

C. Chaplin

Study Guide

# Economics

**Grade 11**



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# TERM 1

## Overview

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TERM 1			
TOPIC 1	TOPIC 2	TOPIC 3	TOPIC 4
Page 2	Page 13	Page 23	Page 31
Basic concept and population and labour force	Circular flow and quantitative elements: economic goods and services	Economic systems: Mixed economy	Basic economic problem, business cycles and public sector: economic structure

# Basic concepts and population and labour force

## Overview

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Topic one discusses the four factors of production and their remuneration and also looks at how communities can be involved in economic decision making as well as inclusivity for previously economically marginalised groups.

Topic 1		
BASIC CONCEPTS AND POPULATION AND LABOUR FORCE		
Page 3	Page 8	Page 9
1 The factors of production	2 Community participation in decision-making	3 Economically marginalised groups

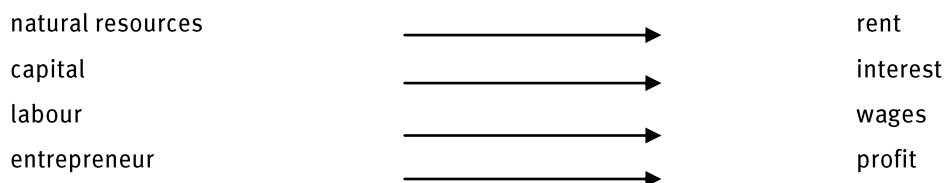
## 1 The factors of production

---

The four factors of production are the resources (**inputs**) that are used to produce goods and services (**outputs**). These are:

- 1 natural resources
- 2 labour
- 3 capital
- 4 entrepreneurship.

In a market system, most of the factors of production are privately owned. Each factor receives its own reward or remuneration.



### 1.1 Natural resources

---

#### 1.1.1 Characteristics of natural resources

A natural resource is something, such as a forest, mineral deposit, or fresh water that is found in nature and is necessary or useful to humans. Some of their characteristics are:

- their supply is limited
- not all natural resources are renewable and as such can be divided into **non-renewable** resources (such as minerals and fossil fuels) and **renewable** resources (such as plants and animals)
- their distribution is not even, meaning that some countries may have lots of natural resources while others may have very few
- they are used in the production of goods and services
- they have to be processed for further use.

Mineral resources are non renewable and the rate at which they are being exploited is a cause for concern. Renewable resources must be managed carefully.

### 1.1.2 The importance of natural resources

Natural resources are important because they:

- help the economic development of the country
- provides the basis for economic activities producing goods and services
- provide the owners of these resources with income
- create employment
- form the basis for international trade.

### 1.1.3 Remuneration of natural resources

We use the term **rent** to describe the payment for all natural resources.

Remuneration of factors of production is influenced by the following factors:

- an increase in the demand for a product or service
- the quality of the natural resource
- climate
- technology
- location.

## 1.2 Labour

---

Labour is work, either physical or mental, done by people for wages or reward.

### 1.2.1 Characteristics of labour

- Labour varies in quality and quantity according to the workers.
- Labour can be classified as skilled, semi-skilled and unskilled.
- Labour cannot be stored.
- It takes time to train skilled workers therefore supply cannot be increased at short notice.
- Developing countries have a large supply of unskilled workers.
- The geographical and occupational mobility of labour is low.

### 1.2.2 Importance of labour

It is important to have a skilled work force because:

- the work force is responsible for the production in a country
- a shortage of skills restricts the growth of the economy
- skilled workers tend to be more productive than unskilled workers.

- the supply of labour is determined by factors such as the **population growth rate**, the **labour force participation rate** and **migration**
- the quality of labour is determined by the skills, knowledge and health of workers. Skills can be improved by education and training. Skills development is a key strategy in South Africa.

**Population growth rate.** This increases if the birth rate exceeds the death rate and the effects of this increase will be felt when children reach working age.

**Labour force participation rate.** This comprises of those people who are economically active and seeking work.

**Migration.** Workers often move from country to country seeking work.

### 1.2.3 Remuneration of labour

Workers are rewarded with **wages**. Other benefits, often called **payment in kind**, such as company housing or cars, can also be included.

In a market system the following factors influence levels of wages:

- the demand for specific goods and services
- the demand for a specific type of labour.

## 1.3 Capital

---

Capital consists of all the manufactured goods and resources used in the production of **consumer goods** (goods used to make consumer goods) as well as the money used to buy **capital goods** (goods bought by consumers to satisfy their wants).

Capital comes from savings which has four sources:

- 1 households
- 2 businesses
- 3 government
- 4 foreign countries.

### 1.3.1 Characteristics of capital

- It is essential for maintaining production and creating economic growth (an increase in the value of goods and services produced in the economy).
- Capital goods depreciate over time and need to be replaced.
- Capital is owned by businesses and the state.
- Capital can be classified as **social capital** (i.e. schools and hospitals) and **human capital** (i.e. skills and experience).

### 1.3.2 Importance of capital

- Capital is important for maintaining production and creating economic growth.
- **Capital widening** happens when capital stock increases at the same rate as the labour force and the depreciation rate, thus capital per worker remains constant. The economy will expand in terms of aggregate output, but productivity per worker will remain constant.
- **Capital deepening** happens when the capital per worker is increasing.
- The creation of capital goods is called investment.

### 1.3.3 Remuneration of capital

Owners of capital earn **interest** which is the money earned for lending money to another individual or institution or the money that is paid for borrowing money.

The rate of return on an investment ( the amount of reward) is influenced by:

- the risk involved in the investment
- the liquidity of the investment
- the length of time (term) of the investment
- the demand for capital goods
- the supply of funding
- the monetary policy of a country.

## 1.4 Entrepreneurship

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Entrepreneurs are people or businesses who start new businesses or who create and market new goods and services.



### 1.4.1 Characteristics of entrepreneurs

- They are innovative and identify opportunities.
- They bring together the other three factors of production and use them to produce goods or services.
- They take the initiative or risk to start or grow new businesses.
- They tend to be enterprising people.
- They can be individuals, groups of individuals, businesses or governments.

### 1.4.2 Importance of entrepreneurs

Entrepreneurs are essential because:

- They bring land, capital and labour together to produce goods and services thereby creating economic growth
- They create wealth by using savings and borrowed money to buy capital goods thereby paying interest to their lenders
- They employ people thereby creating jobs
- They promote healthy competition.

### 1.4.3 Remuneration of entrepreneurs

The reward for entrepreneurs is **profit**.

## 2 Community participation in decision-making

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Important functions of local government are that it allows:

- people to be consulted on things happening in their area
- keeps people informed on plans and projects of local government.

## 3 Economically marginalised groups

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### 3.1 Accessibility

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In the decades before South Africa achieved democracy in 1994, the apartheid government systematically excluded African, Indian and coloured people from meaningful participation in the country's economy. This inevitably caused much poverty and suffering. To rectify this situation the government of South Africa developed a set of black economic empowerment policies (BEE) and procurement policies.

