect of price ceilings

If the maximum price or price ceiling is above the equilibrium price, it will have no effect on the supply or demand for that product or service. However, if the price ceiling is below the equilibrium price, the price ceiling will have an effect.

A price ceiling usually has the following effects

- A shortage of the items that are controlled by a price ceiling.
- This causes the start of an illegal market (black market) for that particular product.
- The ‘black market’ price of that product is higher than the ‘normal’ market price.
- A part of the price paid by the consumers goes to the ‘black market supplier’, and not to the real supplier.

Minimum prices (price floors)

- A price floor is a guaranteed minimum price for a certain product or service. In the past, the government controlled the prices of agricultural products by fixing a minimum price. This was done to keep the farmers in the agricultural sector and to guarantee them a higher income.

- If the price floor is below the equilibrium price, it will have no effect on the supply or demand of that product. However, if the price floor is above the equilibrium price, there will be an effect.

A price floor usually has the following results:

- A surplus of the items that are controlled by a price floor.
- If there is a surplus, the producers struggle to sell their products.
- Sellers often try to offer discounts in various forms, just to get rid of the surplus.

7.2.6 Production

The public sector produces two kinds of products:

- Public goods – which are goods used by the community or society, for example, street lighting, roads, libraries, clinics.
- Merit goods – which are goods or services which benefit the community as a whole, but which are not profitable for a private company to produce. For example, inoculating babies against diseases.

South Africa has a number of government-owned companies, including Telkom, Transnet, Sasol and Eskom. Since 1994, the government has started to privatise these companies, which means that some of them have been wholly or partly sold to private investors.

The effects of government production

- The public sector usually provides products and services at a lower cost or for free.
- This means that more people will use the products or services.
- Demand for these products and services therefore increases.

7.2.7 Minimum wages

- This is the lowest wage that can legally be paid to any worker in a particular sector.
- Minimum wages protect the workers in a particular sector against exploitation, and raise the income and living standard of the very poor and vulnerable.

The fixing of a minimum wage often has just the opposite effect. The demand for workers drops, because many employers cannot afford to pay the higher minimum wage. The result is increased unemployment and more people without any income at all.

A government must strike a careful balance when it considers minimum wages.

Topic 7

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

2.1 Roads, railways and air transport are known as ... services.
- A economic
- B infrastructural
- C social
- D public (2)

1.2 Economic policy is applied primarily to achieve:
- A an improvement in living standards
- B full employment
- C the promotion of economic growth
- D stable prices (2)

1.3 The problem of what to produce in a centrally planned economy is decided by:
- A consumer preference
- B decisions by producers
- C the state
- D the market mechanism (2)

Question 2: Choose the correct word from the words in brackets

2.1 The rate at which VAT is paid is currently (20%/14%). (2)

2.2 (Customs duties/Indirect taxes) are taxes levied on imports and exports. (2)

2.2 When government sells state-owned enterprises to the private sector it is known as (nationalisation/privatisation). (2)

Questions

Question 3: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 Indirect taxes cannot be evaded easily. (2)
3.2 In a capitalist system, the government owns and controls all the factors of production. (2)
3.3 Government's main source of income is taxes. (2)

Question 4

List any THREE forms of South African Welfare grants. (6)

Question 5

Explain THREE ways in which the government interferes in the economy. (6)

Topic 8

Growth, development and globalisation

Overview

TOPIC 8 Page 80

Economic growth, development and globalisation

UNIT 1 Page 81

Early societies
- self-sufficiency
- bartering
- language skills and learning
- accumulation of wealth and power

UNIT 2 Page 82

Evolution of markets
- surplus production and trade
- growth of towns
- specialisation of labour
- mercantile law
- technological progress and mechanisation
- growth of money and savings

UNIT 3 Page 84

Governments and trade
- state intervention
- taxation and finance
- positive and negative externalities
- economic systems

Industrialisation
- development of manufacturing
- mechanisation
- urbanisation and migration

UNIT 4 Page 85

The global economy
- multi-nationals
- pros and cons of globalisation

UNIT 5 Page 86

Economic institutions
- trade unions
- limited liability companies
- financial institutions

In Topic 8, you study the historical background to the world economies (and South Africa in particular). You should have an understanding of how the current economies of the world have developed and of the different ways in which people use resources to produce goods and services and consume them.

Unit 1

The emergence of trade

8.1 The emergence of trade

8.1.1 Early societies

The traditional phase

- Traditional societies were **self-sufficient**, depended mainly on agriculture and produced only for their own needs. People were hunter-gatherers.
- The development of basic tools allowed people to begin early settlements and domesticate animals.
- The growth of settlements allowed people to be more productive and to specialise, barter and trade.
- Simple forms of money such as shells and beads began to be used.
- Simple forms of writing, recording of skills and learning began.
- Some groups of people began to control resources and to accumulate wealth and power. These people became the leaders of the early societies.
- Examples of pastoral peoples that still exist in Africa are the Masai in Kenya and the Himba in Namibia.

Evolution of markets

8.2 Evolution of markets

8.2.1 Specialisation

As populations learned to produce more products, such as wine or pottery, they began to **specialise** and trade. This developed a **trading class** who had contact with different civilisations. Travelling merchants who went from town to town emerged.

8.2.2 Surplus production

By specialising, people could produce more of a product than they needed for their own use. They had a surplus which could be traded. Division of labour and specialisation were important prerequisites for the development of trade.

8.2.3 The growth of towns and cities

As trade grew, cities began to develop, often near a river crossing or safe harbour. The development of towns and cities created an elite group of rich and powerful people. Political systems began to emerge to create order in the cities. Markets developed as places where buyers and sellers could meet.

8.2.4 Specialisation of labour

With the increase of specialisation and the development of trades, people began to form associations or guilds. Guilds gave ordinary people a way to band together to oppose the power of the ruling classes. Guilds can be seen as the beginning of the free market system.

8.2.5 Mercantile law

Between 1500 – 1889 an economic revolution developed as countries began to trade with one another on a much larger scale. A set of laws known as mercantile laws was developed to govern trade. These still form the basis of much of international business law today.

8.2.6 Colonialism

European countries colonised many area in the world between 1500 and1900. Commercial agriculture and mining were developed to send commodities and produce to the colonising country.

8.2.7 Technological progress

Industrialisation and technological progress began during the 18^{th} century. The main characteristics of this period were mechanisation, urbanisation, development of transport systems and emergence of large corporations.

8.2.8 Growth of money and savings

Money developed as a means to pay for goods and services, since bartering no longer worked. A medium of exchange was needed. Banking grew because it offered a market for the depositing of savings and the creation of loans. Interest is given on savings and paid on loans. The difference between the two types of interest is the profit that is earned by the bank.

8.3 Governments and the regulation of markets

- Governments intervene in trade to protect their own national interests and to promote economic growth in a country.
- Governments use money raised through taxation or government bonds to create infrastructure and social services needed for effective running of the country.
- Different countries run on different economic systems. Some are free market, such as the USA and some are socialist or communist such as China or Russia. Most have a mixed system with some government intervention in the economy to provide basic services, military strength and address social problems. These are mixed economies. South Africa has a mixed economy.
- Governments intervene to prevent negative externalities. This is where a firm is not paying the full cost of production, for example in allowing waste to flow into a river and pollute it.
- Governments provide positive externalities, such as free education, which would cost individuals too much or which would not be provided at all if left to the private sector.
- Public finance (money collected and used by the state) is an important branch of Economics and there is much debate about the effective use of public money.

Industrial development

8.4 Industrial development

8.4.1 Manufacturing

Industrial development began in the 18th century. This is era is known as the Industrial Revolution. The main characteristics of this period were the development of large-scale manufacturing processes and industrialisation.

8.4.2 Technological progress

Mechanisation means using machines to produce goods. Mechanisation speeds up the production process and allows for products to be produced cheaply and fast. However, mechanisation replaces labour.

8.4.3 Urbanisation and migration

As industrialisation developed, so did urbanisation because people rural areas and migrated to towns and cities to seek jobs. Most developed countries have large urbanised populations. This led to better transport systems and more specialisation of occupations.

Economic institutions

8.5 Economic institutions

8.5.1 Limited liability companies

- As economies grew, they became dominated by large corporations.
- Competition is strong between companies in the same market.
- Limited liability companies emerged. This means that the shareholders in the company only lose the value of their shares if the company goes insolvent. This protects the shareholders against losing huge amounts of money.
- Multinational companies are responsible for most of the international trade in the world.
- Supporters of multinational trade say that they create economic growth.
- Critics of multinational companies argue that they increase inequality between the rich and the poor.

8.5.2 Labour unions

Because of poor working conditions in factories in the early years of industrialisation, workers began to organise themselves into unions for try to improve wages and working conditions. Trade unions play an important role in South Africa labour relations.

8.5.3 Globalisation

- Globalisation means having a free flow of goods, money and expertise between countries.
- This often works against poorer countries which trade raw materials such as metal ores in return for finished goods such as machines or cars.
- The value of raw materials is much less than the value of finished goods, which makes it difficult for less developed countries to earn enough to develop their economies.

The World Trade Organisation (WTO)

- The WTO was formed in 1994 to promote world trade. However, pressure is put on the poorer nations to remove trade barriers but the same barriers are not removed by the rich countries. Some rich countries practice dumping of subsidised products at low prices in poorer countries. This means producers in poor countries cannot compete in local markets.

Topic 8

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 The main economic activity in the traditional stage of development was ...
- A agriculture
- B manufacturing
- C trade
- D services. (2)

1.2 ... and ... are prerequisites for the development of trade.
- A division of labour; specialisation
- B medium of exchange, surplus production
- C division of labour, mechanisation
- D specialisation; mass production. (2)

1.3 After merchants and craftsmen settled in towns they set up organisations called ...
- A labour unions
- B guilds
- C craft clubs
- D merchant and craftsmen organisations. (2)

Question 2: Complete the following statements by using the words provided in the list below

cool drink and coffee; infrastructure; fruit and vegetables; small-scale enterprises; positive externalities; poverty; equal distribution of income; JSE listed companies

2.1 Mechanisation led to the expansion and improvement of ...

2.2 The government encourages the development of ...

2.3 ... are over-consumed and over-produced.

2.4 The provision of public goods and services is a result of ...

2.5 A result of the capitalist system is ... (2 x 5 = 10)

Questions

Question 3: Choose the correct word from those given in brackets

3.1 The discovery of (gold/coal) kick-started the development of the South African economy.

3.2 The current divide between the developed nations and developing countries is partly caused by (colonisation/international trade)

3.3 The free flow of goods and services internationally is known as (globalisation/stagflation).

3.4 Using more machines in production is called (production process/mechanisation). (2 x 4 = 8)

Question 4

Give arguments for and against multinational companies. (4)

Question 5

What are mercantile laws? (2)

Topic 9

South African economic growth and development

Overview

TOPIC 9 Page 89
The history of the South African economy

UNIT 1 Page 90
Early agricultural history (300–1850)
- characteristics
- factors promoting development
- factors hindering development
- consequences

UNIT 2 Page 92
The agricultural-mining phase (1868–1909)
- characteristics
- factors promoting development
- factors hindering development
- consequences

UNIT 3 Page 94
Mining and industry
- characteristics
- factors promoting industrial development
- factors hindering industrial development
- consequences

UNIT 4 Page 97
Manufacturing and services
- manufacturing
- services
- characteristics
- factors promoting development
- factors hindering development
- consequences

Industrial development 1910–1994
- After 1994

South Africa is regarded as an economic giant in Africa. It generates more than half of the electricity used on the continent, yet has huge differences between the rich and the poor. This topic will give you an understanding of the economic development of South Africa and an insight into the challenges we face today.

Unit 1

Animal husbandry and agriculture

9.1 Animal husbandry and agriculture

9.1.1 Characteristics of the agricultural stage of economic development

- The San and Khoikhoi groups used basic hunting weapons, such as bows and arrows.
- The Nguni and the Sotho groups used implements to till the soil and weapons for hunting and war. They were also herders of cattle, sheep and goats.
- People produced agricultural goods for themselves, seldom to trade.
- There was a little trade, mostly in the form of bartering.
- There were no well-developed markets.
- Most of the economic activity in South Africa was agriculture and hunting.
- There was a small population on large pieces of land.
- Labour was scarce; slaves were imported as extra labour.
- Capital was scarce.
- Most farmers produced almost everything they needed themselves.

9.1.2 Factors promoting economic development in agriculture

- The Dutch could barter with the Khoi and the San for land.
- Plentiful game made hunting easy.
- A small market developed for selling food products to the passing ships.
- The colonial powers protected the markets. For example, Britain taxed imports of French wines to promote sales of wines from the Cape to people in Britain.
- In the Cape, local taxes on imports promoted local production of food. For example, a tax on wheat imports in the 1820s encouraged farmers to grow wheat.
- Improved transport and infrastructure

9.1.3 Factors hampering economic development in agriculture

- Lack of capital.
- Labour was scarce.
- There were few or no schools and other educational institutions; most people had little or no education.
- Most areas had little or no infrastructure.
- The colonial powers often had monopolies in the markets. For example, farmers could only sell their goods to the Dutch East India Company.

- Unequal trade with the colonial countries meant that the trade mainly benefited the colonial powers. For example, farmers produced wool in South Africa and exported it to Britain. The wool was then processed into cloth in Britain and the more expensive cloth was imported back into South Africa.
- South Africa is a difficult country in which to farm, because of frequent droughts and a lack of fertile soil.
- The large distances made access to markets difficult and infrastructure expensive.

9.1.4 Consequences

As agriculture developed, there were several economic consequences:

- A market developed for agricultural goods such as ploughs and wagons.
- Trade developed as people sold their produce for cash and bought manufactured goods for cash.
- Infrastructure such as roads developed and improved gradually.
- Farmers steadily improved their livestock.
- Commercial banks were opened during the 1860s. Farmers and traders could take out loans or deposit their money safely.
- Farming became the most important source of income for South Africa.

Unit 2

Agriculture and mining

9.2 Agriculture and mining

- South Africans have a long history as miners.
- South Africa changed when gold and diamonds were discovered.
- Diamonds were discovered at the Gariep River in 1867 and gold was discovered on the Witwatersrand in1886.

9.2.1 Characteristics of agricultural and mining development in South Africa from 1860-1910

- Thousands of immigrants moved to South Africa.
- The poor infrastructure that existed had to develop to answer to the needs of the mining industry.
- Better infrastructure helped farmers to get their products to markets.
- Demand for farm produce increased significantly with the development of mining cities.
- By 1898, South Africa became the world's largest producer of gold.
- Mining mostly depended on cheap, unskilled labour. This meant that early miners were often exploited. Many of these labourers were local black people.
- South Africa was made up of three political areas: the Cape and Natal together formed one political area, as they were both British colonies; the Orange Free State and Transvaal were separate republics. All the regions came together as the Union of South Africa in 1910.

9.2.2 Factors that promoted economic development of the mining and agricultural industries

- The mining cities and their people served as a market for agricultural produce.
- The deposits of gold and diamonds were exceptionally rich.
- Initially the mines were operated as individual claims worked by unskilled, cheap labour.
- There were established markets for gold and diamonds in several parts of the world, so it was easy to sell the mining products.
- Many entrepreneurs and artisans came to South Africa and brought their skills and capital with them.
- The white people held the political power, so they made laws to protect the interests of the mining industry.

9.2.3 Factors that hampered economic development of the mining industry

- There was little or no infrastructure in mining centres, and there were no communication systems.
- Mining areas were far into the interior of the country, transporting goods to the mines was slow and expensive.
- In the early years, poor mining techniques caused many accidents.
- A lack of capital made paying for expensive mining operations and machinery difficult.
- There was not enough skilled labour to operate the mines or refine the minerals.
- Water and electricity was scarce – mining operations use a lot of water and power.
- High taxes were charged by the government to pay for necessary infrastructure.
- The South African War (1899 to 1902) postponed mining development.
- All heavy equipment had to be imported and was therefore expensive.
- Both diamonds and gold were deep and therefore difficult and expensive to get out.
- There were no established supply lines to get food, building materials and other commodities to the mines.

9.2.4 Consequences

- Thousands of immigrants, some with mining experience, came to South Africa. Artisans also came to increase our stock of skilled workers.
- Mining operators bought out the claims of the individual miners and formed companies to operate on a bigger scale with more machinery.
- Capital in the form of mining and transport equipment and money flowed into the country.
- The government built a railway system from the mining areas to the ports. This made it easier for farmers to get their produce to the markets.
- Demand for farm produce increased with the larger number of people needing food.
- The communication system improved.
- The migrant worker system developed where black labourers went to work on the mines for short contract periods while they left their families at home.
- A system of job reservation developed where black people were excluded from the better jobs on the mines, because they were not allowed to hold diggers' licences.
- Other minerals such as coal, platinum and chrome were also discovered.
- Mining became the main source of income for South Africa.

Mining and industry: 1910 to 1990s

9.3 Mining and industry: 1910 to 1990s

By the time the Union of South Africa was formed in 1910, the country earned most of its income from exporting raw materials and spent money on importing manufactured goods. In other words, we exported the cheap commodity and imported the expensive product. This was a disadvantage for the country.

9.3.1 Characteristics of the mining-industrial stage of economic development in South Africa

- New technologies promoted fast industrial growth everywhere in the world. South Africa became a modern industrial state.
- Political upheaval and two world wars disrupted populations everywhere in the world.
- Wars and conflict between communist and non-communist countries prompted new technological inventions.
- The Land Act of 1913 took away land from black farmers, and apartheid was made law in 1948. Many people spent their energy fighting against apartheid from the 1950s onwards.
- Farming became commercialised: farmers sold their produce in the market; few if any subsistence farmers remained. Many farmers mechanised [used machinery] their operations.
- More people moved to the cities. The movement of people from rural to urban areas is called urbanisation. Urbanisation meant that there was a larger market for farm produce and a larger labour force available to work in the factories in the cities and in the mines nearby.

9.3.2 Factors that promoted industrial development in South Africa

- During the two World Wars in Europe, South Africa was a safe place to manufacture goods such as military uniforms.
- The South African government actively promoted industrial development by offering tax incentives and research grants. The state also built the infrastructure, such as electricity grids, to make industrialisation possible. The state invested directly to start Iscor, Eskom, Sasol and the Industrial Development Council (IDC).
- Many people fled from the wars in Europe and came to settle South Africa. They brought their entrepreneurial skills with them.
- A growing mining industry created increasing demand for machinery and products used in the mines and for miners' families.

- Raw materials from mines and agriculture encouraged the growth of processing and manufacturing industries.
- South Africa has many working-age people – a plentiful workforce.
- The huge distances between southern Africa and Europe and the USA meant that it was often cheaper for companies to produce goods in South Africa for markets in other southern African countries.
- South Africa's large reserves of cheap coal made electricity generation cheap for a long time.
- Sanctions during the apartheid era meant that South Africa had to produce many goods within the country because they could not be imported.
- A weak rand during most of this period meant that our exports were competitive on the international markets.

9.3.3 Factors that have hampered industrial development

- A relatively small domestic market has meant that our factories often could not benefit from economies of scale.
- Long distances have made electricity distribution and communications expensive, as well as transport of raw materials and manufactured goods to and from ports, suppliers and markets.
- A lack of capital has made investment difficult.
- A shortage of skilled labour has made skilled labour expensive, and sometimes specific skills are in short supply.
- There has not been enough quality education to provide enough people with the necessary skills to drive and improve industrial development.
- There has been too much inequality in the workplace.
- Job reservation during the apartheid years kept the pool of skilled workers small.
- Trade sanctions during the apartheid years made imports and exports difficult.
- Political upheaval during the apartheid years caused many skilled people to leave the country – the so-called 'brain-drain'.
- A shortage of housing in the cities has made it hard for workers to find accommodation.
- A lack of water, especially during times of drought, has been a problem in some areas.

9.3.4 The consequences of industrial development on the economy of South Africa

- Better infrastructure is in place in most parts of the country. Communication and transport systems were developed. For example, modern airports and bus and train stations were built.
- Better training and education for most people, as employers have to train employees to do the jobs that come with higher levels of development. Employers therefore often give bursaries with work obligations to young people.
- The value of output from industries overtook the value of output from agriculture.
- Better economic security for the country, because we generate income from different products and South African industries supply many of the population's needs.
- Urbanisation has increased. For example, in 1910, only 25% of South Africa's population lived in cities; by 2000, this figure had increased to 60%.
- Increased urbanisation has resulted in large informal settlements around cities.
- Increased urbanisation stimulated the domestic market for goods and services. For example, when people move to a town or city, they are more likely to have electricity and therefore to buy electrical appliances. When these appliances break, they need to be fixed; urban dwellers therefore use more services as well.

Manufacturing and services: since 1990

9.4 Manufacturing and services: since 1990

We classify the different economic activities in sectors. The sectors are:

- **the primary sector**, which harvests its goods directly from nature; for example, fisheries, agriculture or mining
- **the secondary sector**, which processes the products from the primary sector; for example, manufacturing, construction or milling, and
- **the tertiary sector**, which supplies the services which the rest of the economy needs; for example, transport, public services, water and electricity, banking and insurance, and personal services such as doctors, dentists and hairdressers.

In a developed economy, services account for most of the economic activity. According to this measure, we can say that certain parts of South Africa have developed economies.

9.4.1 Characteristics of the manufacturing and services-based economy in South Africa

Manufacturing

- Examples of manufacturing industries in South Africa are processing agricultural goods such as food and drinks, making cars, chemicals and electronic equipment.
- Most manufacturing happens in and around cities such as Johannesburg, Cape Town, Durban and Port Elizabeth.
- Much of South Africa's manufacturing is concentrated in a few places; we say it is centralised. It is cheaper and easier to supply services to areas of centralised manufacturing.
- Manufacturing employs many people in cities and therefore also attracts more people to cities in search of employment.

Services

- National and local governments often set up services such as electricity supply, transport and postal services. However, governments may privatise many of these services later. For example, Telkom, SAA and Spoornet have been privatised. Sometimes parastatals or government-private partnerships are set up.

- Many people cannot afford to pay the full price for many of the services that they need. For example, most people cannot afford to go to a private doctor or to send their children to private schools. The government has to supply these services to people who cannot pay for it themselves.
- The government also has to supply services such as policing, justice and military defence which cannot run on commercial principles. For example, if such services should run on a commercial basis, rich people would be able to buy the favour of the courts.
- Examples of private service providers are cell phone companies, media companies and providers of personal services such as doctors and hairdressers.

Factors that promoted the economic development of services

- The economy has grown strongly since South Africa became a democracy in 1994. Trade and communications blossomed when sanctions were lifted.
- Our infrastructure developed and we can now share in the information and services sectors from other countries. For example, South Africa is now a popular international conference destination.
- South Africa now attracts many more international tourists than previously.
- Globalisation of trade and information gave us the opportunity to develop services such as banking, insurance, medicine and dentistry, hospitality, transport, communications and research initiatives which can compare with those of other countries.

9.4.2 Factors that hampered the economic development of services

- Not enough trained workers.
- Too many educated workers leave the country as part of the 'brain drain'.
- High levels of crime and corruption are among the main reasons why educated people leave the country.
- South Africa is becoming an expensive place to do business: people and businesses need protection against criminals and labour costs are high compared to other developing countries.
- Globalisation has created many services which are sold competitively over the Internet. This competes directly with South African companies which offer the same service and which may be more expensive and of lower quality because of economies of scale.
- Many people in South Africa are too poor to use services, this means that companies cannot benefit from economies of scale to reduce their unit costs.
- Many South Africans are not trained or educated well enough to provide high quality services. There are therefore many lost job opportunities.

9.4.3 Consequences of the economic development of services in South Africa

- Our economy is beginning to look much more like the economies of developed countries.
- South Africa attracts many more international tourists and business people than previously.
- Out-sourcing of services such as cleaning and maintenance creates opportunities for many new businesses.

Topic 9

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 The mining revolution led to ...

A large-scale decentralisation.

B large-scale urbanisation.

C influx of skilled mine workers.

D export promotion. (2)

1.2 In a developed economy services account for ...

A a smaller portion of total economic production

B a larger portion of economic production

C the same portion of economic production

D none of the above. (2)

Question 2: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

2.1 Outsourcing creates opportunities for small businesses. (2)

2.2 The development of mining was aided by an influx of skilled miners. (2)

2.3 The South African rand is determined by our gold reserves. (2)

2.4 South Africa is an important conference destination. (2)

Question 3

Answer the following questions.

3.1 Name one state enterprise that has been privatised since 1994. (2)

3.2 Explain the main characteristics of the agricultural and mining revolution stage of South Africa development. (10)

Question 4

Write a short note explaining the three sectors of production in the economy. (12)

Topic 10

The history of money and banking in South Africa

Overview

TOPIC 10 Page 101

The history of money and banking

UNIT 1 Page 102

The beginnings of money
- colonial and indigenous money
- imperial money
- gold standard

UNIT 2 Page 104

Early banking in South Africa
- Lombard bank
- private banks
- imperial banks

UNIT 3 Page 106

The SA Reserve Bank
- functions
- management
- involvement in the economy

UNIT 4 Page 107

Recent trends in banking
- the importance of banking
- consolidation of banking
- microlenders
- stokvels

Topic 10 deals with the development of money and banking. Both of these are extremely important in Economics. it is particularly important that you understand the workings of the Reserve Bank and ways in which the Reserve Bank can influence the economy.

Unit 1

The history of money

10.1 The history of money

10.1.1 The beginnings of money

- All early societies traded goods and services by barter and gradually realised the benefits of having a medium of exchange.
- Early mediums of exchange were cattle, cowry shells and other items of value.
- Metal coins came into being because they were easier to carry around. Around 650 BCE the first official coins were created in Lydia.
- Governments became involved in creating coins in order to make them more reliable.
- Nowadays coins are made of brass, nickel and bronze.
- Each country has its own money, known as its currency.
- Originally bank notes (paper money) represented an amount of gold kept at a bank and could be exchanged for gold. This was called the gold standard.

10.1.2 Indigenous and early African money

- Indigenous money developed using cattle, beads, ostrich shells and cloth. Ivory and gold were probably also used.
- Many metal coins have been found in various places in Africa: in Zimbabwe, the Marico and in the Eastern Cape.

10.1.3 Colonial money

- When the Cape was established as a halfway port, many different coins were used, including Dutch florins, Spanish dollars and a silver real for use in Dutch trade.
- In 1705, the Dutch authorities in the Cape established the Cape rixdollar as the standard monetary unit.

10.1.4 Imperial money

- In 1806 the British took control of the Cape. In 1826 the British introduced sterling (pounds, shillings and pence – which were used in Britain at that time) as another form of currency in the Cape, alongside the rixdollar.
- After the Anglo Boer War British currency was the official currency of South Africa. After 1824, sterling was recognised as the only legal tender in the Cape Colony and Natal.
- In 1886 the Independent Republic in the Transvaal decided to mint their own gold coins, Pretoria minted gold and silver coins, in 1893 Kruger pounds were minted.

- The Union of South Africa was formed in 1910 and sterling became legal tender across the whole of South Africa.
- 1921: The South African Reserve Bank was established and printed and issued pound notes based on the gold standard.
- 1932: South Africa dropped the gold standard, but still issues gold coins as collectors' and investors' pieces.
- In 1961 South Africa adopted the decimal system (rands and cents) instead of the sterling system (pounds shillings and pence) as legal tender.

The gold standard meant that all bank notes issued were backed by gold stored at banks.

Legal tender means the currency that may be legally used in a country. For example, you cannot buy goods in South African shops with French francs.

Note: the value of our currency is no longer determined by the amount of our gold reserves.

The history of banking in South Africa

10.2 The history of banking in South Africa

- Money became a way of storing wealth as well as a medium of exchange. Banks developed as a place to store surplus money safely and as money lenders.
- Interest was earned by people storing money and charged to people borrowing money.

10.2.1 The Lombard Bank

- The Lombard Bank was the first bank in South Africa, established in 1793 by the VOC in Cape Town.
- The Lombard Bank was a state bank and also received advances of money from the VOC.
- Its main functions were to make enough money (coins and notes) available, lend out money and to grant mortgages on fixed property (buildings). It did not offer savings accounts.

10.2.2 Private banks: 1836–1861

- The Cape of Good Hope Bank was established in 1836 and was South Africa's first private (or commercial) bank. Other private banks, called 'district banks'', financed by local people, followed.
- The main functions of district banks were to offer savings and credit facilities to people living in the towns and districts. By doing this, they contributed to the economic development of their districts.
- By the 1860s weaknesses in credit management, excessive lending and shortages of capital made most of the district banks unable to compete with the larger imperial banks.

10.2.3 Imperial banks

- As the economy grew powerful imperial banks began to emerge. The first imperial bank was the London Bank of South Africa.
- In 1862 Standard Bank was established.
- The district banks could not compete with the imperial banks. Between 1863 and 1864 Standard Bank took over five district banks.
- Standard Bank played an important role in the diamond rush of 1871.
- When gold was discovered in 1886, the bank expanded its activities to the Witwatersrand.
- By 1889, Standard Bank had 67 branches in South Africa.

By 1920, five banks were important. They were

- The Stellenbosch District Bank
- The Netherlands Bank and Credit Association of South Africa (established in Amsterdam in 1888, this bank later became Nedbank)
- The National Bank of South Africa (renamed Barclays Bank of London, now First National Bank)
- Standard Bank of South Africa
- The African Banking Corporation.

The Land and Agricultural Bank was established in 1912 and focused on the credit needs of the agricultural sector.

10.2.4 The importance of commercial banks in the economy

- Commercial banks take deposits which may be withdrawn using a cheque, debit card or EFT (electronic funds transfer) and lend money in the form of loans and overdrafts.
- Building societies operate similarly to banks but specialise in home loans.
- There are many different banks offering financial services. They are regulated by the Bank Act.

The South African Reserve Bank

10.3 The South African Reserve Bank

10.3.1 Functions of the Reserve Bank

- The S.A. Reserve Bank issues bank notes.
- Holds the gold reserves of private banks.
- Is the custodian of the cash, gold and foreign reserves of the country.
- Is banker to the government.
- Plays an important role in the economy by controlling levels of credit and money supply and interest rates.
- Governor of the Reserve Bank works in conjunction with the Minister of Finance.
- Acts as "watchdog" of the commercial banks.

10.3.2 Management of the Reserve Bank

- Complies with the Reserve Bank Act of 1989.
- It is a private institution, listed on the JSE.
- Has over 700 shareholders but no one shareholder may own more than R10 000 worth of shares.

Unit 4

Recent trends in banking

10.4 Recent trends in banking

10.4.1 Decreasing importance of the commercial banks: 1948–1965

- The main functions of the commercial banks were to provide saving facilities, to lend money to clients and to manage their clients' accounts.
- New types of banks and financial institutions, such as building societies have grown up to meet the expanding financial needs of the public. Building societies offer home loans and offered savings accounts.
- Some larger shops now give consumers credit to buy goods and allow them to pay in monthly instalments.