### 3.2 Empowerment

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The Broad Based Black Economic Empowerment (BBBEE) Act was passed in 2003. South Africa's policy of black economic empowerment is not simply a moral initiative to redress the wrongs of the past. It is a pragmatic growth strategy that aims to realise the country's full economic potential while helping to bring the black majority into the economic mainstream.

The government aims to achieve the following objectives:

- empower more black people to own and manage enterprises
- achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises
- promote access to finance for black economic empowerment
- empower rural and local communities by enabling their access to economic activities, land, infrastructure, ownership and skills
- promote human resource development of black people through, for example, mentorships, learnerships and internships
- increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills
- assist in the development of the operational and financial capacity of BEE enterprises, especially small, medium and micro enterprises (SMMEs) and black-owned enterprises
- increase the extent to which black women own and manage existing and new enterprises, and facilitate their access to economic activities, infrastructure and skills training.

### 3.3 Procurement

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**Procurement policy** means giving preference to the awarding of government tenders to businesses that comply with the BEE Act.

## Questions

- 1 Give a sustainable use for land. (2)
  - 2 Explain the economic term 'water'. (2)
  - 3 Explain when a business might have low productivity. (4)
  - 4 Explain three problems caused by having an unskilled workforce. (6)
  - 5 Give three examples of non-renewable sources of power. (6)
  - 6 Why are entrepreneurs important? (8)
  - 7 Discuss five objectives of South Africa's BEE Act. (10)
- [38]

## Answers

- 1 agriculture, √√ animal husbandry √√ renewable forests √√ (1 x 2) (2)
  - 2 land √√ (2)
  - 3 unskilled workforce √√ lack of capital goods √√ (2 x 2) (4)
  - 4 lack of productivity, √√ inability to undertake skilled tasks, √√ money and time needs to be invested in training √√ (3 x 2) (6)
  - 5 oil, √√ coal, √√ gas √√ (3 x 2) (6)
  - 6 They are innovative and identify opportunities. √√  
 They bring together the other three factors of production and use them to produce goods or services. √√  
 They take the initiative or risk to start or grow new businesses. √√  
 They tend to be enterprising people. √√  
 They can be individuals, groups of individuals, businesses or governments. (8)
  - 7 Empower more black people to own and manage enterprises. √√  
 Achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises. √√  
 Promote access to finance for black economic empowerment. √√  
 Empower rural and local communities by enabling their access to economic activities, land, infrastructure, ownership and skills. √√  
 Promote human resource development of black people through, for example, mentorships, learnerships and internships. √√  
 Increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills. √√  
 Assist in the development of the operational and financial capacity of BEE enterprises, especially small, medium and micro enterprises (SMMEs) and black-owned enterprises. √√  
 Increase the extent to which black women own and manage existing and new enterprises, and facilitate their access to economic activities, infrastructure and skills training. √√ (10)
- [38]

# Circular flow and quantitative elements: economic goods and services

## Overview

Topic 2 discusses the circular flow of goods and services and looks at ways to calculate the total value of goods and services produced in the economy over a given period (usually one year).

Topic 2				
CIRCULAR FLOW AND QUANTITATIVE ELEMENTS				
Page 14	Page 16	Page 17	Page 18	Page 19
1 Final and intermediate goods	2 Final consumption expenditure by households (C)	3 Consumption spending by government	4 Gross fixed capital formation (I)	5 The main aggregates

## 1 Final and intermediate goods

---

Economic goods and services are produced using the factors of production to satisfy the needs and wants of consumers. **Economic goods** are consumable items that are useful to people but scarce in relation to their demand, so that human effort is required to obtain them. In contrast, **free goods** (such as air) are in abundant supply and no conscious effort is needed to obtain them.

There are two different types of economic goods.

- **Intermediate goods and services** are used in the production of other goods or services.
- **Final goods and services** are goods sold to the end consumer and will not be sold again.

Some items can be used both as final products or intermediate products depending on how they are used. For example, sugar is consumed directly as well as in the manufacture of food products.

Final goods and services are bought on the product markets by four main participants in the economy:

- households
- businesses
- governments
- foreign sector.

We call household spending **consumption** (C), spending by firms on capital goods **investment spending** (I), spending by government is called **government expenditure** (G) and foreign sector spending is called **exports** (X). Imported goods are called **imports** (Z).

### 1.1 Flows in the economy

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Goods and services flow between the producers in the enterprises and the consumers in the households. Payments for goods and services and payments for factors of production flow between households, government and firms. These are known as the **circular flow** in the economy.



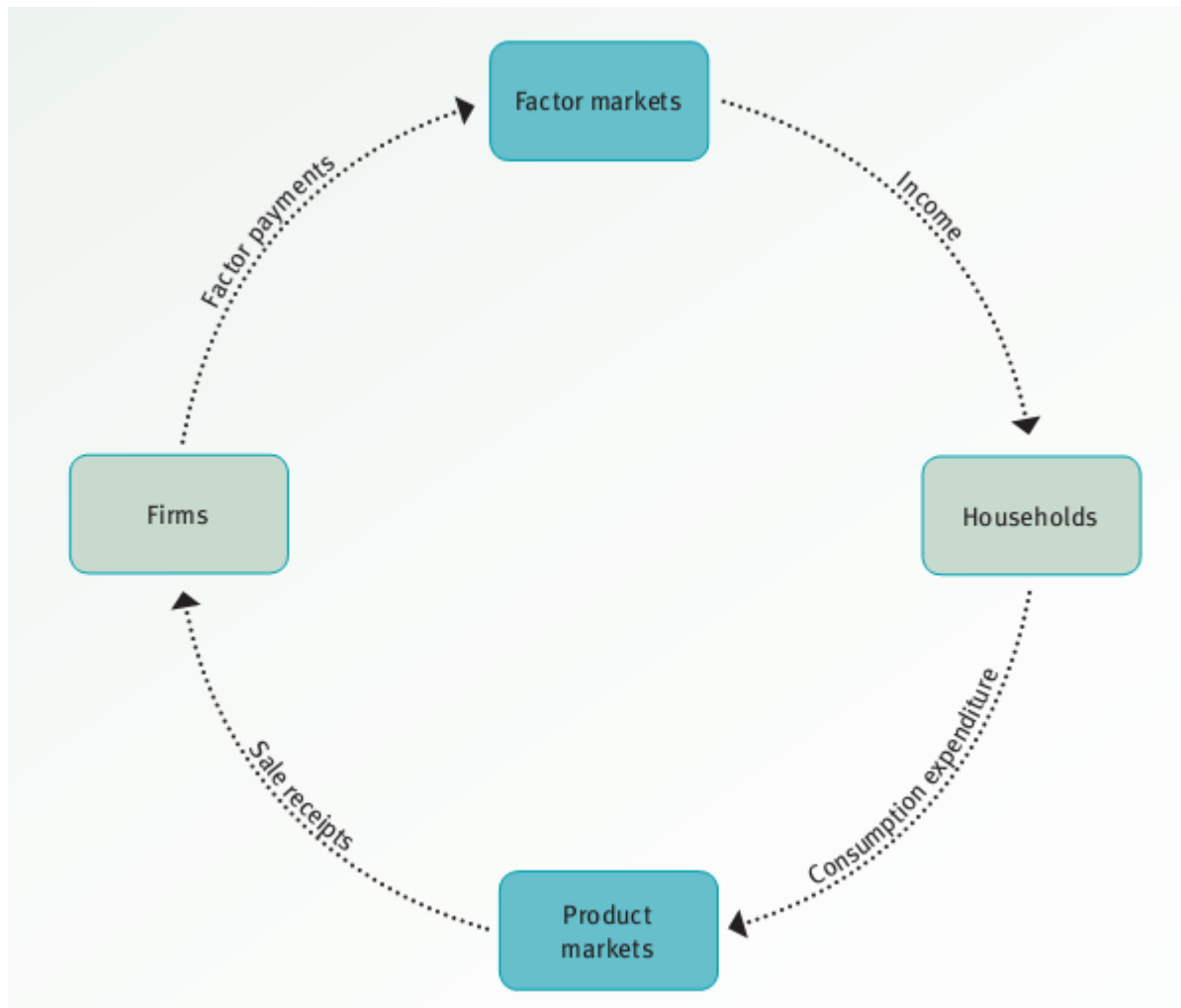


FIGURE 2.1 The circular flow diagram

## 2 Final consumption expenditure by households (C)

---

This is the total value of all money spent by the people in a country on the final goods and services in a certain period of time. Economists examine this to identify changes in the business cycle. For example, increase in spending on durable goods may indicate that an upturn in the cycle is about to occur.

### 2.1 Composition

---

Households spend their income on non-durable goods, semi-durable goods, durable goods and services.

- **Durable goods** are tangible goods (goods that can be touched) that tend to last longer than a year, such as furniture and cars.
- **Semi-durable** goods are tangible goods with a shorter life cycle, such as clothing and footwear.
- **Non-durable** goods are goods such as food and petrol that can be used up or do not last long.
- **Services** are activities that bring use and satisfaction of needs and wants such as restaurants, medical services and education.

### 2.2 Importance

---

The higher consumer spending, the more wants and needs are being satisfied therefore the higher the economic satisfaction of households and the higher the economic activity of the country.

### 3 Consumption spending by government

Consumption expenditure by government (G) is the money spent by all the different government departments on goods and services.

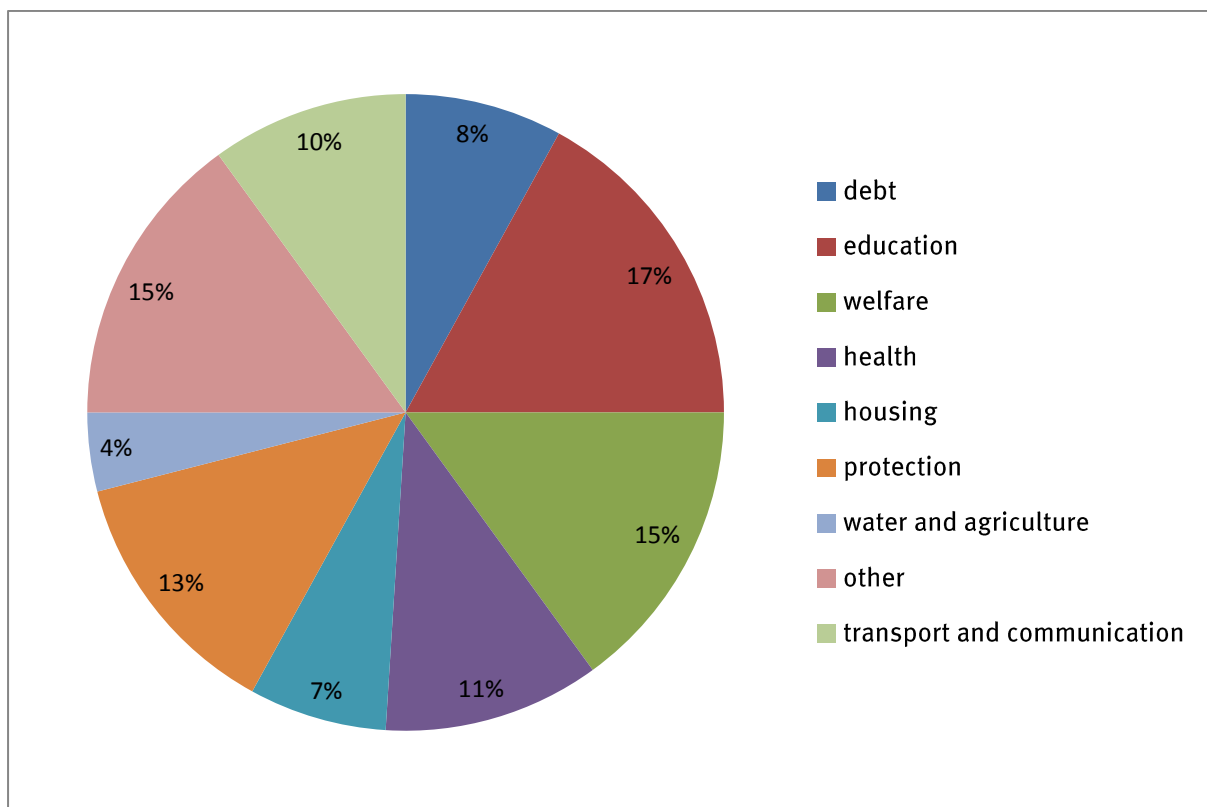
#### 3.1 Composition

Consumption expenditure by government (G) falls into two categories:

- remuneration of public sector employees (which is the largest component)
- spending on goods and services.

Transfer payments such as old age pensions and child grants are not included in this figure as they are a transfer of money from one group to another and not part of spending.

In the 2008 national budget expenditure was shown as the following:



**FIGURE 2.2** Budget 2008/2009

(Source: <http://www.etu.org.za>)

## 4 Gross fixed capital formation (I)

---

**Gross fixed capital formation (I)** is also known as investment and occurs when capital stock, such as machinery, buildings and inventories increase. This should not be confused with financial investment. Financial investment occurs when people deposit money in financial institutions or buy shares or other financial instruments.

Capital goods are regarded as final goods because they are not processed further for resale.

### 4.1 Composition

---

**Fixed capital** includes goods such as infrastructure and factories that help produce goods.

**Tangible assets** are goods such as machinery that can be touched and seen.

**Intangible assets** cannot be touched or seen, such as exploring for gas or coal.

### 4.2 Importance

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- Capital formation is important because as the capital stock increases so does the economic ability to produce more goods and services, which leads to economic growth.
- Increased production leads to higher employment and an increase in GDP.

## 5 The main aggregates

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### 5.1 Gross Domestic Production/Product (GDP)

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This is the total value of all the final goods and services produced within the country within a period of time (usually a year).

This can be calculated in three ways:

- the value added method
- the income method
- the expenditure method.

### 5.2 Gross value added (GVA)

---

The gross value added method measures the total output of final goods and services produced in a year. This is the market value of a firm's output less the value of any inputs bought from other firms. This means the GDP is calculated according to the gross value added method.