Consolidation of banking

Standard Bank, First National Bank, Nedbank and ABSA are the 'big four' commercial banks in South Africa. They banks offer a wide selection of services, including home loans (which were previously only offered by building societies).

10.4.2 Alternative financial services

- Many South Africans do not make use of financial institutions, such as banks.
- Many people do not earn enough money to qualify for a loan from a bank, or they want to borrow a small amount of money. They borrow from micro-lenders or are members of stokvels.

Micro-lenders: businesses that offer small loans to individuals or other small businesses that often cannot access loans from commercial banks. Micro-lenders generally charge higher rates of interest than ordinary banks.

Stokvel: a savings club formed by group of friends or members of a specific local community. It is a form of enforced saving with collective support.

Topic 10

Question

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 A The SA Reserve Bank is custodian of the country's foreign reserves.
B The Reserve Bank has no influence over interest rates.
C The Reserve Bank is owned by the Government.
D Stokvels are a social club for young adults. (2)

1.2 Nowadays paper money is ...
A backed by the gold standard
B not backed by the gold standard
C issued by the Reserve Bank
D B and C (2)

1.3 Post 1994 there has been an increased demand for banking services from ...
A the informal sector
B formal sector SMMEs
C large businesses listed on the Johannesburg Securities Exchange (JSE)
D all of the above (2)

Question 2: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

2.1 Pounds, Francs and Dollars are all legal tender in South Africa. (2)

2.2 Cowrie shells, cattle and beads have all been used as a medium of exchange. (2)

2.3 The South African rand is determined by our gold reserves. (2)

2.4 The value of the rand is linked to the total value of goods and services South Africa produces and sells. (2)

Question 3: Answer the following questions

3.1 Why do many South Africans make use of micro-lenders? (2)

3.2 What do we mean by debt trap? (2)

3.3 What was the name of the first private commercial bank in South Africa? (2)

3.4 Name the big four of South African banking. (8)

Question 4

Explain the importance of the Reserve Bank. (10)

Topic 11

Population and labour force trends

Overview

TOPIC 11 Page 110
The population of South Africa

UNIT 1 Page 111
Population and labour trends
- population size
- population growth
- natural growth rate
- migration and urbanisation

Stages in the demographic cycle
- projected growth rates
- impact of HIV/Aids

UNIT 2 Page 114
The labour force of South Africa
age composition
- labour force numbers
- unemployment
- geographic distribution

Topic 11 looks at the way the South African population is made up and future trends as well as our labour force. It is important that you study the tables and figures in your textbook to understand the full impact of current statistics.

Unit 1

The population of South Africa

11.1 The population of South Africa

11.1.1 The population size

- The population of South Africa increased from 22 million in 1970 to 45 million in 2001.
- This is a rapid growth rate and is one of the highest in the world.

11.1.2 Population growth

- Growth rates are influenced by fertility (birth rates), mortality (death rates) and migration (inflows and outflows of people to the country).
- High birth rates are associated with poverty and lack of education.
- Fertility tends to be higher in rural areas, where women have a lower status and children are needed to help with farming.
- High birth rates put pressure on the country to provide more social services, housing and other infrastructure.
- In South Africa, the proportions of the different population groups remained stable until 1960, but since then the black component had increased and the white component has decreased.

11.1.3 Natural growth rate

The difference between the birth rate and the death rate is called the natural growth of a population.

11.1.4 The demographic cycle

As a country develops economically, so different trends in population growth and mortality rates occur. This is called the demographic cycle.

There are four stages in the demographic cycle through which countries may pass:

- **Stage 1:** In very poor and traditional societies that have not developed economically, death rates will be high due to lack of good medical care. In such societies, birth rates are also very high. The high birth rate will compensate for the death rate, so that the size of the population stays constant or rises only slightly.

- **Stage 2:** As the country develops economically, access to better health care and other kinds of infrastructure will cause a drop in death rates. Birth rates remain high in this stage. The result is a fast increase in the total population.
- **Stage 3:** Continued economic development leads to people moving to the cities, improving their qualifications and earning higher incomes. More people get better medical care, so fewer infants die while older people live longer, and death rates fall further. More affluent couples want fewer children, and the birth rate will start to fall. The result is continued population growth, but at a slower pace.
- **Stage 4:** In highly developed economies, many women hold full-time jobs and most couples practice birth control. Birth rates continue to fall so that few couples have more than two children. With birth rates as low as death rates, population will stabilise, and the number of people will even fall if the birth rate is lower than the death rate. In these countries, governments might try to increase the population by encouraging immigration.

11.1.5 Projected growth rates

- 2010 mid-year figures put the population of South Africa at almost 50 million people.
- 51% are female.
- The total population growth rate between 2009 and 2010 is currently estimated at 1,06%.
- The population growth rate has slowed down dramatically from the 1960s when it was 2,9%.
- The slower population growth is due to rising death rates attributed to HIV/Aids as well as a lower birth rate.
- In 2001, the average South African woman had almost 3 children, but by 2010 this fell to 2,4 children per woman.
- South Africa has a young population. The largest age group is those aged between 15 and 19 years of age. Only 7,6% of the population is older than 60 years.

Impact of HIV/Aids

- Life expectancy has fallen in recent years.
- The declining life expectancy is due to the effect of HIV/Aids.
- Approximately 5,2 million people in South Africa are HIV positive (more than 10% of the population).
- Statistics SA estimated that in 2010, around 1 066 401 people were born and about 654 360 people died. Of the people who died, it is believed that 281 404 (or 43%) were due to Aids.

11.1.6 Migration and urbanisation

- People migrate to urban areas to seek employment and a better standard of living. This causes urbanisation - growth of urban areas in comparison to rural areas.
- A country is considered urbanised when more than 50% of the population live in urban areas.
- South Africa is more than 60% urbanised and the process is still continuing. The major urban areas are Gauteng, Cape Town, East London, Durban, Port Elizabeth–Uitenhage and Bloemfontein.
- There is a flow of immigrant into the country and emigrants leaving the country. Most immigrants are from poor African countries which are often war torn.
- It is estimated that there are more than 8 million illegal immigrants in South Africa.

The South African labour force

11.2 The South Africa labour force

The economically active population consists of those people between the ages of 16 and 65 who are able to work. This does not include learners, students, homemakers and retired people. Unemployed people are economically active people who want a job.

11.2.1 Age composition

- South Africa has a young population whose potential to contribute to economic growth is not utilized.
- Of the 4,4 million unemployed, 71% (or 3,2 million) are 35 years or younger.
- Exploiting this potential is further hampered by problems like the HIV/Aids pandemic and low education levels.
- Too many people are not fully employed and too few people are starting their own businesses.
- Lack of education and skills seem to be the cause of these problems.
- The World Economic Forum (WEF) ranked South Africa as the 54th most competitive out of 139 countries. In some areas South Africa is among the best in the world.
- An inadequately trained labour force appears as the second biggest obstacle to doing business in South Africa.

11.2.2 Labour force numbers

- Major skills shortages in certain types of engineers, physicists, technicians, designers, information technology specialists, agricultural scientists, actuaries, financial market analysts, risk managers and mathematics and science teachers.
- Our educational system has not kept up with the changes in the South African economy.
- By 2010 agriculture was responsible for only 5% of employment. Other sectors which require better skills grew considerably.
- In 1970, 3% of all jobs were found in financial services, but by 2010 we find that it employed almost 13% of all workers.
- The wholesale and retail sector rose from 9% of employment in 1970, to 23% of employment in 2010.
- Only 54% of working age people participate in the labour force. Of those who could work, 25% cannot find employment.
- In a total working age population of 32 million people, only 13 million people are actually working.
- There were fewer people employed in 2010 than there were in 2006.

11.2.3 Unemployment

In South Africa there has been a sharp increase in unemployment since 1970. This is caused by:

- Decline in the labour intensive primary sector areas such as mining and agriculture
- Large increase in population
- Lack of development of the informal sector
- Response to trade union demands.

11.2.4 Employment

- 13 million people are working, but not all are fully employed.
- Almost 5% of them are underemployed, they work fewer than 35 hours per week.
- Most of these underemployed workers are found in occupations that require only unskilled or semi-skilled workers.
- Entrepreneurs are important because by creating jobs in their own businesses they draw more people into the labour force.
- According to the Global Entrepreneurship Monitor (GEM), South Africa is one of the least entrepreneurially developing countries. It is estimated that only one in every eighteen South African adults starts or manages their own business. Of the small businesses that are started, between 70% and 80% eventually fail.

11.2.5 Geographic distribution

Our population by provinces is roughly as follows:

- Gauteng 22,4%
- Kwazulu-Natal 21,3%
- Eastern Cape 13,5%
- Limpopo 10,9%
- Western Cape 10,4%
- Mpumalanga 7,2%
- North West 6,4%
- Free State 5,7%
- Northern Cape 2,2%

Topic 11
Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 The group that finds it hardest to find a job is … in the … areas
- A young; men; rural
- B young; women; rural
- C old; men; urban
- D old; women; urban. (2)

1.2 "A successful land claim has given a community a new lease of life". This headline refers to the government's efforts at redress through the … programme and seeks to give communities opportunities in the … sector
- A Land Redistribution; secondary
- B Agricultural Development; tertiary sector
- C Natural Resource Redistribution; primary sector
- D Land Redistribution; primary. (2)

1.3 A distinctive feature of South Africa's population is …
- A it is composed mainly of people aged 50-65
- B 71% or more is aged under 35
- C the WEF ranks us 10th in terms of competitiveness
- D our large base of unskilled workers which is an advantage. (2)

Question 2: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

2.1 The existence of micro-lenders can help stimulate the economy. (2)

2.2 South Africa has a shortage of unskilled labour. (2)

2.3 The unemployed do not form part of the economically active population. (2)

2.4 High birth and death rates are characteristic of the first stage in the demographic cycle. (2)

Question 3

Give FOUR reasons why unemployment has increased in South Africa in the last ten years. (8)

Topic 12

Unemployment

Overview

TOPIC 12 Page 117
Unemployment in South Africa

UNIT 1 Page 118
South Africa's unemployed
- Who are they?
- How many?

Unemployment rates
- definition of economically active

Definition of unemployed
- calculating the unemployment rate

Characteristics of unemployment:
- structural unemployment
- lack of skills
- age-related

Types of unemployment:
- frictional
- cyclical
- seasonal
- structural

Causes of unemployment:
- population increase
- mechanisation
- historic reasons
- economic cycles

Effects of unemployment
- Poverty
- Social problems
- Costs to the taxpayer

UNIT 2 Page 123
Approaches to the problem
- government programmes
- increase in production
- public works
- UIF

UNIT 3 Page 125
Economically marginalised
- definition
- effects of being marginalised

Unemployment is a serious problem in South Africa. By the end of this topic, you should understand the nature and main causes of unemployment in South Africa, as well as approaches to solving the problem.

Unit 1

The nature of unemployment

12. 1. The nature of unemployment

12.1.1. The numbers

Facts:

- Over 3 million people are unemployed.
- Half of these have never worked.
- It is difficult to know how many people are working in the informal sector, as figures are not available.
- If we can increase our economic growth, we could reduce our unemployment rate significantly.

In South Africa, we use two different definitions of the concept ‘unemployed’. The first is the official definition used by Statistics South Africa (StatsSA); the second is the expanded (or broader) definition.

According to the official definition, someone is unemployed if:

- the person did not work during the seven days prior to the survey
- the person wants to work and is available to start work within a week of the survey
- the person has taken active steps to look for work or to start a business in the four weeks prior to the survey.

According to the expanded definition, someone is unemployed if:

- the person did not work during the seven days prior to the survey
- the person wants to work and is available to start work within a week of the survey.

12.1.2 The unemployment rates

To calculate the unemployment rate:

Unemployment rate = number of unemployed/total EAP x 100/1

The economically active population (EAP) consists of:

- People older than 16 who have jobs, as well as those who do not have a job but who are able to work and want to work.
- People older than 16 who are able to work, but who do not want to work because they are still at school or college, or are retired.

It does not include people younger than 16 and those who may not work because they are in prison.

Refer to the figures in your textbook when studying unemployment.

12.1.3 Types of unemployment

Frictional unemployment

Frictional unemployment occurs when a person is between jobs, or is looking for a job for the first time (such as a school-leaver or student who has recently graduated). It is supposed to last for a short period.

Cyclical unemployment

Cyclical unemployment is the result of cyclical changes or fluctuations in the economy. During an economic recession, many workers lose their jobs. When the economy recovers and starts to expand, these workers may find jobs again.

Structural unemployment

Structural unemployment occurs when the nature of the economy changes and the skills of the labour force do not match the needs of the economy or the technology used in the workplace. For example, South Africa has a shortage of engineers.

Seasonal unemployment

Seasonal unemployment occurs when workers in a particular occupation are only needed for part of the year. For example, fruit farmers only use fruit-pickers and packers during the harvest. Seasonal unemployment is common in the agricultural and hospitality industries.

12.1.3 Characteristics of South Africa's unemployment

Unemployment in South Africa has specific characteristics that are partly due to of our history.

Lack of skills

Much of South Africa's population cannot find employment because they do not have the necessary skills. We have mostly structural unemployment.

One of the reasons for the lack of skills of many older South Africans is the apartheid policies of the past.

The number of unemployed, unskilled workers in South Africa is increasing due to structural changes in our economy. For example:

- Technological development and mechanisation mean that machines now do much of the work previously done by unskilled or low-skilled workers.
- Globalisation means that South Africa has to compete with other economies to produce goods and services efficiently and cheaply.
- The primary sector of the economy is becoming less important.

Age

South Africans between the ages of 16 and 24 years of age have very high levels of unemployment. It is often difficult to find a first job, because you do not have any work experience. Knowledge learned at school quickly becomes outdated, especially computer skills, as information technology tends to change very quickly.

12.1.4 Causes of unemployment

Population increase

- The population growth rate in South Africa is higher than the economic growth rate.
- The economy is not growing fast enough to provide jobs for all the young people being added to the job market each year.

Capital investment and mechanisation

- Competition within South Africa as well as from the global economy means that businesses are under ever-increasing pressure to produce more goods and services more efficiently.
- Businesses invest in machinery, which works faster, to keep up with the demand.

- Machines are less complicated to deal with than people: machines do not need leave, and they do not strike for higher wages.
- Mechanisation leads to workers becoming unemployed.

Historic reasons

- The policies of apartheid prevented a large section of the South African population from getting proper education and training.
- Many economically active people in our country do not have the right skills for jobs in today's sophisticated economy.

Economic cycles

- When the economy is in a recession, or in a downward (shrinking) phase, there is less demand for goods and services.
- Businesses decrease production as a result and workers lose their jobs.
- There are fewer opportunities to find casual work or to start new businesses.

12.1.5 Effects of unemployment

High levels of unemployment have serious economic, social and political consequences.

Poverty

- Unemployment is the main reason for high levels of poverty in South Africa.
- Official figures put South Africa's unemployment at about 4,4 million, but the expanded definition estimates there are at least 7 million unemployed people.
- One employed person usually supports a large number of family members, so even one person being without work has a big ripple effect.
- Almost half of the total South African population lives in poverty.
- The Unemployment Insurance Fund (UIF) only provides money to people who have recently been in formal employment, and have contributed to the fund. It does not help the millions of people who have never been able to find a job, or who have been unemployed for many years.