Example: A farmer produces 2 000 bags of wheat which are sold to a miller for R20 000. The value added by the farmer is therefore R20 000. The miller turns the wheat into flour and sells it to a bakery for R35 000. He has added R15 000 to the value of the product. The baker makes bread from the flour and sells it to shops for R40 000. He has added R5 000 to the value of the product. The shops sell the bread for R45 000. He has added R5 000 to the value of the product.

Farmer	=	R20 000
Miller	=	R15 000
Baker	=	R 5 000
Shop	=	R 5 000
Total value added	=	R45 000

### 5.3 Gross national expenditure (GNE)

---

This is the total value of all the money spent on goods and services in a period of time.

## 5.4 Gross domestic expenditure

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$$\text{GDE} = \text{C} + \text{G} + \text{I}$$

C is the final consumption expenditure by households.

G is government consumption expenditure.

I is gross fixed capital formation and the change in inventories.

## 5.5 Expenditure on gross domestic product

---

Part of domestic expenditure includes goods imported from other countries, therefore these need to be added to consumption. Part of domestic product is sold overseas as exports and not bought locally, therefore this needs to be subtracted from domestic expenditure.

$$\text{Expenditure of gross domestic product} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{Z})$$

### 5.5.1 Imports (M) and exports (X) (Trade)

The transactions between countries, imports and exports, are what we call trade.

Exports allow for increased production which stimulates the economy, allow for greater employment and cause foreign exchange to enter the country as payment for the exports.

Imports bring essential goods and services into the country which cannot be produced locally. Cheaper imports can help poorer people.

## 5.6 Gross national income (GNI)/GDP (I)

---

This is the total value of the output or income earned by the inhabitants of a country as a result of the employment of their factors of production in a year.

$$\text{GDP (I)} = \text{rent} + \text{interest} + \text{wages} + \text{profits}$$

$$\text{GNI} = \text{GDP} + \text{income earned from the rest of the world by South Africans} - \text{income earned in South Africa by foreigners}$$

## Questions

- 1 Give an example of a final good and an intermediate good and explain the difference between the two. (6)
  - 2 Explain the equation  $GDP(E) = C + G + I(X - M)$ . ( 8 x 2 ) (16)
  - 3 Calculate the final consumption expenditure using the following information:
    - private consumption expenditure is R40,2 billion
    - consumption expenditure by government is R15,5 billion
    - gross fixed capital formation is R8,1 billion (8)
  - 4 Give examples of different types of goods that households spend money on. (12)
  - 5 Name the four main participants in the economy. (4)
  - 6 Why are imports not included in domestic expenditure? (4)
  - 7 What is the importance of fixed capital formation? (6)
- [56]

## Answers

- 1 Final goods, such as clothes, shoes, food, are bought by end users. √√√ Intermediate goods, such as material to make clothes, leather for shoes and vegetables for canning, are used further in the production process. √√√ (6)
- 2 Gross Domestic Product = consumption spending + government spending + investment (+ exports – minus imports) (√√√√√√√√√√√√√√ (12) plus explanation √√√√) (16)
- 3 R40,2 billion + R15,5 billion + R8,1 billion = R63,8 (8) √√√√√√√√ (8)
- 4 Non-durable goods (food, drinks, petrol) √√√√  
Semi-durable goods (clothing, books, car tyres) √√√√  
Durable goods (furniture, cars, bicycles) √√√√ (12)
- 5 households, √√ businesses, √√ government, √√ foreign sector √√ (4)
- 6 because they do not form part of our production √√ and the income from purchases of them goes overseas √√ (4)
- 7 Increases in capital stock allow production to increase. √√ Increased production leads to more employment. √√ Capital formation promotes the growth of GDP. √√ (6)

[56]



# Economic systems: mixed economy

## Overview

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Topic 3			
ECONOMIC SYSTEMS: MIXED ECONOMY			
Page 24	Page 25	Page 26	Page 27
1 The market economy	2 The centrally planned economy	3 The mixed economic system in South Africa	4 Economic efficiency

## 1 The market economy

---

Also known as the **free market system**, the forces of demand and supply are used by entrepreneurs to answer the three main questions in economics.

- **What** should be produced?
- **How** should production take place?
- **Who** is the economy producing for?

### 1.1 Characteristics of the market economy

---

The desire to generate the highest profits is the biggest motivating factor.

- There is private ownership of the factors of production.
- Individuals are free to set up businesses and to live and work where they want.
- Businesses compete with one another.
- Absence of a central plan. The government plays a small role providing only basic services.
- Businesses tend to specialise in producing products that yield the highest profits.

### 1.2 Advantages of a market economy

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- Production is efficient.
- Consumers have a wide choice of products to choose from.
- There is freedom of action, ownership, movement and speech.
- People are encouraged to develop and innovate new products.
- There is high economic growth.

### 1.3 Disadvantages of a market economy

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- Self-interest can lead to a lack of concern for those less fortunate and a careless use of resources.
- There is uneven distribution of income and wealth.
- The market economy does not always operate efficiently leading to government intervention to protect the poor (**market failure**).
- The market economy is subject to business cycles.

## 2 The centrally planned economy

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A centrally planned economy is controlled and run by the government who make all the decisions relating to what is going to be produced, how it is going to be done and which goods and services are allocated to consumers.

### 2.1 Characteristics

---

A centrally planned economy is characterised as follows:

- no private ownership
- central planning and control
- state entrepreneurship
- coercion is used to achieve goals.

### 2.2 Advantages of a centrally planned economy

---

- There is even distribution of income.
- There is no wastage caused by competition.
- State employs everybody leading to full employment.
- Government provide infrastructure and services.
- Externalities are dealt with.
- There is administration of prices.

### 2.3 Disadvantages of a centrally planned economy

---

- Workforce has little motivation to work harder or be innovative.
- Little motivation by workers and poor planning by government can lead to lower economic growth.
- There is a shortage of consumer goods and services.
- No competition leads to a lack of consumer choice.
- Freedom of movement and speech is restricted.

## 3 The mixed economic system in South Africa

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This is a combination of market capitalism and central planning. Some countries like China and Sweden apply more socialism and less capitalism while others like the USA apply more capitalism and less socialism.

### 3.1 Characteristics of the mixed system in South Africa

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- The profit motive exists.
- Competition exists.
- The government does intervene in the running of the economy.
- Public sector businesses provide some goods and services.
- Natural resources and businesses are mostly privately owned.

### 3.2 Advantages of the mixed economic system

---

- There is freedom of choice and private ownership of land and businesses.
- Private ownership with state provided infrastructure promotes economic growth.
- State improves social welfare, especially for the poor.
- State helps pass laws to protect the environment.
- Economic growth is encouraged.

### 3.3 Disadvantages of a mixed economic system

---

- As long as the profit motive exists there will be self-interest and a lack of concern for the poor.
- Poverty still exists.
- State enterprises generally do not allow competition leading to monopolies.
- State intervention can discourage employment.

## 4 Economic efficiency

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Two of the main duties of the state in a mixed economy are to provide social services which improve the welfare of the poor, and economic services to encourage economic growth.