Social problems

- Being unemployed affects people's pride and dignity.
- If you are unemployed, you cannot provide for your family and may become desperate enough to turn to crime for money.
- Families who cannot pay their rent or bond repayments become homeless or have to rely on relatives or friends who may already be struggling financially.

- High crime rates make people scared and uncertain.
- High levels of substance abuse and domestic violence are common in communities with high unemployment rates.
- Boredom, depression and lack of motivation are common problems for unemployed people.

Cost to the taxpayers

- Since 2001, the government has increased its spending on social welfare grants to the poor.
- The government taxes workers and businesses to get the money to pay these grants.
- The money raised from these taxes could have been used for infrastructure such as schools, hospitals, and roads.
- Many more people in South Africa receive grants than pay taxes.

Approaches to solving the problem of unemployment

12.2 Approaches to solving the problem of unemployment

The Government has implemented a number of programmes to solve the problem of unemployment in the country. If the economy grows, it can create more jobs. This will help to solve the problem of unemployment.

12.2.1 Government programmes to solve unemployment

GEAR

The Growth, Employment and Redistribution policy (GEAR) was introduced after 1994 to create more economic growth.

ASGI-SA

The goal of ASGI-SA is to halve poverty and unemployment by 2014. We need the economy to grow at a rate of 6% per annum to achieve this.

JIPSA

The Joint Initiative on Priority Skills Acquisition (JIPSA) was created to identify scarce skills that we need to grow the economy.

12.2.2 Growth of production

If we increase the demand for goods and services, we have to increase production to satisfy this demand. This means more people have to be employed. This will reduce unemployment.

Local production

To solve local unemployment, we need to increase local production.

The Proudly South African programme encourages South Africans to 'buy South African'.

Local businesses

The government is trying to encourage SMMEs by passing laws to help these businesses with funding and to make their tax returns and other record-keeping easier.

12.2.3 Public works programmes

- The National Public Works Programme (NPWP) was started in 1994 to upgrade South Africa's infrastructure and provide job opportunities at the same time.
- The NPWP uses labour-intensive methods to improve roads, pipelines, water supply and sanitation, and to build houses, schools, and clinics.
- This employs many unskilled people.
- People have the opportunity to learn new skills and improve the infrastructure at the same time.

12.2.4 Unemployment Insurance Fund (UIF)

- The Unemployment Insurance Fund (UIF) is an insurance scheme that provides temporary income for people who have lost their jobs.
- It only pays out if you have previously been employed, and it only pays out for six months.
- It does not help people who have never been employed, or who have been unemployed for more than six months.

Unit 3

Economically marginalised groups

12.3 Economically marginalised groups

- Economically marginalised groups are those people who have not been part of the economy in the past.
- Marginalised groups are the most vulnerable to unemployment.
- Marginalised groups include those who were previously disadvantaged as a result of apartheid policies.
- Marginalised groups received inferior education and so have few skills to offer.
- They form the majority of unemployed South Africans.

Government projects have been created to deal with the problem of unemployment among marginalised groups.

12.3.1 Skills development

- The government has introduced the Skills Development Act to improve the skills of marginalised South Africans.
- Employers have to contribute a small percentage of their turnover to the Skills Development Fund.
- Various Sectoral Education and Training Authorities (SETAs) represent the different sectors in the economy.
- These SETAs work with employers to offer learnerships to young people.
- Learnerships equip individuals with skills and knowledge specific to the industry, and can ultimately lead to employment opportunities.

12.3.2 Correcting past policies

The government has introduced a number of policies and laws to correct the old apartheid injustices.

It is government policy to buy products and services from Broad-based Black Economic Empowerment (BBBEE) companies, whenever possible.

The Employment Equity Act (EEA) and affirmative action

- The Employment Equity Act and policies of affirmative action have been introduced to address past policies that discriminated against certain population groups.
- Employers must give preference to black people (that is, people who are black, Coloured or Indian), women and people living with disabilities, when recruiting workers.

- This applies to all except very small businesses.
- If necessary, employers must prioritise employing people from specific groups, so that the workforce in their business becomes more representative of the general population.

Employers in both the private and public sectors have to implement Affirmative Action (AA) policies when they appoint people. Private companies that want to do business with the government must comply with the EEA.

Broad-based Black Economic Empowerment (BBBEE)

Broad-based Black Economic Empowerment (BBBEE) policies aim to increase the black ownership of businesses.

Topic 12

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 South Africa currently has an oversupply of ... labour.
- A skilled
- B semi-skilled
- C unskilled
- D seasonal (2)

1.2 Frictional unemployment occurs when ...
- A harvesting ends
- B people move between jobs
- C the structure of the economy changes
- D unemployment is long lasting (2)

Question 2

2.1 How is the Skills Development Fund funded? (2)

2.2 How does an increase in demand for local production affect unemployment? (4)

Question 3: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 South Africa is losing skilled workers. (2)

3.2 The economically active population includes people younger than 16 with part-time jobs. (2)

Question 4

Explain any THREE social problems caused by unemployment. (9)

Topic 13

Labour relations

Overview

TOPIC 13 Page 128
Labour relations in South Africa

UNIT 1 Page 129
The South African labour market
- underemployed
- unskilled
- economically active

The demand for labour
- drawing the demand curve
- factors influencing the demand for labour
- effect of changes in demand on wage levels.

The supply of labour
- drawing the supply curve
- effect of changes in supply on wages
- factors that alter wage levels

UNIT 2 Page 133
The Labour Relations Act
- majorification
- self-government
- consultation

UNIT 3 Page 135
Labour rights and conventions
- collective bargaining
- freedom of association

Occupational Health and Safety Act

Basic Conditions of Employment Act

Topic 13 studies the relationship between labour and management in the South African context, as well as South African labour law and the rights of workers.

Unit 1

The labour market in South Africa

13.1 The labour market in South Africa

- The labour market consists of the demand for and supply of labour.
- Households sell their labour to businesses.
- Various factors affect the demand for and supply of labour.
- The South African labour market is complex.
- Under-employment is common in South Africa, some people have work, but not every day for a full day and others do work that does not make full use of their skills or training.
- South Africa has a large base of unskilled workers.

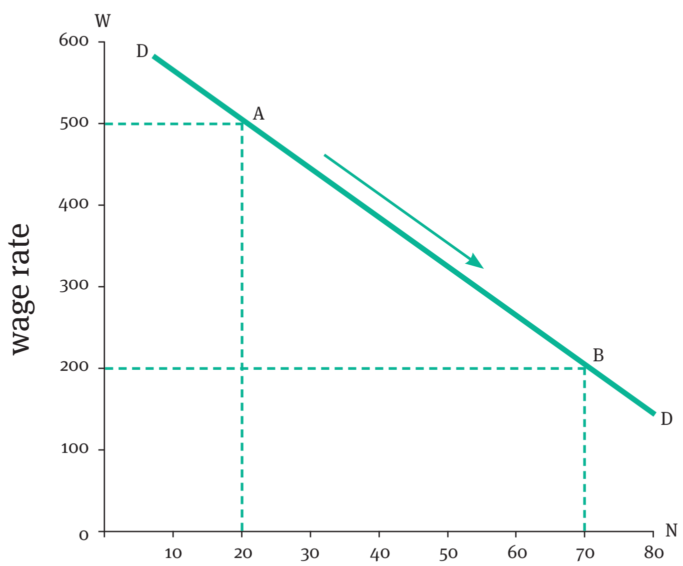
13.1.1 The demand for labour

The demand for labour depends on three main issues:

- How many workers do employers need?
- Which kinds of workers do employers need?
- When do employers need workers?

The demand for labour is a derived demand: it depends on the need of a businesses for labour to produce goods or services. Businesses do not employ labour just for the sake of employing labour; businesses employ people only for what they can produce.

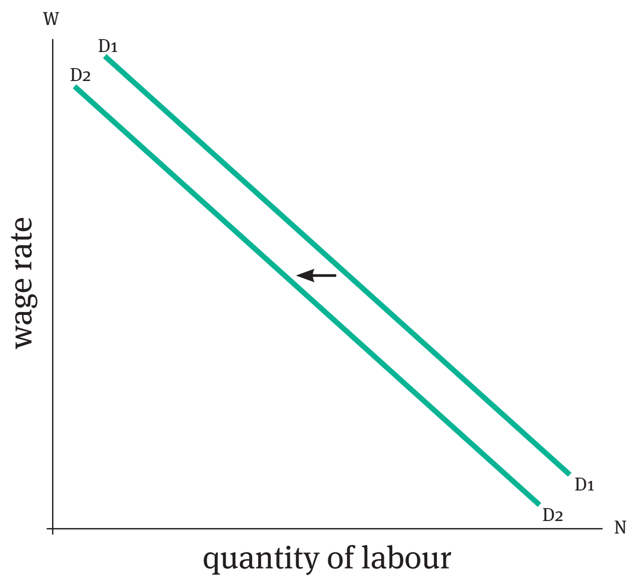
The demand curve for labour operates like any other demand curve, in that more labour is demanded at lower costs (wages).



Factors influencing the demand for labour

- the productivity of labour
- the cost of labour
- mechanisation and substitution of labour
- the economic business cycle.

Mechanisation reduces the demand for labour at all price (wage) levels.



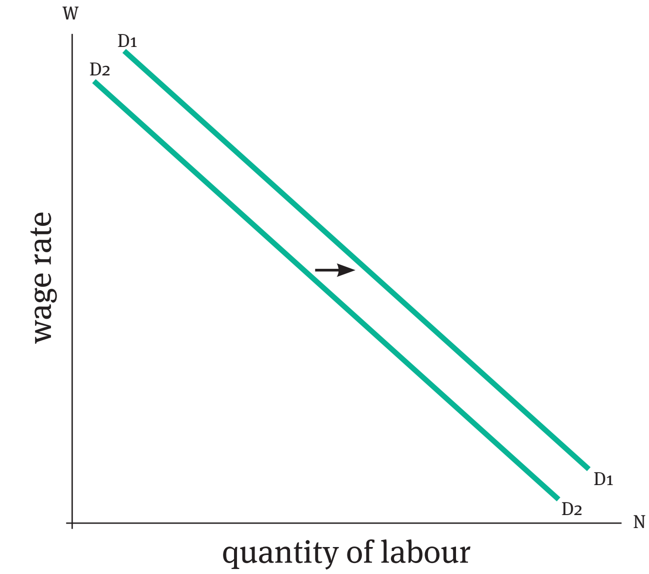
Job opportunities in South Africa

Lack of new job opportunities causes unemployment and under-employment.

To increase employment opportunities we must:

- Grow our economy faster than our population.
- Create many new jobs.
- Improve the productivity of South Africa's workforce.
- Train people to become more productive by improving their skills.
- Limit wage increases.
- Choose more labour-intensive methods to produce goods and services.

Economic growth creates more job opportunities because more businesses start up or existing ones grow. As more people get jobs, the level of consumption in the country increases and an upwards spiral starts. A downswing in the economy has the opposite effect.



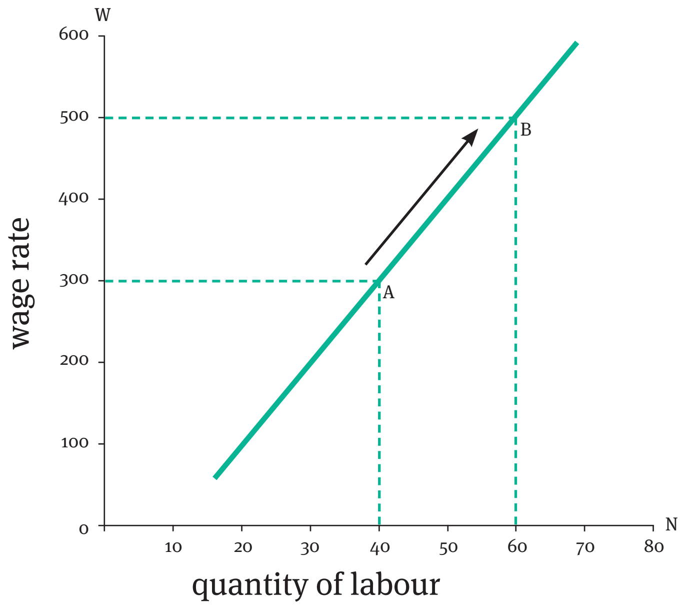
13.1.2 The supply of labour

The supply of labour comes from economically active people who are willing and able to work.

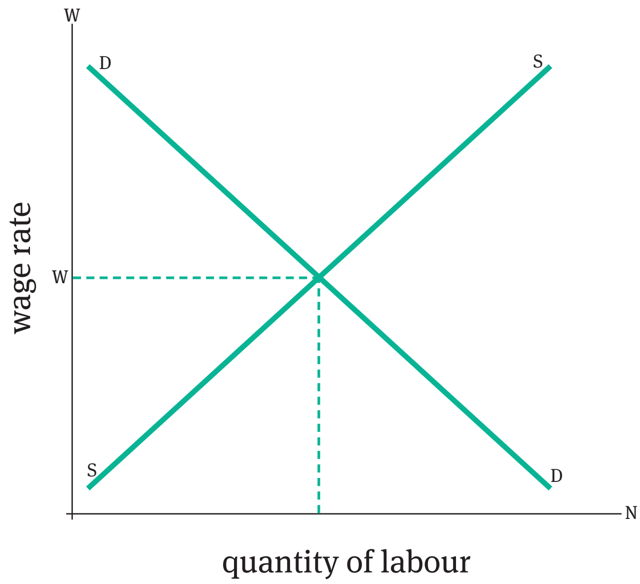
The labour supply depends on:

- willingness of people to work
- workers' skills
- wages offered
- migration of labour (the brain drain).

The supply curve for labour works like any other supply curve, in that more people offer their services at higher price levels (**wages**).



In a market economy with no government intervention, the demand for labour and supply of labour would reach its own equilibrium point:



Factors that alter price (wage) levels in the demand and supply of labour

- If the labour supply increases, wages do not always come down. Trade unions can influence wage levels for unskilled workers.
- If wages decrease below a certain point, it becomes not worth-while to take a job.
- The state influences wages by, for example, setting minimum wages.
- If the inflation rate is high, workers will demand higher wages to offset costs of living.
- If an employer is more profitable, workers will demand higher wages as their share of the profit.
- If the general standard of living of the community is high, workers in low-paid jobs will demand higher wages to keep up with everybody else.
- High unemployment forces wages down.
- Productivity levels influence the ability of employers to pay more.

Unit 2

The objectives of the Labour Relations Act

13.2 The objectives of the Labour Relations Act (66/1995)

The Labour Relations Act (LRA) tries to create a better balance of power between employers and employees.

13.2.1 Self-government under the Labour Relations Act

The LRA encourages employers and employees to self-govern, as specified in Section 23 of the Constitution of South Africa.

1. Every worker has the right to:
   - form and/or join a trade union
   - take part in the activities and programmes of a trade union
   - strike.

2. Every employer has the right to:
   - form and/or join an employers' organisation
   - take part in the activities and programmes of an employers' organisation.

3. Every trade union and every employers' organisation has the right to:
   - decide on its own administration, programmes and activities
   - organise
   - form and join a federation.

4. Every trade union, employers' organisation and employer has the right to take part in collective bargaining.

The LRA gives details on:

- The rights of trade unions to organise themselves.
- The rights of workers to strike and to employers to lock-out.
- Simple procedures to register trade unions and employers' organisations.

13.2.2 Majorification under the Labour Relations Act

- Majorification means bringing democracy into the workplace and promotes the idea of employees taking part in decision-making by means of Workplace Forums.
- Puts into practice South African membership of international labour bodies, such as the International Labour Organisation.
- Changes or cancels apartheid-era laws which allowed discrimination.

13.2.3 Consultation under the Labour Relations Act

Consultation at grass-roots level is an important part of a democracy. The LRA:

- Promotes and assists collective bargaining.
- Provides ways to resolve labour disputes through the Commission for Conciliation, Arbitration and Mediation (CCMA).
- Creates Labour Courts and the Labour Appeals Courts to decide on labour issues.

Unit 3

Labour rights and conventions

13.3 Labour rights and conventions

13.3.1 Conventions

The International Labour Organisation operates in more than 240 member countries and tries to promote social justice. Its member countries meet every year to draw up conventions and recommendations.

- A convention creates rules and guidelines that countries adopt and follow. Examples of conventions are rules regarding employment of children under a certain age, discrimination, forced labour and hours of work.
- Recommendations are guidelines. Examples of recommendations are items such as accident compensation, holidays and sickness insurance.

13.3.2 Labour rights in South Africa

The following acts deal with labour rights in South Africa:

- The Constitution of South Africa (108/1996)
- The Labour Relations Act (66/1995)
- The Basic Conditions of Employment Act (75/1997)
- The Occupational Health and Safety Act (85/1993)
- The Compensation for Occupational Injuries and Diseases Act (130/1993).

13.3.2 The Labour Relations Act (66/1995)

The LRA changed labour relations in South Africa completely. The main points are as follows:

- It establishes freedom of association and protection against discrimination and during disputes.
- It prescribes collective bargaining. Employers have to negotiate with a representative trade union or in Bargaining Councils.
- It establishes the right to strike and to lock-out.
- It deals with dispute resolution and sets up the Commission for Conciliation, Mediation and Arbitration (CCMA).

Freedom of association means that you can join a trade union or other organisation. This used to be banned under the Apartheid regime.

Collective bargaining means you can join other workers to bargain for higher wages or better working conditions.

13.3.3 The Basic Conditions of Employment Act (75/1997)

The Basic Conditions of Employment Act (BCEA) lays down certain rules regarding the employer-employee relationship and sets minimum conditions for workers and employers alike.

- It deals with maximum working time per day and per week. There are also prescriptions for overtime, working a compressed week and night work.
- It specifies different kinds of leave.
- It specifies particulars regarding employment and pay, as well as deductions.
- It prohibits child labour and forced labour.

13.3.4 The Occupational Health and Safety Act (85/1993)

The Occupational Health and Safety Act (OHSA) sets out rules regarding health and safety for all employers. If an employer is negligent and an employee is injured, the employer can be fined or even get a prison sentence.

13.4 Collective bargaining and the dispute resolution process

Collective bargaining is a way of resolving disagreements that occur between employers and workers.

Trade unions and employers' organisations bargain with each other to establish the conditions of service of employees. By negotiation an agreement is reached. This involves compromise.

A closed shop agreement occurs when a trade union and an employer reach an agreement whereby only members of that particular trade union may work for the employer.

13.4.1 Labour (trade) unions

- Labour unions negotiate with employers to get the best conditions possible for their members.
- Any person in the country may belong to a labour union or an employers' organisation.
- Employees join a trade union out of choice and pay membership fees. The members elect the office bearers of the union. If at least two-thirds of the workers are in favour of a closed shop agreement at a certain workplace, the labour union may reach such an agreement with the employer.

13.4.2 Workplace forums

The LRA created Workplace Forums. Workplace Forums exist to:

- Promote the interests of all workers
- Make the workplace more efficient
- Reach consensus with the employer regarding matters which affect the employees, such as restructuring, retrenchments or disciplinary codes and procedures
- Promote joint problem-solving.

13.4.3 Bargaining Councils

The LRA created Bargaining Councils to take the place of the old industrial councils. A registered labour union and a registered employers' organisation can set up a Bargaining Council for an industry or an area.

Functions of Bargaining Councils

Bargaining Councils exist to:

- reach collective agreements and enforce them
- prevent labour disputes or help to resolve them
- promote training and education
- establish benefit funds such as pension funds.

Only parties who participated in the collective bargaining are bound by the collective agreement. However, the Bargaining Council can ask the Minister of Labour to make the collective agreement count for other parties as well.

13.4.4 The Commission for Conciliation, Mediation and Arbitration (CCMA)

- CCMA acts as an independent body to resolve labour disputes.
- Any party to a dispute may also ask the CCMA for advice or legal aid.
- The aim is to resolve a dispute before it gets to the stage of a strike or a lock-out.
- The CCMA may also help to set up Workplace Forums and to conduct ballots in a workplace.
- The labour court will not hear a dispute unless the CCMA has heard it first.

Labour courts

13.5 Labour courts

The labour court and labour appeal court were created by the LRA to ensure compliance with the Act.

Some functions of the Labour Court:

- To grant interdicts when a strike is unlawful.
- To award compensation.
- To order parties to comply with the LRA.
- To decide whether a strike or a lock-out is protected by the LRA.
- The labour court also hears cases where employees were unfairly dismissed.

Topic 13

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 Substitution of labour means …
- A one worker can be used in place of another
- B machines are used instead of people
- C shift work is implemented
- D a worker may choose to send someone in his place. (2)

1.2 An organisation of workers which aims to improve working conditions and remuneration for its members is known as a …
- A guild
- B political party
- C trade union
- D working men's club. (2)

1.3 The term closed shop in Economics refers to …
- A an agreement between trade unions not to compete with each other
- B an agreement between employers not to employ trade union members
- C an agreement between an employer and a union to only employ members of that particular trade union
- D only members of the ruling political party may apply for jobs. (2)

Question 2: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 The demand for labour increases as workers are willing to work for higher wages. (2)

3.2 The labour court will only hear a case once it has been to the CCMA and has not been resolved. (2)

Questions

Question 3

List FOUR factors that can determine the demand for labour. (8)

Question 4

Explain how an industry's demand for labour will be affected if a higher wage for workers is negotiated. (3)

Question 5

Explain any TWO rights established by the Labour Relations Act. (6)

Topic 14

Economic redress

Overview

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Reconstruction of the South African economy

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- RDP

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- training
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- employment equity

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- minerals
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Capital
- for business start-up
- for working capital
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UNIT 5 Page 150
Entrepreneurship
- Ntsika
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- BEE
- formal education
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UNIT 6 Page 152
Democratisation
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UNIT 7 Page 154
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- economic performance
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Topic 14 deals with efforts being made in South Africa since 1994 to redress the inequalities of the past. This applies to human resources, natural resources, capital, entrepreneurship, the democratisation of economic procedures and various macro-economic adaptations.

Unit 1

Meeting basic needs

14.1 Meeting basic needs

Since 1994, the South African government has implemented many programmes to overcome the economic and social problems it inherited from the previous apartheid government.

The Reconstruction and Development Programme (RDP)

This was one of the most important programmes and had the following objectives:

- nation building
- democratising the state and the economy
- building the economy
- developing human resources
- meeting basic needs.

Human resources

14.2 Human resources

To improve human resources means to improve the skills and abilities of people.

The government has identified the following areas as being important in developing South Africa's citizens so that they can play a productive part in the economy:

14.2.1 Education

Facts:

Education – adult education up from 83% in 1996 to 89% in2001
Literacy of 15 to 24-year-olds up from 83% in 1996 to 96% in 2001

Matric pass rate up from 54% in 1996 to 68% in 2002

- All South African children have the right to schooling.
- Schooling is free of charge if parents cannot afford to pay school fees.
- Single curriculum and same examinations at the end of each phase.
- New detailed Curriculum and Assessment Policy Statement (CAPS) for all grades to be implemented in 2012–14.

Tirisano campaign:

- effective schools and professional teachers
- fight against HIV/Aids through knowledge and information
- language and mathematical literacy
- availability of further and higher education for more learners
- creating effective organisations from the National and Provincial Departments of Education.

14.2.2 Training

Lack of training in the right skills contributes to the high unemployment rate in South Africa.

Laws to create training opportunities for previously excluded people include:

- the South African Qualifications Act (SAQA), No. 58 of 1995
- the South African Schools Act, No. 64 of 1996
- the Skills Development Act, No. 97 of 1998

- the Employment Equity Act, No. 55 of 1998
- the Skills Development Levies Act, No. 9 of 1999.

The Human Resources Development Strategy (HRD Strategy) of 2001 aims to improve the potential of all people in South Africa by:
- a higher economic growth rate
- more job creation
- a better quality of life for all
- wider participation in the labour market
- better-skilled citizens.

The Skills Development Act and Sector Education and Training Authorities (SETAs)
- Aim to ensure that all workers in each sector have the training needed to do their jobs.

14.2.3 Employment equity

Facts:
Black ownership of businesses up from 3,9% in 1997 to 9,4% in 2002.

Employment equity aims to get rid of unfair discrimination in the workplace.

The Employment Equity Act aims to:
- promote our constitutional rights to equality and democracy
- remove unfair discrimination in the workplace
- redress the effects of past discrimination
- develop a workforce representative of the population demographics
- promote economic development
- promote an efficient workforce
- implement our obligations as a member of the International Labour Organisation (ILO).

Redress means to make right.

14.3 Natural resources

South Africa has many natural resources, which need to be carefully controlled so that we all benefit.

14.3.1 Land

- During the apartheid era, many South Africans were forced off their land, without being paid for it, and had to settle in other places.
- Since 1994, the government has introduced land reform and is redistributing land through land claims.
- People who were removed from their land and homes, can apply to reclaim that land or receive payment for it.

14.3.2 Minerals and energy

- Mining plays a very important role in our economy.
- South Africa is one of the world's biggest producers of gold and platinum, as well as being one of the leading producers of base metals (metals other than gold and platinum) and coal.
- The Minerals and Petroleum Resource Development Act of 2020 regulates the ownership, extraction, use and processing of South Africa's minerals.
- The government is the sole custodian of all South Africa's mineral and petroleum resources.
- People must apply for rights to mine these resources.
- The Act obliges applicants to create opportunities for people from historically disadvantaged groups when minerals are extracted and processed.

Infrastructure

- Electricity: Eskom is a parastatal, which provides electricity. It is connecting thousands of new households across the country to the national electricity grid each year.
- Sanitation: modern sanitation facilities are being provided in many poor communities, which did not have such facilities before.
- Water: the government aims to provide all communities with access to clean piped water, and has already done so in many areas.
- Acid waste: The mining industry is under pressure to improve treatment of its acid wastewater.

A parastatal is a business enterprise that is owned partly by government and partly by private investors.

14.3.3 Fishing

- The Marine Living Resources Act of 1998 aims to uplift coastal communities by giving them more access to marine resources.
- The government has implemented a quota system, which allows only a limited catch per person or for each fishing vessel to try to guard against overfishing. This causes financial strain for many families in fishing communities who have no other source of income.
- An alternative way to provide consumers with fish and to create employment is to farm fish commercially. This is only practical with some species and in certain areas.

14.3.4 Forestry

- The National Forests Act of 1998 aims to protect the environment and ensure that our forests are properly managed and developed.
- The Department of Water Affairs and Forestry leases or sells state-owned forest land to the private sector.
- The restructuring process includes phasing out plantations on land that is not environmentally suitable to forestry.

14.4 Capital

- Small, micro and medium-sized enterprises (SMMEs) are important in South Africa because they employ more South Africans than big companies.
- SMMEs need access to capital to start up and grow.
- Banks and investors are often not willing to lend money to entrepreneurs who do not own assets (such as land, houses or other buildings) to offer as collateral (security) against a loan.
- Lending money as capital for an SMME is considered high risk because if the SMME does not succeed, the entrepreneur has nothing to sell to repay the loan.
- The South African government and the private sector have launched initiatives to make capital available to SMMEs at low or reasonable interest rates.
- SMMEs use the capital to start new businesses or to buy property and equipment, or to use as working capital until they start getting an income from the sale of goods or services.

14.4.1 Capital to acquire businesses

Business Partners

This organisation invests capital, skills and knowledge into new or growing SMMEs. The government has a 20% stake in the company and its major private sector shareholders include Rembrandt, Sanlam, Billiton, Old Mutual, Anglo American, De Beers and the four major banks.

Business Partners invests only in formal SMMEs that need between R150 000 and R15 million. They check on the viability of the SMME and then take a minority stake in the business to protect their own risk.

14.4.2 Capital to acquire property

The National Empowerment Fund (NEF) aims to correct past discrimination against historically disadvantaged individuals. The NEF markets investment units in a trust that owns shares in state-owned enterprises. Only previously disadvantaged groups can take part in this scheme.

14.4.3 Working capital needs

Eccles Associates (EA) is a corporate finance and financial advisory firm. EA's Supplier Finance Solution (SFS) programme targets SMMEs that supply goods and services. SMMEs that develop cash-flow problems when they have to fill a large order or need to supply parastatal organisations can borrow working capital from SFS.

14.5 Entrepreneurship

Entrepreneurs are needed to develop and create more businesses and create jobs.

SMMEs employ over half of all the people working in the formal sector.

There are government departments and other organisations to help SMMEs.

14.5.1 Ntsika Enterprise Promotion Agency (Ntsika)

Ntsika is a state-owned agency, which provides non-financial support to SMMEs, for example, help with management, development, marketing, business contacts, research and business development.

14.5.2 Khula Enterprise Finance (Khula Ltd.)

Khula Enterprise Finance provides financial and other support to SMMEs, for example, loans, a national credit guarantee scheme, grants, capacity building, equity funds and mentorship schemes.

14.5.3 Government departments

- The Department of Trade and Industry's Chief Directorate: Enterprise Development formulates policies and strategies to help SMMEs, for example the National Small Business Strategy.
- The National Manufacturing Advisory Centre (NAMAC) supplies advice and information to SMMEs to help them improve the quality of their products, as well as to increase their productivity.
- Technology Women in Business (TWIB) promotes the use of technology by women, and encourages girls and women to choose careers in science and technology.

14.5.4 Formal education

South Africa has fewer entrepreneurs than other developing countries. This limits our growth and job-creation prospects.

14.5.5 The private sector

- The private sector believes that we should encourage entrepreneurs in order to grow the South African economy.

- More successful entrepreneurs means more jobs, which in turn means more consumers with money to spend on the products and services from the private sector.
- It is in its own interest for the private sector to promote entrepreneurship.
- Less unemployment will help to reduce poverty and crime, which is to the advantage of everyone.

14.5.6 BEE

Black economic empowerment is aimed at transforming the structure of the South African economy so that it reflects the demographics of the country. Previously, most economic power was in the hands of the white minority.

The Broad-Based Black Economic Empowerment (BBBEE) Act No 53 of 2003

A scorecard has been created to improve black people's access to the economy. Firms above a certain size are encouraged to improve their own rating and also to deal with other firms with a positive BBBEE scorecard. The aim is to give black people more of a say in:

- ownership of companies
- management positions
- employment equity, especially at senior levels
- development of skills.

Companies are also encouraged to contribute to corporate social investment schemes.

Democratisation of economic procedures

14.6 Democratisation of economic procedures

Since 1994, the government has used several methods to democratise the economy, including labour legislation, public hearings, Nedlac and self-regulating bodies.

14.6.1 Labour legislation

The government has introduced laws to regulate workplaces and to protect both employers and employees.

The most important of these laws are the Labour Relations Act (66/1995) and the Basic Conditions of Employment Act (79/1997). These laws deal with:

- collective bargaining
- dispute resolution
- skills development
- the right to strike and to lock out
- employment services, and
- unemployment insurance.