### 4.1 South Africa's social services

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These services include:

- education
- healthcare
- welfare services and social grants
- housing and community amenities such as libraries, halls and parks
- public order and safety.

#### 4.1.1 The South African government's efficiency in delivering these social services

Although there have been large increases in spending, the delivery of these services remains a problem, resulting in many public demonstrations and criticism in the press.

**Education and training.** South Africa has a low level of literacy and the Grade 12 pass rate remains low. There is a shortage of skilled workers which slows down the economy's growth.

**Healthcare.** Hospitals and clinics struggle to cope with the number of people needing healthcare. Demand for healthcare is likely to increase as more people with HIV and TB need treatment.

### 4.2 South Africa's economic services

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Different state departments try and promote economic development by introducing policies that improve production. Subsidies and grants are also used to assist. An example is the Department of Trade and Industry which helps local businesses find markets for their goods through the use of trade deals with other countries.

#### 4.2.1 The South African government's efficiency in delivering economic services

The high price of some of our goods, such as clothing, compared to those of China and India has made it difficult for South Africa to export goods. In 1996, the **Accelerated and Shared Growth Initiative for South Africa (ASGISA)** was introduced to promote growth and employment. In 2010, the **New Economic Growth Path** was announced to help beat poverty and unemployment.

#### 4.2.2 The objectives of GEAR

The objectives of GEAR include:

- to achieve a high economic growth rate
- to increase the size of the private sector
- to increase production and employment
- to reform fiscal policy
- to encourage trade and investment.

#### 4.2.3 The objectives of the RDP

The objectives of the RDP include:

- fulfilment of the basic needs of the community (housing, water, electricity etc.)
- development of human resources through education and training
- growth of the economy and addressing of economic inequalities
- democratisation of the state and communities
- effective financial environment and management of the programme.

**International competitiveness** refers to the ability of South African businesses to match the price and quality of other nation's outputs. There are three ways to achieve international competitiveness:

- 1 businesses must produce goods of a high standard that are not more expensive than foreign goods
- 2 the central bank must help maintain stable exchange rates
- 3 exporting countries need rates of inflation that are similar to those of its trading partners.

## Questions

- 1 Name four disadvantages of market capitalism. (8)
- 2 Name five advantages of a market economy. (10)
- 3 Why can a business cycle be a disadvantage in an economy? (2)
- 4 Name two characteristics of a centrally planned economy. (4)
- 5 A centrally planned economy has no unemployment. True or False. (2)
- 6 List four advantages to a centrally planned economy. (8)

[34]

## Answers

- 1 business cycles, √√ self-interest, √√ uneven distribution of wealth and income, √√ market failure √√ (8)
  - 2 high economic growth, √√ efficiency, √√ innovation, √√ wide consumer choices available, √√ freedom of action, ownership and speech √√ (10)
  - 3 business cycles make it hard to plan efficiently. √√ A downturn may lead to unemployment which leads to hardship. √√ (2)
  - 4 no private ownership, √√ state planning and control, √√ state entrepreneurship √√ (4)
  - 5 True √√ (2)
  - 6 government services, √√ equality of income, √√ full employment, √√ no wastage caused by competition √√ (8)
- [34]



# Basic economic problem, business cycles and public sector: economic structure

## Overview

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Topic 4 looks at the three sectors of the South African economy. When we talk about the structure of our economy, we are talking about the way the GDP is produced in terms of which sector of the economy produced it.

Topic 4			
BASIC ECONOMIC PROBLEM, BUSINESS CYCLES AND PUBLIC SECTOR; ECONOMIC STRUCTURE			
Page 32	Page 34	Page 35	Page 37
1 The primary sector	2 The secondary sector	3 The tertiary sector	4 South Africa's infrastructure

## 1 The primary sector (sometimes also known as *primary industry*)

### 1.1 Composition of the primary sector

---

The primary sector consists of industries based on the natural resources of a country. These include:

- agricultural land and animal husbandry
- forests – timber industry
- minerals – mining
- water – hydro electric power
- oil and coal reserves – power
- sea life – fishing.

### 1.2 Importance of the primary sector

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- Provides power through raw materials such as coal.
- Provides raw materials for secondary industries.
- Produces food.
- Creates employment and enhances skills.
- Earns foreign exchange and increases trade.
- Contributes to the GDP.
- Generates state income through tax.
- Helps stimulate economic growth.

As a country becomes more economically developed, the contribution that the primary sector makes to the overall GDP decreases.

### 1.3 Discrimination and exclusion in the primary sector

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As a result of apartheid prior to 1994, black people:

- lost their traditional land to white farmers
- were unable to buy land outside of areas reserved for black people
- were denied the assistance that was given to white farmers.

The Land Redistribution Programme (1995) is aimed at improving black people's access to farming land although it has been slow to do so. Since 2006, many black empowerment deals have taken place giving black people ownership in mines.

## 2 The secondary sector (sometimes also known as the *manufacturing sector*)

### 2.1 Composition of the secondary sector

---

The secondary sector involves the manufacturing of goods from different raw resources. An example would be the construction of a car or a building. Some are used further in the production process to make other goods. An example is parts for a car. The secondary sector is divided into light and heavy industry.

### 2.2 Importance of the secondary sector

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- It produces consumer goods.
- It helps increase self-sufficiency.
- Creates employment and provides skills training.
- Contributes to the GDP.
- Generates foreign exchange.
- Promotes economic growth.

### 2.3 Discrimination and exclusion in the secondary sector

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During apartheid, black people were mostly excluded from being trained which led to them being excluded from finding work in the secondary sector. Much emphasis has been placed on black economic empowerment (BEE) and the need to help more previously disadvantaged people acquire skills.

### 3 The tertiary sector (sometimes also called the *services sector*)

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This is the biggest economic sector of all developed countries.

This is because in more advanced economies:

- goods and services are sold in formal markets
- the financial services sector is used by all
- communication methods are more advanced
- consumers use professional services.

#### 3.1 Composition of the tertiary sector

---

The tertiary sector can be broken down into a number of different classes:

- finance
- insurance
- personal services
- business services
- real estate
- wholesaling and retail
- accommodation and catering
- transport
- communications
- government services.

#### 3.2 Importance of the tertiary sector

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- It contributes to GDP.
- Creates employment and skills training.
- Creates markets for goods and services.
- Contributes to economic growth.

### 3.3 Discrimination and exclusion in the tertiary sector

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During apartheid, there was discrimination against businesses owned by black people. As a result, they could not own property outside of restricted areas, raise capital, trade in white areas or form legal businesses.

Since 1994, laws have been passed to change this. Both the Black Economic Empowerment Act and the Employment Equity Act try to ensure that black people are employed at all levels of management.

## 4 South Africa's infrastructure

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### 4.1 Communication

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The movement of information needs to be quick and efficient so that businesses can be competitive. Communication is important because:

- businesses can operate efficiently
- it contributes to GDP
- employs people
- keeps consumers informed about products and services
- helps businesses make informed decisions.

In South Africa, we have many different communication systems.