The government has tried to balance workers' need for protection and improved working conditions with employers' need for flexibility and conditions that will promote productivity and job-creation.

14.6.2 Public hearings

All laws that the government plans to pass are first published and public comment is invited. All citizens and organisations in South Africa have the opportunity to think about the planned law and to express their views. They can protest against it and suggest changes, or voice their approval. The government can then make any changes that are needed as long as any new law follows the guiding principles set out in South Africa's Constitution.

14.6.3 Nedlac

The National Development and Labour Council (Nedlac) was formed in 1995 to help government, organised business and organised labour to agree on macro-economic policy, labour policy and developmental issues. Nedlac also considers labour legislation and laws involving the economy before they are tabled in Parliament and can give useful feedback to government.

14.6.4 Self-regulating bodies

Self-regulating bodies are organisations that represent different groups in the South African economy. They are important, because they are a way of involving more people in the development of economic policies. Examples of such self-regulating bodies are:

- Nedlac
- union organisations, such as the Congress of South African Trade Unions (Cosatu)
- employer organisations, such as Business South Africa (BSA) and the Black Business Council (BBC)
- the Commission for Conciliation, Mediation and Arbitration (CCMA)
- the Employment Conditions Commission
- workplace forums.

14.7 Macroeconomic adaptations

Facts
Employment grew by 12% from 9.6 million in 1995 to 11.2 million in 2002.

Jobs grew by 12% but job seekers by 35%.

Some of the problems that government inherited in 1994

- Labour unrest, which was used as a tool for political expression by the majority of South Africans, who had no other way to make their voices heard.
- A small tax base and high levels of unemployment.
- High government debt, resulting in part from paying subsidies to the 'homelands' and for security.
- Poor or negative economic growth rates owing to sanctions and capital flight from the country
- Many inefficient industries, which had been established to overcome problems caused by sanctions, for example, the arms industry.

Government actions included the following

14.7.1 Economic performance

- Growth, Employment and Redistribution (GEAR) in 1996.
- GEAR did not bring enough economic growth and jobs. In 2005, the government replaced GEAR with the Accelerated and Shared Growth Initiative (AsgiSA).

Our economy is improving and large amounts of capital regularly flow into South Africa, as foreigners invest and buy property in the country.

We still have huge problems of poverty and widespread unemployment.

The gap between rich and poor has widened, economic wealth seems to be concentrated in the hands of just a small percentage of the population.

14.7.2 Employment

- Remains one of South Africa's biggest challenges.
- Job creation is not keeping pace with the large numbers entering the labour market each year as young people leave school and college/university to look for work.
- The global economic recession of 2009–10 caused many job losses and left business owners cautious about employing new staff.

Problems encountered in creating employment

Legal minimum wages and working conditions in SA are high compared to those in many developing countries.

- Worker productivity is not high in South Africa.
- High levels of crime add to the costs of running businesses.
- Many other countries produce manufactured goods more cheaply than we do. China, India and several countries in south-east Asia produce textiles, electronic goods and vehicles that can be imported for sale in South Africa more cheaply than similar products can be manufactured here.

14.7.3 Income inequality

- In South Africa, the gap between rich and poor is steadily getting wider.
- Poor people do not have enough access to education, good health care and employment; therefore, they stay poor.
- Some South Africans are spectacularly rich and live in luxury, while others have to eke out an existence.

Two opinions on this issue

1. Supporters of a free-market system believe that those with more wealth can invest in businesses and spend to create jobs, thus allowing more poor people to find employment.
2. Socialists believe that all South Africa's resources belong to all its citizens, and that all citizens should benefit equally from them. They believe government should nationalise all private assets and share them amongst all South Africans. No socialist economy has ever been successful anywhere in the world; socialist economies are less efficient than free-market economies.

Social grants

The government has attempted to alleviate the problems experienced by the very poor by increasing the number of people who receive social grants. The money for these grants comes from taxes.

14.7.4 Poverty

Many South Africans continue to live in poverty with not enough money to buy food and other basic necessities.

The government is trying to solve this problem with the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme, as well as the social grant system.

14.7.5 Stability

- The South African economy is stable.
- We are making slow but steady progress towards providing basic facilities such as housing, health care, water and electricity to previously disadvantaged sections of society.
- Political and economic stability in South Africa attracts foreign investment in businesses and property.

Topic 14

Questions

Question 1: Multiple choice

Choose the correct answer. Only write the letter of the answer you select.

1.1 The Marine Living Resources Act aims …
- A to uplift coastal communities by giving them more access to marine resources
- B to implement a quota system to encourage large-scale fishing fleets
- C to implement a quota system to try to protect against overfishing
- D A and C (2)

1.2 Khula is an enterprise which …
- A provides finance to approved SMMEs
- B deals with conflict in the workplace
- C assists in inflow of foreign capital
- D none of the above (2)

Question 2: Fill in the gaps

Many South Africans continue to live in … with not enough … to buy food and other basic … (3)

Question 3: True or False

Indicate whether the following statements are True or False. If the statement is False, write down the correct statement.

3.1 AsgiSA is South Africa's current economic policy. (2)

3.2 A parastatal is a privately owned company. (2)

3.3 The gap between the rich and the poor in South Africa is narrowing. (2)

Questions

Question 4

4.1 Name TWO important laws that regulate the workplace and protect both employers and employees. (4)

4.2 Explain any TWO difficulties encountered in creating economic growth. (8)

Question 5

List any THREE economic objectives of the government. (6)

Final examination

Grade 10 Economics final examination

Time: 3 hours

Instructions:
Answer SIX questions:
Section A: Compulsory.
Section B: Answer any THREE questions.
Section C: Answer any TWO questions.

Section A: Answer ALL questions in this section on the answer sheet provided.

QUESTION 1

1.1 Multiple Choice

Various possible options are provided as answers to the following questions.
Answer by marking the letter of your choice next to the corresponding number on your answer sheet.

1.1.1 Industrialisation refers to the development of the … sector.
- A primary
- B secondary
- C tertiary
- D economic

1.1.2 … and … are leakages from the economic circular flow model.
- A taxation; government spending
- B savings; exports
- C investment; imports
- D savings, taxation

1.1.3 An organisation of workers which aims to improve working conditions and remuneration for its members is known as a …
- A guild
- B trade union
- C political party
- D chamber of commerce

1.1.4 Globalisation has led to the …
- A widening of the gap between the developed and developing countries
- B narrowing of the gap between the developed and developing countries
- C development of the secondary sector in developing countries
- D dumping of cheap products by developing countries in the markets of developed countries

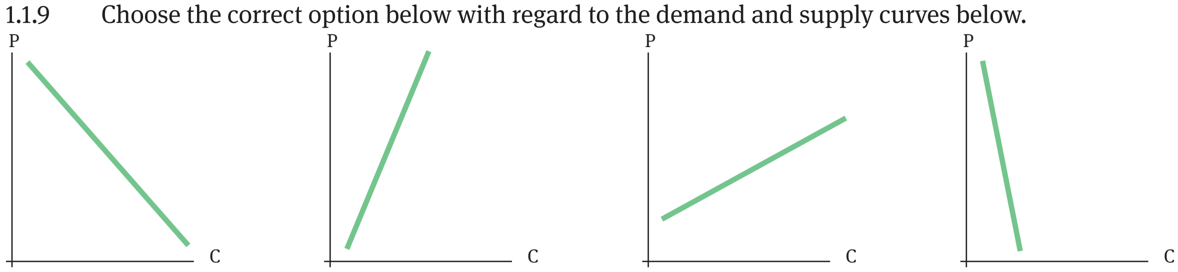
1.1.5 When I + G + X = S + T + M, national prices at market levels will …
- A fall
- B increase
- C remain unchanged
- D equal real national income

1.1.6 Which of the following is the correct definition of GDP?
- A the total value of all final goods and services produced within the borders of a country in a given time period
- B the total value of goods and services produced by the citizens of a country whether they are living in the country or not
- C the average income earned by the inhabitants of the country
- D the total expenditure on final goods and services by inhabitants of a country

1.1.7 When the SARB wants to restrict the money supply it will …
- A increase interest rates
- B leave interest rates unchanged
- C reduce interest rates
- D increase the number of notes printed

1.1.8 Which of the following is an example of perfect competition?
- A MTN, one of three cellular service providers in South Africa
- B SABC's TV service
- C a tomato farmer in Natal
- D De Beer's, the provider of most of the rough diamonds in the world

1.1.9 Choose the correct option below with regard to the demand and supply curves below.



- A the demand curve is shown in graph (i) and the supply curve in graph (iii)
- B the demand curve is shown in graph (ii) and the supply curve in graph (iv)
- C the demand curve is shown in graph (iii) and the supply curve in graph (iv)
- D the demand curve is shown in graph (iii) and the supply curve in graph (i)

1.1.10 What will happen to the price of bananas if there is a surplus of bananas?
- A the price will increase
- B the price will decrease
- C the price will remain unchanged
- D the price will increase and then decrease

1.1.11 South Africa currently has an over-supply of … labour.
- A skilled
- B semi-skilled
- C unskilled
- D seasonal

1.1.12 A condition for a perfect market is ...
- A the manipulation of prices by producers
- B substitute products
- C supply restrictions
- D no preferential treatment

[12 x 2 = 24]

1.2 True or False

Indicate whether the following statements are true or false. Write your answer next to the corresponding question number on your answer sheet.

1.2.1 Tourism is an important segment of the services sector.

1.2.2 Government attempts to promote exports by offering consumer subsidies.

1.2.3 Before approving a large-scale project, e.g. the construction of a new dam, government carries out a cost-benefit analysis to calculate the social costs and benefits of a new project.

1.2.4 The primary sector is the most important sector in terms of generating economic growth and job opportunities.

1.2.5 AsgiSA is South Africa's current economic policy.

[5 x 2 = 10]

1.3 Match the columns

Choose a description from Column B that matches the item in Column A. Write your answer next to the corresponding question on your answer sheet.

	Column A		Column B
1.3.1	Environmental sustainability	A	Expansion
1.3.2	Current phase in the business cycle of South Africa	B	Opportunities for entrepreneurship in the primary sector
1.3.3	Minimum wage	C	Human rights (Bill of Rights)
1.3.4	A successful land claim has given a community a new lease of life	D	Inefficiency of market mechanism
1.3.5	HIV/Aids	E	Urbanisation
1.3.6	Monopolies	F	Funding for government-approved projects
1.3.7	Mining revolution	G	Perfect market

1.3.8	Development bank of Southern Africa	H	Finding alternative sources of energy
		I	Lower productivity
		J	Contraction

(8 x 2 = 16)

[50]

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION 2 MACROECONOMICS

2.1 Choose the correct word from those given in brackets. Write only the word of your choice next to the corresponding question number.

2.1.1 South Africa has a (market/mixed) economic system. (2)

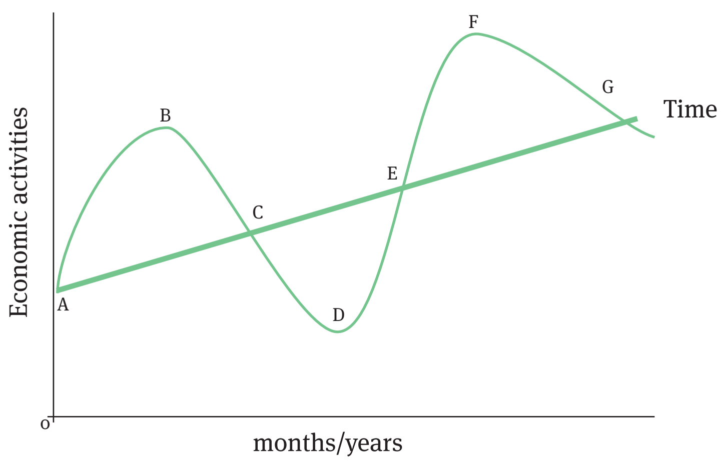
2.1.2 (Micro/Macro) economics includes the study of inflation and economic growth (2)

2.1.3 Payments received on goods exported are recorded as a/an (leakage/injection). (2)

2.1.4 If the GNI of a country is R2 000 million per annum and it has a population of 4 million then the GNI per capita is (R500/R350) (2)

2.1.5 Name the THREE sectors of the economy and give an example of an industry in each (3 x 2)(6)

2.2 Study the graph below and answer the questions that follow:



2.2.1 Identify the following labels in the graph:
(a) A–B
(b) B–C
(c) C–D
(d) D–E
(e) D (5x2) (10)

2.2.2 What is depicted in the above diagram? (2)

2.2.3 Name and explain TWO leakages from the circular flow model. (8)

2.3 Discuss the significance of the foreign sector in the circular flow model with reference to South Africa. (16)

[50]

QUESTION 3 MICRO-ECONOMICS

3.1 Answer the following questions:

Fill in the missing word(s). Write only the missing word(s) in your answer book next to the number of the question.

3.1.1 ... is the amount by which the total utility is changed as an additional unit of a good or service is consumed.

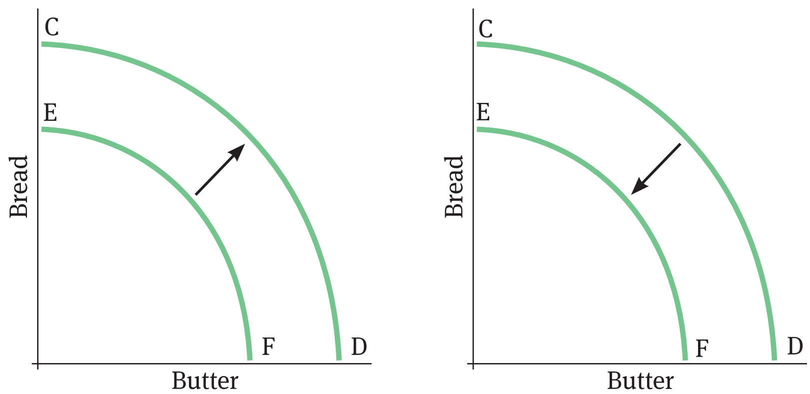
3.1.2 The total combinations of two goods that a consumer can afford to buy with his/her current income is known as the ...

3.1.3 Government's financial support of a good or service is known as a ...

3.1.4 The point where the quantity demanded is the same as the quantity supplied is known as the .... (4x2) (8)

3.2 List THREE factors that influence the supply of goods. (3 x 2) (6)

3.3 Study the graphs below and answer the questions that follow.



3.3.1 Give a name for these types of graphs and what they show. (4)

3.3.2 State what has happened in graph A and give THREE reasons why this may have happened. (8)

3.3.3 Graph B shows economic growth. True/False? (2)

3.3.4 Explain what would happen to the curve CD in graph A if a more efficient method of producing bread was discovered. (6)

3.4 Make use of a clearly labelled graph and explain how prices are formed in a perfect market. (16)

[50]

QUESTION 4 ECONOMIC PURSUITS

4.1 Answer the following questions. Fill in the missing word(s). Write only the missing words in your answer book next to the number of question.

4.1.1 In … economies people have a higher standard of living.

4.1.2 The current trend of worldwide economic interaction is known as …

4.1.3 The concentration of a large number of a country's people and industries in specific areas is known as …

4.1.4 In South Africa, pounds, shillings and pence are no longer forms of … (4x2) (8)

4.2 Name any THREE results of economic development. (3x2) (6)

4.3 Which stage of economic development in South Africa is depicted in the above extract? (2)

4.4 .1 Name any TWO groups of people who lived in South Africa during the first stage of development. (4)

4.4.2 Name TWO types of indigenous farming in the first stage of economic development. (4)

4.4.3 Give THREE factors that contributed towards economic growth during the early 1800s. (6)

4.4.4 Give TWO economic results of the development of agriculture and mining in the nineteenth century. (4)

4.5 Explain why the discovery of diamonds was so important for South Africa. (16)

[50]

Final examination

QUESTION 5: CONTEMPORARY ECONOMIC ISSUES

5.1 Fill in the missing word(s). Write only the missing word(s) in your answer book next to the number of the question.

5.1.1 When people work fewer hours than they would like to, this is called ...

5.1.2 The section of the population that is willing and able to work is called the ... of the population.

5.1.3 A council that tries to settle disputes between employers and employees is called the ...

5.1.4 The relationship between real output and the amount of input used to produce that output is called ... (4x2)(8)

5.2 List any THREE factors that cause a decrease in demand. (3x2)(6)

5.3 What is meant by the term "economically marginalised groups"? (6)

5.4 Explain the difference between voluntary and involuntary unemployment. (4)

5.5.1 Name any ONE government programme designed to assist in job creation. (2)

5.5.2 List three social, political or economic results of unemployment in South Africa. (6)

5.5.3 Explain the term "frictional unemployment". (4)

5.6 Discuss the factors that determine the supply of labour in South Africa. (16)

[50]

QUESTION 6: MACRO-ECONOMICS AND CONTEMPORARY

6.1 Answer the following questions appropriately.
Fill in the missing word(s). Write only the missing word(s) in the answer book next to the number of the question.

6.1.1 The insurance scheme that provides temporary income for persons with previous job experience who have lost their jobs is called ...

6.1.2 The price of labour on the labour market is ...

6.1.3 The Act that regulates working conditions is called ...

6.1.4 A market in which there is only one supplier is called a ... (4x2)(8)

6.2 Name THREE different economic systems. (3x2)(6)

6.3 Give ONE way in which micro lenders assist economic growth and ONE negative aspect of micro lenders. (4)

6.4 Explain the main functions of the South African Reserve Bank. (16)

6.5 Give any FIVE reasons why the government intervenes in the economy. (10)

SECTION C Answer any TWO questions from this section.

QUESTION 7

Write an essay explaining the operation and effects of the economic cycle in an open economy. Use diagrams where applicable.

[50]

QUESTION 8

Economies function through a variety of markets. Write an essay explaining the different types of markets and refer specifically to monopolies and their influence on the South African economy.

[50]

QUESTION 9

Write an essay explaining measures government has taken to encourage reconstruction of the South African economy.

[50]

QUESTION 10

The demographic cycle in South Africa contains specific challenges. Write an essay explaining the demographic cycle and the factors that influence population growth.

[50]

Answer sheet

QUESTION 1 ANSWER SHEET. MARK THE CORRECT ANSWER WITH A CROSS

Question 1	A	B	C	D
1.1		X		
1.2				X
1.3		X		
1.4	X			
1.5				X
1.6	X			
1.7	X			
1.8			X	
1.9	X			
1.10		X		
1.11			X	
1.12				x

[24]

1.2

1.2.1 True
1.2.2 False
1.2.3 True
1.2.4 False
1.2.5 True [10]

1.3

1.3.1 H
1.3.2 J
1.3.3 G
1.3.4 C
1.3.5 I
1.3.6 D
1.3.7 B
1.3.8 F [16]

[50]

QUESTION 2

2.1

2.1.1 Mixed
2.1.2 Macro
2.1.3 Injection
2.1.4 R500 (6)

2.1.5 **Primary sector:** Examples: farming, mining, oil extraction, forestry and fishing.
Secondary sector: Examples: electricity, construction, manufacturing, etc.
Tertiary sector: Wholesale trade, retail trade, catering, transport, communication, final services, insurance, etc. (6)

2.2.1

(a) A –B Prosperity
(b) B –C Recession
(c) C –D Depression
(d) D –E Recovery
(e) D Trough (10)

2.2.2 The business cycle. (2)

2.2.3 Savings are monies deposited in the bank or financial institutions by households and businesses.
Taxes are received by the government from incomes earned.
Import expenditure is paid to overseas businesses for goods and services imported. (any2 x4 =8)

2.3 South Africa has an open economy, we trade with other countries.
Money leaves the country when we buy goods from overseas (imports).
Money enters the country when other countries buy our goods and services (exports).
An economy with no foreign trade is called a closed economy and an economy with foreign trade is called an open economy. (8x2) (16)

[50]

QUESTION 3 MICRO ECONOMICS

3.1

3.1.1 Marginal utility
3.1.2 Indifference curve
3.1.3 Subsidy
3.1.4 Equilibrium point (8)

3.2 The price that consumers are prepared to pay
The price that consumers are willing to pay for other goods
The cost of production
Technology
The number of sellers
Suppliers' expectations
Climatic conditions (any three for 2 marks = 6)

Answer sheet

3.3

3.3.1 Production possibility curve shows what combination of two different goods could be produced with the available limited supply of factors of production. 2x2 (4)

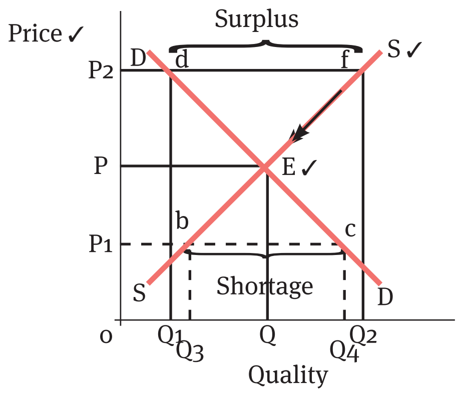
3.3.2 Increase in the quantity of butter and bread produced.
Caused by: Improvement in the production technique.
Technological advances.
Improved motivation of employees. 4x2 (8)

3.3.3 False.

3.3.4 The curve would move up higher on the vertical axis; it would not change on the horizontal axis. This is because more bread will now be produced, but nothing has changed the amount of butter that can be produced. (6)

3.4

Demand and supply are two different forces, which determine the price on the market. The price level at which the demand and supply curves intersect is known as the equilibrium price.



Point E is the equilibrium point where the quantity demanded is equal to the quantity supplied and there are no forces acting to change the price. OP is the equilibrium price and OQ is the equilibrium quantity.
Therefore, at point E there is neither a surplus nor shortage of goods.
At any price higher than this, there will be forces acting on the price to reduce it.
At any price below this, there will be forces acting on the price to increase it.
This equilibrium price is known as the market price.
A market surplus/excess supply occurs when there is an over-supply of goods in the market.
In the above figure, this is shown by f and the surplus is Q1 to Q2.
Producers will lower the price to sell all the goods supplied.
A market shortage/excess demand occurs when the quantity demanded of goods exceeds the quantity supplied.
In the above figure, this is shown by b c and the shortage is Q3 to Q4.
Consumers will be prepared to pay more and suppliers will increase the supply as the price increases and once again it will reach equilibrium. (Max [16])

[50]

Answer sheet

QUESTION 4 ECONOMIC PURSUITS

4.1

4.1.1 Developed
4.1.2 Globalisation
4.1.3 Urbanisation
4.1.4 Legal tender (8)

4.2 The development of market economy
Increased development of transport
Development of communication
Urbanisation
More jobs created 3x2 (6)

4.3 Colonisation (2)

4.4.1 Khoikhoi and San 2x2 (4)

4.4.2 Hunting for animals and gathering of foods 2x2 (4)
4.4.3 The growth of shipping
The development of trade
The development of an infrastructure 3x2 (6)

4.4.4 The development of markets, transport and communication. (2x2) (4)

4.5 Many thousands of people immigrated to South African from many parts of the world.
These immigrants were trained artisans, miners, carpenters and other skilled people.
There was an inflow of capital. This was in the form of money, mining and transport equipment.
Railways developed to carry people, machines and goods to and from the mines.
This benefited mining companies and farmers.
There was an increased demand for agricultural products.
Development of communication systems occurred.
The discovery of telegraph, telegrams and the postal system led to quicker contact with the people inside South Africa and with the outside world.
Increased employment of people in the diamond mines led to the foundation of the migrant labour system. (Max [16])

[50]

QUESTION 5: CONTEMPORARY ECONOMIC ISSUES

5.1

5.1.1 Underemployment
5.1.2 Economically active
5.1.3 CCMA (Commission for Conciliation, Mediation and Arbitration)
5.1.4 Productivity (4x2) (8)

5.2 A decrease in the level of consumer incomes
A decrease in the price of substitute goods
An increase in the price of complementary goods
A decrease in the size of the population
A decreased desire by consumers, e.g. due advertising, fashion, consumer's taste and preference and climatic conditions or awareness of health issues (any 3x2) (6)

5.3 Economically marginalised groups are people who find it difficult to access employment and who are economically disadvantaged.
If they do have some kind of employment they are the first to be affected when a cyclical downswing occurs.
Examples of economically marginalised groups are rural people, women, older people and school leavers.
In an international context, refugees are also one of the main marginalised groups. (any 3x20 (6)

5.4 Voluntary unemployment concerns people who chose not to enter the job market, such as a retired person. Involuntary unemployment concerns those people who would like to work but cannot find a job. (4)

5.5.1 The Growth, Employment and Redistribution policy (GEAR)
Accelerated and Shared Growth Initiative for South Africa (AsgiSA)
The Joint Initiative on Priority Skills Acquisition (JIPSA) (any 1) (2)

5.5.2 Poverty, social problems and increased cost to taxpayers (3x2) (6)

5.5.3 Frictional unemployment occurs when a person is moving between different jobs, or is looking for a job for the first time (such as a school leaver or student who has recently graduated). It lasts for a short period of time. (any 2x2) (4)

5.6 The labour supply is affected by:
The population growth rate, the labour force in South Africa is approximately equal to one third of the total population.
The labour force rate grows at a rate that is more or less similar to the population growth rate.
The labour force participation rate, this is the extent to which labour avails itself for employment and is expressed by the labour force participation rate (LFPR).
The number of women who availed themselves of employment opportunities increased substantially.
Skills and other competencies, workers in the labour supply may not have the skills and competencies that are needed by the economy of the day.
Migration, the movement of workers from region to region, or country to country, is an important reason of change in supply of labour. (any 8x2) [16]

[50]

Answer sheet

QUESTION 6: MACRO ECONOMICS AND CONTEMPORARY

6.1

6.1.1 Unemployment Insurance Fund (UIF)
6.1.2 Wages
6.1.3 The Basic Conditions of Employment Act
6.1.4 Monopoly (8)

6.2 Traditional, Command, Market (6)

6.3 Micro lenders make money available to people who cannot get loans through normal channels (financial institutions). However, they sometimes charge excessive amounts of interest. (4)

6.4 The S.A. Reserve Bank issues bank notes.
Holds the gold reserves of private banks.
Is the custodian of the country's cash, gold and foreign reserves.
Is banker to the government.
Plays an important role in the economy by controlling levels of credit and money supply and interest rates.
Governor of the Reserve Bank works in conjunction with the Minister of Finance.
Acts as "watchdog" of the commercial banks.
Maintains the value of the Rand against other currencies. (8x2) 16

6.5 To protect against inefficiencies such as monopolies.
Unequal opportunities.
To provide social welfare serves such as health and education.
To guard against unfair pricing.
To promote fair treatment of workers and prevent exploitation, so it sets minimum wages and maximum working hours.
To control strategic enterprises, for example to generate electricity and provide water. (5x2)(10)

[50]

QUESTION 7

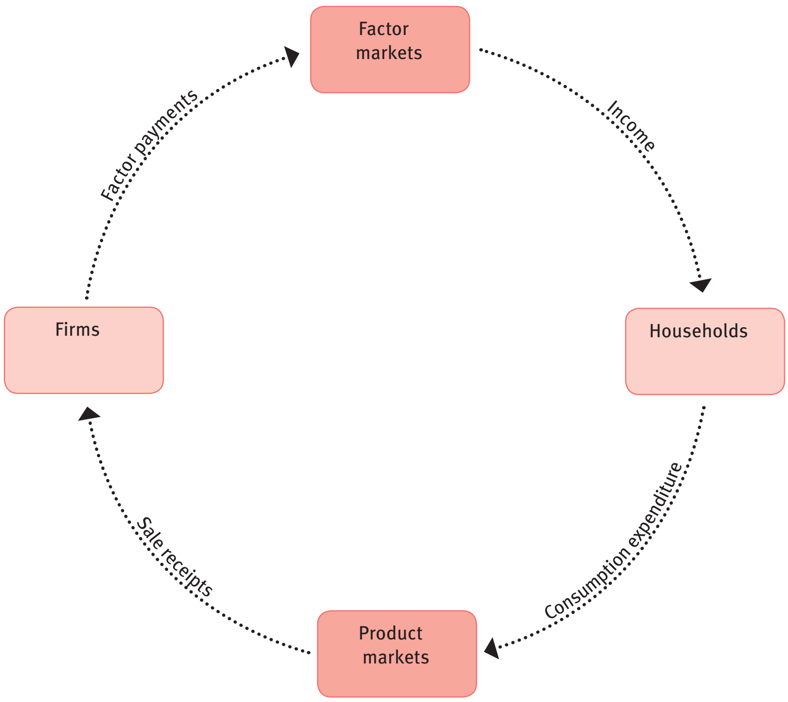
INTRODUCTION
Economies are complex systems and there are many different forces that influence the economic life of a country.
In the circular flow of the economy, different participants interact and their behaviour influences the outcomes of the economic system. (Max 3)

BODY
Households:
Households are an important decision-making unit in economy, with the primary aim of maximising satisfaction. They try to maximise utility by engaging in consumption and spending.
Households determine production because their demand depends on their income.