- Our postal service is largely controlled by the South African Post Office which is a state agency.
- Most landlines are provided by Telkom whose biggest shareholder is the state.
- Messages and images can be sent via fax.
- Internet and email usage is now common place in South Africa.
- We have substantial print media in South Africa.
- The South African Broadcasting Corporation (SABC) is an independent public broadcaster with many radio and news stations.
- The SABC's television network offers several different channels and is complimented by several private subscription services.

### 4.2 Transport

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Good transport infrastructure is important as it helps the right people receive the right goods at the correct time. A good transport network is important to the economy because:

- it contributes to GDP
- goods produced in one area can be sold all over the country
- helps grow tourism
- provides employment
- goods can be exported

- you can be part of the globalised world if you can move goods business people anywhere.

Our rail network in South Africa is controlled by Spoornet.

Our airports are owned and run by Airports Company South Africa and state owned South African Airways provides local and international flights.

Our commercial harbours are controlled by Transnet National Ports Authority.

Transnet Pipelines operate numerous pipelines supplying liquid gas.

### 4.3 Energy

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A regular source of energy is important to any economy. In South Africa, our main sources are electricity, liquid fuels and gas. A reliable source of energy stimulates economic growth. Since 2008, South Africa has experienced an energy crisis. The reasons for this are:

- Eskom has not invested enough in new power sources to keep up with demand
- renewable energy sources such as solar power have not been emphasised
- state has not allowed private companies to compete
- the price of electricity has been too low to generate the capital needed for expansion.

### 4.4 Exclusion

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Before 1994, black people in South Africa were disadvantaged when it came to infrastructural services. There have been many great strides in rectifying this, however many black households still do not have access to electricity. The use of landline telephones is still low, however there has been a substantial increase in the use of cell phones. The use of internet and email facilities is still very low in previously disadvantaged areas.



## Questions

- 1 Explain what is meant by the *primary sector*. (4)
  - 2 Name five reasons why the primary sector is important to South Africa. (10)
  - 3 Provide one example of how the South African government is trying to redress discrimination in the primary sector. (2)
  - 4 Explain what is meant by the term the *secondary sector*. (4)
  - 5 Give four reasons why the secondary industry is important to the economy. (8)
  - 6 Explain what is meant by the term *tertiary sector*. (10)
  - 7 Give two methods being used to reduce discrimination in employment. (8)
- [46]

## Answers

- 1 The primary sector consists of industries based on raw materials. √√ Examples include foodstuffs and raw materials produced from farming, fishing or mining. √√ (4)
- 2 provides raw materials, √√ stimulates economic growth, √√ increases state income, √√ earns foreign exchange, √√ contributes to the GDP, √√ provides employments and training, √√ produces food, √√ provides power √√ (10)
- 3 The Land Redistribution Programme started in 1995. √√ (2)
- 4 The secondary sector involves the manufacturing of products from different raw resources. √√ An example would be the construction of a car or a building. √√ (4)
- 5 It produces consumer goods, √√ helps increase self-sufficiency, √√ creates employment and provides skills training, √√ contributes to the GDP, √√ generates foreign exchange, √√ and promotes economic growth. √√ (8)
- 6 The tertiary sector is the biggest economic sector of all developed countries. √√ This is because in more advanced economies:
  - goods and services are sold in formal markets √√
  - the financial services sector is used by all √√
  - communication methods are more advanced √√
  - consumers use professional services. √√ (10)
- 7 After 1994, laws have been passed to change this. √√ Both the Black Economic Empowerment Act and the Employment Equity Act √√√√ try to ensure that black people are employed at all levels of management. √√ (8)

[46]

# TERM 2

## Overview

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TERM 2			
TOPIC 5	TOPIC 6	TOPIC 7	TOPIC 8
Page 42	Page 55	Page 66	Page 77
Dynamics of markets: price elasticity	Dynamics of markets: relationship between markets	Dynamics of markets: effects of cost and revenue	Economic growth and development: economic growth

# Dynamics of markets: price elasticity

## Overview

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Topic 5 discusses the effects of changes of price on supply and demand.

In economics, price elasticity is a measure of the sensitivity or responsiveness between two related variables. For example, if the price of a good increase, what will happen to the demand for the good? Elasticity provides a measure of how strong the responsiveness is. We can examine **elasticity of demand**, **elasticity of supply** and **cross elasticity of demand**.

Topic 5				
DYNAMICS OF MARKETS: PRICE ELASTICITY				
Page 43	Page 45	Page 47	Page 48	Page 49
1 Marginal utility	2 Price elasticity of demand	3 Price elasticity of supply	4 Income elasticity of demand	5 Cross elasticity of demand

## 1 Marginal utility

Goods or services that satisfy consumers are said to possess utility. Utility is very closely linked to demand because consumers purchase goods and services that satisfy their needs. There are three different concepts that we use in association with the term utility: total utility, marginal utility and diminishing marginal utility.

- 1 **Total utility** is the total of all the satisfaction that is gained by consuming a certain quantity of goods or services.
- 2 **Marginal utility** is the extra satisfaction gained by consuming or owning another identical item.
- 3 **Diminishing marginal utility** is an important characteristic of utility. Consumers receive less satisfaction from a good or service as the quantity consumed increases.

Chocolate bars eaten	Marginal utility	Total utility
1	30	30
2	40	70
3	15	85
4	5	90

### 1.1 Patterns of consumption

Consumers buying patterns are influenced by:

- the marginal utility of items for the consumer
- the price of the goods or services.

For example, if two items have the same price then the consumer will purchase the one that gives them the most marginal utility.

A consumer will maximise utility by allocating their income until the marginal utility of each product is the same.

$$\frac{\text{marginal utility of A}}{\text{price of A}} = \frac{\text{marginal utility of B}}{\text{price of B}}$$

## 1.2 Consumer equilibrium

---

Consumer equilibrium is achieved when total utility is at its greatest. This means that money spent on one product gives the same marginal utility as money spent on any other product. Because income is shared between the purchase of different products, utility cannot be increased as you have achieved maximum utility. Furthermore, changes in buying patterns will only happen if a factor such as price changes.

## 2 Price elasticity of demand

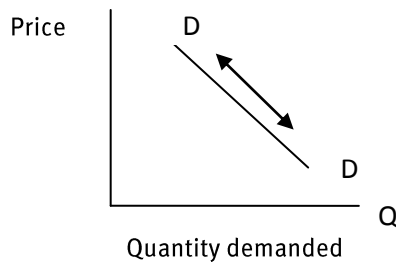


FIGURE 5.1 Graph showing the price elasticity of demand

The graph above shows that the law of demand is downward sloping because:

- as the product's price changes so does the maximum satisfaction a consumer can get
- an increase in price causes a decrease in quantity demanded because the marginal utility is reduced
- if the price drops the marginal utility will be increased and the quantity demanded increases.

A big change in demand means that consumers will purchase a lot more if the price drops and a lot less if the price rises. A small change in demand means that consumers will purchase a little more if the price drops and only a little less if the price rises.

### 2.1 Measuring price elasticity of demand

Price elasticity is measured in percentages and not measured in absolute terms such as kilograms or rands.

The formula for calculating price elasticity of demand is:

$$E_p = \frac{\text{change in the quantity demanded}}{\% \text{ change in price}}$$

#### Example:

When an increase of 10% in the price of a burger – from R20 to R22 – causes a decline of 20% in the quantity demanded – from 1000 burgers to 800 burgers – the price elasticity is:

$$\begin{aligned}
 E_p &= \frac{-20\%}{10\%} \\
 &= \frac{-20}{10} \\
 &= -2
 \end{aligned}$$

The result is negative because a rise in price has caused a decline in quantity demanded.

There are two types of price elasticity of demand:

- price elastic demand
- price inelastic demand.

## 2.2 Factors that determine price elasticity of demand

- **Substitutes.** If there are similar substitute products then the product will have a very price elastic demand, as consumers will change to another cheaper substitute product. If there are no substitutes then demand will be price inelastic.
- **Proportion of income spent on a product.** A product that makes up a small percentage of someone's income will have a price inelastic demand whereas a product that makes up a large percentage of someone's income will have a price elastic demand.
- **Durability.** The longer a product lasts the more responsive the change in quantity demanded is likely to be to a change in price.
- **Time period.** The greater the length of time involved the more price elastic the demand is.
- **Brand loyalty.** Consumers who are loyal to a brand will continue to purchase it even if the price rises.
- **Habit-forming goods.** Goods like coffee and cigarettes are price inelastic as people still buy them even when their price goes up.



### 3 Price elasticity of supply

Price elasticity of supply is a measure used to show the responsiveness, or elasticity, of the quantity supplied of a good or service to a change in its price.

As with price elasticity of demand, price elasticity of supply is measured in percentages.

The formula for calculating it is as follows:

$$\text{Price elasticity of supply} = \frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$$

There are two types of price elasticity of supply:

- price elastic supply
- price inelastic supply.

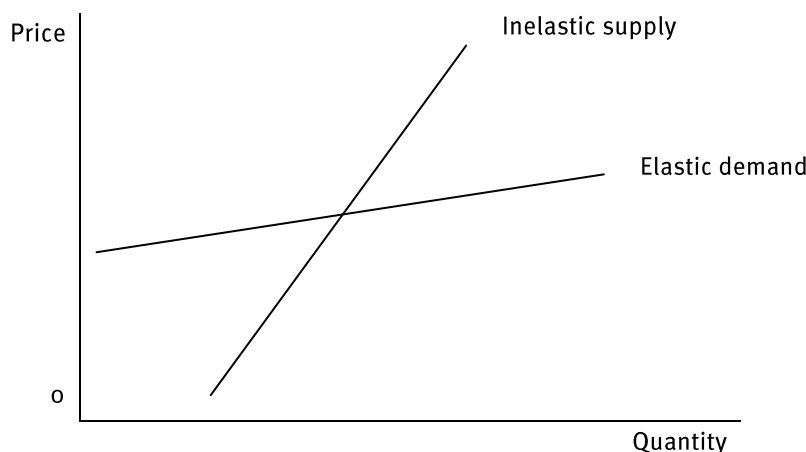


FIGURE 5.2 Graph showing price elasticity of supply

#### 3.1 Factors that determine price elasticity of supply

- **Spare capacity.** If a business has the spare capacity to quickly increase production without an increase in costs, then supply will be elastic.
- **Stock levels.** High stock levels allow a business to respond to a change in demand quickly, and supply will be elastic.
- **Ease of factor substitution.** If capital and labour resources can be adapted quickly to meet challenges, then the elasticity of supply will be higher.
- **Time period.** Supply is more likely to be elastic, the longer the time period a business has to adjust its production.

## 4 Income elasticity of demand (Yed)

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A measure of the relationship between a change in income and a change in quantity of a good demanded:

$$= \frac{\% \text{ change in quantity demanded}}{\% \text{ change in consumer income}}$$

The degree to which a demand for a good changes with respect to a change in income depends on whether the good is a necessity or a luxury. The demand for necessities will increase as income increases, but at a slower rate. This is because consumers, instead of buying more of only the necessity, will want to use their increased income to buy more of a luxury. During a period of increasing income, demand for luxury products tends to increase at a higher rate than the demand for necessities.

Income elasticity of demand is important because it shows us how consumers perceive a product.

Goods that are considered necessities by households tend to be more price inelastic (i.e. they have a low elasticity). The quantity demanded is unlikely to change for a given change in the price. Examples of necessities are electricity, petrol, bread, milk and medical care.

### Necessities

If income elasticity is less than 1, the good in question is a necessity. This means that the percentage change in income is greater than the percentage change in quantity demanded.

### Luxury goods

The income elasticity for biltong is estimated at 1,36, which indicates that the percentage change in income is less than the percentage change in quantity demanded. Biltong is a luxury good.

### Inferior goods

There are some goods and services that might decrease in demand when the income of households rises.

These goods are known as inferior goods and their income elasticity is negative. An example is candles, which have an income elasticity of -0,20 for poor households, which indicates that, as the income of poor households increases by 10%, their demand for candles decreases by two per cent.

## 5 Cross price elasticity of demand (Xed)

---

Cross price elasticity of demand measures the responsiveness of the demand for a good to a change in the price of another good. It is measured as the percentage change in demand for the first good that occurs in response to a percentage change in price of the second good.

For example, if, in response to a 10% increase in the price of fuel, the demand of new cars that are fuel inefficient decreased by 20%, the cross elasticity of demand would be:

$$\frac{-20\%}{10\%} = -2$$

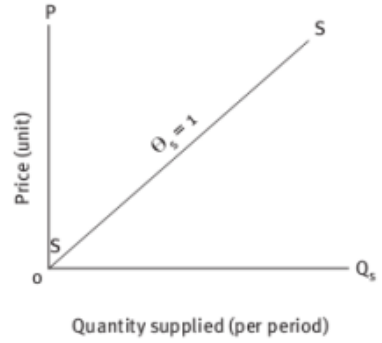
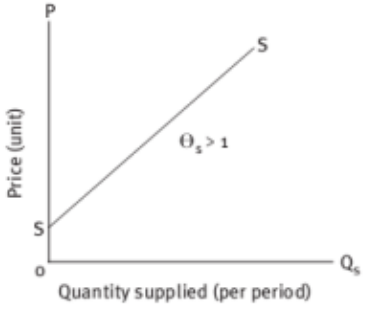
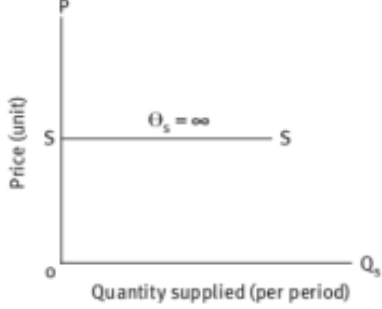
A negative cross elasticity denotes two products that are complements, while a positive cross elasticity denotes two substitute products. These two key relationships go against one's intuition, but the reason behind them is fairly simple: assume products A and B are *complements*, meaning that an increase in the demand for A is caused by an increase in the quantity demanded for B. Therefore, if the price of product B decreases, then the demand curve for product A shifts to the right, increasing A's demand, resulting in a *negative* value for the cross elasticity of demand. The exact opposite reasoning holds for substitutes.