Answer sheet

Households are the biggest owners of factors of production. They sell factors of production (labour) to firms to be used in production of goods and services. In exchange they receive income in the form of salaries/wages for labour, interest on capital, rent from natural resources and profits from entrepreneurial activities.
Households use their income to buy goods and services on the goods market and satisfy their wants and needs.
Consumption by households, which includes durable, semi-durable, non-durable goods and services, is a major component in the total spending of a country. (Max 10)

EXAMPLE OF A SIMPLE ECONOMY:



(Max 6 marks for a drawing)

The business sector
Firms are responsible for the production of goods and services. They buy factors of production from households on the factors market and in return they pay households an income.
Firms produce goods and services and supply to households through the goods market.
The above version of a circular flow: the inner flow shows the flow of payments and the outer flow that of real resources (factors of production and goods and services). (Max 8)

The government
The government has different levels and many functioning departments. Although its main function is to ensure a stable environment, government also buys factors of production from households on the factors market and purchases goods and services from firms in the goods market.
The government supply households and firms with goods such as education and health services. These are called injections.
The government finances its supply of goods and services through money earned from taxes on household incomes and spending. These are called leakages. (Max 8)

Foreign sector
In an open economy, there is an interaction between countries. This flow of goods and services between countries constitutes international trade. There is also a flow of technology and information, and a movement of people.
South Africa has an open economy and sells goods and services, e.g. gold, to other countries. This is called exports.
We also buy goods and services from other countries for which we must pay. This is called imports.
Exports and imports are also injections and leakages from the circular flow. (Max 6)

Financial sector
This involves institutions such as banks, insurance companies and the JSE.
They are not directly involved in the production of goods but direct funds from surplus units to deficit units in economy.
The role of the financial sector is to take savings (leakages) and inject it back into the economy in the form of loans (injections). (Max 6)

CONCLUSION
The circular flow model shows how the various participants (households, business sector, government, foreign sector and financial sector) interact in the economy with one another. It shows how their behaviour determines flow of income, spending and production in the economy. (3)

[50]

QUESTION 8

Introduction
Markets are the interaction between buyers and sellers and can be defined as all those buyers and sellers who influence the price of a particular good and service. Some markets happen in a particular place and others do not. Markets may take different forms such as perfect and imperfect markets. (Max 3)

Characteristics of a market
The four most important characteristics by which markets can be identified are:

The number of products
In some markets, there is a single large producer of goods and services, for example Eskom or Telkom. This is called a monopoly. In some markets, there are only a few producers of goods and services, for example Vodacom, MTN and Cell C. This is called an oligopoly. In some markets there are large number of producers of goods and services. This is called perfect competition.
For example: producers of soap or canned fruit. (Max 7)

Nature of the products
The nature of the product in a monopoly is unique and it is produced in large quantities, such as electricity.
In perfect competition, goods are homogenous and easy to produce and compete for sales, such as toothpaste or bread. (Max 6)

Answer sheet

Barriers to entry
In both a monopoly and an oligopoly, there are barriers to entering the market and the supplying of goods and services, e.g. cell phones. In a perfect market, it is easy for producers to enter the market and supply goods and services, e.g. supermarkets, furniture. (Max 6)

Availability of information
In perfect competition, there is complete information about market conditions, for example the JSE.
In imperfect markets, producers and consumers have to make decisions based on incomplete information, for example the steel industry. (Max 6)

Perfect markets
A perfect market is one in which no supplier is able to manipulate the price of a product.
Suppliers are price takers in the perfect market. (Max 2)

Conditions of perfect markets
There should be large number of buyers and a large number of sellers for a product. Sellers should act independently.
The product sold should be homogeneous.
There should be no barrier to entry into the markets.
Buyers and sellers should have perfect knowledge of the market conditions.
Businesses are price takers.
There is no government intervention that influences buyers and sellers.
All the factors of production should be perfectly mobile. (Max 10)

Imperfect markets
Monopoly and oligopoly are examples of imperfect markets.
Monopolistic suppliers have complete control over the prices that they charge. They are called price makers. (Max 2)

Conditions of imperfect markets
There is only one large supplier of goods or services.
The goods supplied are unique and there are no close substitutes.
Entry into the market is restricted so that new suppliers cannot enter the market.
Producers and consumers have insufficient knowledge of market conditions. (Max 6)

Conclusion
In modern economies, markets play a very important role. (2)

[50]

QUESTION 9

Since 1994, the South African government has implemented many programmes to overcome the economic and social problems it inherited from the previous apartheid government. Poverty, lack of education and unemployment are our biggest challenges. (Max 3)

Answer sheet

Economic reconstruction
GEAR: This was one of the most important programmes and its objectives include nation building, democratisation, building the economy and meeting basic needs. Because GEAR did not bring enough economic growth and jobs the government replaced it in 2005 with the Accelerated and Shared Growth Initiative (**AsgiSA**). (Max 6)

Human capital
Government has identified the following areas as being important in developing South Africa's citizens so that they can play a productive part in the economy:

Education
This is provided free of charge and the new CAPS curriculum will be implemented fully by 2014. The focus is on increased literacy, an improved matric pass rate and providing adult education.

Training
Lack of training in the right skills contributes to the high unemployment rate in South Africa. Laws to create training opportunities for previously excluded people include:
The South African Qualifications Act (SAQA), No. 58 of 1995
The South African Schools Act, No. 64 of 1996
The Skills Development Act, No. 97 of 1998
The Employment Equity Act, No. 55 of 1998
The Skills Development Levies Act, No. 9 of 1999.

The Human Resources Development Strategy (HRD Strategy) of 2001 aims to improve the potential of all people in South Africa, and the Skills Development Act and Sector Education and Training Authorities (SETAs) aim to ensure that all workers in each sector have the training needed to do their jobs. (Max 8)

Natural resources
South Africa has many natural resources, which need to be controlled carefully so that we all benefit. Since 1994, government has introduced land reform and is redistributing land through land claims. South Africa is one of the world's biggest producers of gold and platinum, as well as being one of the leading producers of base metals (metals other than gold and platinum) and coal. The Minerals and Petroleum Resource Development Act of 2020 regulates the ownership, extraction, use and processing of South Africa's minerals. The Marine Living Resources Act of 1998 aims to uplift coastal communities by giving them more access to marine resources. The National Forest Act of 1998 aims to protect the environment and ensure that our forests are properly managed and developed. (Max 6)

Infrastructure: A priority is to supply electricity, sanitation and water to all the inhabitants of South Africa, especially those living in rural communities. (Max 6)

Capital: Small, micro and medium-sized enterprises are important in South Africa because they employ more South Africans than big companies. Business Partners invests capital, skills and knowledge into new or growing SMMEs. The National Empowerment Fund (NEF) aims to correct past discrimination against historically disadvantaged individuals. The NEF markets investment units in a trust that owns shares in state-owned enterprises. Only previously disadvantaged groups can take part in this scheme. Eccles Associates (EA) is a corporate finance and financial advisory firm. (Max 6)

Entrepreneurship: Entrepreneurs are needed to develop and create more businesses and create jobs. SMMEs employ over half of all the people working in the formal sector. There are government departments and other organisations to help SMMEs, such as Ntsika Enterprise Promotion Agency (Ntsika) and Khula Enterprise Finance (Khula Ltd.) (Max 6)

Labour legislation: Government has introduced laws to regulate workplaces and to protect both employers and employees. The most important of these laws are the Labour Relations Act (66/1995) and the Basic Conditions of Employment Act (79/1997). The government has tried to balance workers' need for protection and improved working conditions with employers' need for flexibility and conditions that will promote productivity and job-creation. (Max 6)

Conclusion

The challenges that face the South African government are great. Since 1994, many new laws and policies have been put in place to assist the country in creating economic growth that will benefit all the citizens of the country. (Max 3)

[50]

QUESTION 10

Introduction:

The demographic cycle shows the history of population growth. There is a natural progression for all countries and the cycle shows the changes in natural growth which happen over time. (Max 3)

The cycle consists of five distinct phases: **(4 marks for labelling the 5 phases)**

Phase 1

During this phase, there is no birth control and the birth rate is very high. Communities are poor and there is an absence of medical facilities and medical care. Because of this the death rate is also high and thus the average age of the population is low. The natural growth rate during this phase is low. (Max 8)

Phase 2

During this phase, birth control and family planning are not practiced and the birth rate remains high. However, because living conditions improve, deaths of mothers and babies decrease and people live longer. The natural growth rate is higher than during the first phase of the cycle.
The average age of the population starts to increase. (Max 8)

Phase 3

This phase can be split into two parts: In the first part, the income and standard of living increase for a large part of the population. This results in social development and higher expectations. The acceptance of new values by families causes a decrease in births.
A decrease in deaths also occurs and this insures that the natural growth rate is high.
In the second part of this phase, the birth rate decreases more rapidly than the death rate and the natural growth rate starts to decrease. (Max 8)

Phase 4
During this phase, the birth rate decreases rapidly. People realise that their standard of living can be much higher if they have fewer children. Family planning is generally accepted by a greater number of families and the natural population growth rate declines.
Medical care and services become affordable and the death rate thus declines.
Coloured people in South Africa are in the first part of this phase.
The Indian/Asian population has been in this phase for a number of years.
The death rate is the lowest in all the population groups, but the birth rate has not declined sufficiently in all population groups to put them into the fifth phase of the cycle. (Max 8)

Phase 5
In the last phase, the natural growth rate is low and it levels out. Birth and death rates are low.
The average age of the population increases, these are known as old populations.
White people in South Africa appear to be in the beginning of this phase, but both birth and death rates are still high compared to those of some European countries. Many European countries have declining populations. (Max 8)

Conclusion:
The natural growth rate of a population usually declines as the standard of living of the population increases but at the same time the standard of living of people can only be improved if the natural increase of a population is curtailed. (Max 3)

[50]

Glossary

absolute poverty People living in absolute poverty are so poor that they cannot buy their most basic needs to live.

aggregate demand The total value of demand for goods and services in a country.

aggregate supply The total value of goods and services supplied in a country.

amplitude The vertical distance between the peak in the trend line and the trough.

assets Things you own, such as land, a house, vehicles, or savings deposited with a bank.

bargaining The negotiation that takes place between a buyer and a seller.

bartering A system of exchange where you swop goods for goods.

basic income grant Small amount paid to poor people each month by the government, to buy food and other basic necessities.

capital flight Investors who had money in the South African economy wanted to take their money out of South Africa.

capital goods Goods that are used to produce other goods, e.g. machines.

cash flow Money resulting from daily, weekly or monthly income that is used to pay for running costs and general purchases.

CCMA Commission for Conciliation, Mediation and Arbitration.

closed economy An economy that has *no foreign sector* (does not import from or export to other countries, or have economic relationships with them).

coincident indicators Economic indicators that occur at the same time as the change in the economy.

collateral Assets used to offset the risk of borrowing money from a bank.

collective bargaining Negotiations between an employer and labour unions who speak on behalf of a large group of employees.

commodities Things that we buy to use.

consume To use up.

consumer price index A figure which indicates inflation.

contraction A period in the economy when economic activity decreases. It includes both recession and depression in a business cycle.

constitutional right The right of each individual according to South Africa's Constitution, which is the basis for all the country's laws.

corporate finance Money used to run large business enterprises (corporations).

Glossary

countercyclic indicators Indicators that move in the opposite direction to the economy. They decrease when the economy increases and increase when the economy decreases.

credit facilities Money that banks are willing to lend to borrowers.

currency A system of money in general use in a particular country.

cyclical Taking place in a 'cycle' rather than continuously.

demand curve A graph that shows the demand for a product at various prices.

demographic cycle The five stages in the development of a country's population.

deposit facilities The ability of a bank to take in money and keep it safe for customers.

depression A long and severe form of recession, lasting three quarters or more, with very low or negative economic growth.

disposable income The amount of money a worker has left after paying taxes.

economically active population People of working age who are able to work.

economic means All the goods and services with which we can satisfy human needs.

economies of scale Making large numbers of an item, which brings down the cost per unit

employee Somebody who works for a wage or salary.

employer Any organisation or person who pays people to do work.

employers' organisation An organisation which represents employers in negotiations.

endogenous reasons Reasons from within a system.

equilibrium A state in which opposing forces are balanced.

equilibrium point The point where the supply curve and the demand curve for a product intersect. The equilibrium point shows the equilibrium price for the product.

equilibrium price The price at which the quantity demanded equals the quantity that suppliers are willing to supply. At this price, the market is in balance, or in equilibrium.

equity Equality, treating all people in the same way.

exchange To swop with somebody else.

exchange rate The value of one currency in terms of another currency.

exchange value If people will buy something from you, we say it has exchange value.

exogenous reasons Reasons from outside the system.

expansion A period in the economy when economic activity increases. It includes both recovery and prosperity in a business cycle.

Glossary

exploitation Treating people unfairly for your own benefit.

financial institutions For example, banks and insurance companies.

food security A country's ability always to produce enough food to feed its population.

foreign sector All international trade and payments for imports and exports.

freedom of association People's right to belong to an organisation.

human resources All the skills and abilities of a group of people.

imperfect market Markets for which the conditions for perfect markets do not exist.

inefficiency A wasteful way of doing something

infrastructure The 'framework' of support structures and systems that businesses need to function properly, such as roads, water supply, power supply, telecommunications, banking and legal systems.

injections into the circular flow Money entering the circular flow in the form of investment, and so forth.

job reservation Keeping certain categories of jobs for certain groups of people.

labour force People from the economically active population who work.

labour-intensive methods Methods that use many workers rather than machines.

labour turnover The rate at which staff leave a business and need to be replaced.

lagging indicators Economic indicators that change direction after the economy has already changed.

leading indicators Economic indicators that change direction before the change in the economy.

leakages from the circular flow Money leaving the circular flow as taxes, savings or payments made for products imported.

legal tender Anything with which you may legally pay for goods and services.

life expectancy The average number of years that a person in a particular country can expect to live.

lock-out An action by an employer to refuse employees entry to the workplace.

macro-economic To do with the economy as a whole.

majorification Majority rule, that is, rule by a democratically elected government.

market Any place or circumstance where buyers and sellers meet to exchange goods and services.

Glossary

market economy An economic system where only demand and supply determine prices and quantities of goods and services.

mechanise To use machines to do work that people used to do.

medium of exchange Anything that other people will accept in exchange for goods and services.

migration Immigration, emigration and movement of people within a country.

monetary flow The flow of money between role-players in the economy.

monopoly A situation where one supplier has control of the market for a product. The supplier can therefore choose the price at which to sell the product.

nationalise A process whereby the government takes over a private company.

natural growth rate The difference between number of births and number of deaths per year, converted to a percentage.

oligopoly A situation where just a few suppliers dominate the market for a product.

open economy An economy that involves trade with other countries.

opportunity cost The sacrifice that you make when you choose an alternative product or action.

peak The upper turning point in a business cycle, which marks the end of prosperity.

perfect market A market in which neither buyers nor sellers can influence the price of the products.

price formation The process whereby demand and supply interact to reach a balance.

price mechanism The process whereby the market corrects the price of a product until the equilibrium price is reached again.

privatise A process whereby the government sells the assets and running of a public sector company to investors from the private sector.

procyclic indicators Indicators that move in the same direction as the economy.

produce Make, manufacture or create.

production factors The factors needed to produce goods or services: natural resources, capital, labour and entrepreneurship.

productivity The quantity of a product made per unit of time or money, or per worker.

prosperity A phase when there is increased economic activity and the standard of living should improve.

public sector All levels of government (national, provincial and local) and organisations run by government.

Glossary

real flow The movement of products and people (labour) between different participants in the economy.

real GDP The gross domestic product adapted to allow for the effects of inflation.

recession A significant decline in economic activity spread across the economy, lasting for at least two quarters (six months).

recovery A phase where the economy begins to expand again and economic activity starts to increase.

sanctions Governments in many other countries banned companies and individuals in their countries from trading with South Africa or investing in South African businesses.

scarce In short supply relative to demand.

self-sufficient Providing for yourself or your household everything you need.

shortage The situation where the supply of a product is less than the demand.

stagflation An increase in prices accompanied by a decline in economic growth. It occurs during a downturn.

subsidise Pay money to a manufacturer or producer so that goods or services can be sold to consumers more cheaply.

subsistence Farming activities to fulfil the needs of the farmer's household, not to produce goods for sale.

supply curve Graph showing the supply of a product at different prices.

surplus The situation where the demand for a product is less than the supply, so there is an 'extra' or 'spare' quantity of that product.

tax base The individuals and businesses in a country that pay tax on a regular basis.

taxes The money that all citizens and firms must pay to the government to finance the work of the government

trade union An organisation which represents employees during negotiations.

transfer expenditure Taking money from wealthier people and giving it to poorer people.

trend line A line showing the direction of real GDP over an extended period of time.

trough The lower turning point in a business cycle, which marks the end of recession.

under-employment A situation where people have work, but not every day for a full day, or where they do not make full use of their skills.

unemployment A situation where people are willing and able to work, but cannot find work.

Glossary

urbanisation A movement of people from rural areas to cities.

utility The degree to which a product can satisfy the needs or wants of consumers.

unemployment rate The percentage of people who are able and willing to work, but who cannot find work.

unskilled workers Workers with no skills.

value (value in exchange) A measure of the ability of a product to demand other goods or services in exchange. This is also the price of the product.

working capital Money invested in a business enterprise that is used for the running costs of that business.