$$\text{Cross price elasticity of demand} = \frac{\% \text{ change in quantity of good A}}{\% \text{ change in quantity of good B}}$$

Type	Explanation	Example	Curve and value
Perfectly price inelastic demand	As the price rises the consumers just have to pay more. Consumers are not sensitive to price changes and there is virtually no reaction to small increases in price.	Theoretical concept, but could be applied to: <ul style="list-style-type: none"> <li>petrol – people continue to buy as much as before even if there is no increase in price as there is no absolute for petrol.</li> </ul>	<p>Price (per unit)</p> <p>Quantity demanded (per period)</p> <p><math>\Theta_p = 0</math></p>
Price inelastic demand	Consumers only react slightly so there is a small change in demand for a large change in price. The quantity demanded changes by a smaller percentage than the change in price. For example, a 15% increase in price will only result in a 10% drop in the quantity demanded.	Examples are cigarettes and alcohol as these are habit-forming and users are only very slightly sensitive to changes in price.	<p>Price (per unit)</p> <p>Quantity demanded (per period)</p> <p><math>\Theta_p &lt; 1</math></p>
Unitary elastic demand	The change in price is exactly the same percentage as the change in the quantity demanded. So a 5% rise in price results in a 5% drop in the quantity demanded.	An example of this is toothpaste where there are lots of substitute products but consumers do have their favourite brands.	<p>Price (per unit)</p> <p>Quantity demanded (per period)</p> <p><math>\Theta_p = 1</math></p>

Type	Explanation	Example	Curve and value
Price elastic demand	The consumers are very sensitive to a change in the price and there is a large reaction. The change in the quantity demanded is greater than the change in the price. A drop in the price will usually result in a large increase in the quantity demanded.	Examples are goods such as jewellery and other luxury goods.	
Perfectly price elastic demand	The price stays the same but the quantity demanded varies an infinite amount.	This is a theoretical concept.	

Type	Explanation	Example	Curve and value
Perfectly price inelastic supply	No matter what happens to the price, the supply remains the same.	Even if fans are prepared to pay much more for tickets to a rock concert, the number of seats cannot be increased.	
Price inelastic supply	A large change in the price results in a much smaller change in the quantity supplied.	This could happen in the short term in the fruit industry as it is not possible to increase production immediately.	

Type	Explanation	Example	Curve and value
Unitary price elasticity	The change in quantity supplied is exactly the same as the change in price.	The demand for fresh orange juice would change if the price went down but by the same amount.	
Price elastic supply	The change in quantity supplied is greater than the change in price.	When the price of beef decreases, the quantity supplied increases by a larger percentage, so beef supply is very price sensitive.	
Perfectly price elastic supply	The quantity supplied stays the same no matter how the price changes.	The price of Van Gogh paintings is in millions of dollars but there can be no change in the supply.	

## Questions

- 1 Explain the term *utility*. (2)
- 2 Explain the three concepts associated with utility. (6)
- 3 Give two factors that influence consumers buying patterns. (4)
- 4 Explain the term *consumer equilibrium*. (4)
- 5 Explain why the law of demand is downward-sloping in relation to price. (6)
- 6 Gina loves chocolates. If the price of chocolates increases by 10%, she will still buy the same amount of chocolates. Gina's demand for chocolates is:
  - a elastic
  - b inelastic
  - c perfectly inelastic
  - d perfectly elastic
  - e unitary elastic. (2)
- 7 Explain the impact of the following factors on the price elasticity of demand:
  - a availability of substitutes
  - b degree of necessity or luxury
  - c proportion of income spent on the product
  - d time period under consideration. (8)

[32]

## Answers

- 1 Utility is the satisfaction that is gained by consuming a certain quantity of goods or services. √√ (2)
  - 2 Total utility is all the satisfaction that is gained by consuming a certain quantity of goods or services. √√ Marginal utility is the extra satisfaction gained by consuming or owning another identical item. √√ Diminishing marginal utility is one of the defining characteristics of utility. Consumers receive less satisfaction from a good or service as the quantity consumed increases. √√ (6)
  - 3 Durability of products, substitutes, etc. √√√√ (4)
  - 4 Consumer equilibrium is achieved when total utility is at its greatest. √√ This means that money spent on one product gives the same marginal utility as money spent on any other product. √√ (4)
  - 5 As the product's price changes, so does the maximum satisfaction a consumer can get. √√ If the price rises, the marginal utility will be reduced. √√ If the price drops, the marginal utility will be increased. √√ (6)
  - 6 C √√ (2)
  - 7 **Substitutes.** If there are similar substitute products then the product will have a very price elastic demand, as consumers will change to another cheaper substitute product. If there are no substitutes, then demand will be price inelastic. √√  
**Degree of luxury.** If the price of a luxury good increases, people will buy less; it is income elastic. √√  
**Proportion of income spent on the good.** The greater the proportion of income spent on a good the more elastic the demand will be. √√  
**Time period.** The greater the length of time involved the more price elastic the demand is. √√ (8)
- [32]



# Dynamics of markets: relationship between markets

## Overview

This topic deals with the relationships between the different markets and how they interact and affect each other.

Topic 6				
DYNAMICS OF MARKETS: RELATIONSHIP BETWEEN MARKETS				
Page 56	Page 57	Page 59	Page 60	Page 63
1 Relative prices	2 Demand and supply relationships	3 The relationship between goods and factor markets	4 Market structures	5 Classification of models

## 1 Relative prices

---

A **market** is any place where the sellers of a particular good or service can meet with the buyers of that good or service where there is a potential for a transaction to take place. The buyers must have something they can offer in exchange for there to be a potential transaction.

**Goods markets** are places, such as shops, where final goods are exchanged between producers and consumers.

**Factor markets** are markets in which the factors of production are sold to the producers in the enterprise.

The term **relative price** is used to show how the price of a good or service is relative to the price of another good or service. For example, if the price of an ice cream is R4 and the price of a cool drink is R8 then the ratio is  $\frac{R8}{R4}$  or two ice creams to one cool drink.

It is important to remember that the prices charged for goods and services change. Prices are influenced by the laws of supply and demand.

**The law of supply** – when prices increase the quantity supplied rises and when the prices drop the supply drops.

**The law of demand** – when prices increase the quantity demanded drops and when the prices drop the demand rises.

## 2 Demand and supply relationships

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### 2.1 Demand relationships

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Factors that influence demand:

- consumers expect prices to rise
- size of the market
- tastes and habits of consumers
- prices of complementary products
- prices of substitute products
- consumers income
- the price of the goods.

There is an inverse relationship between demand and price because when the price of a good rises the demand drops. This is shown in the graph below.

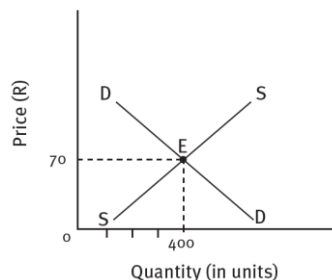


FIGURE 6.1 Relationship between demand and supply

#### 2.1.1 Substitutes

These are products that can replace the original good or that can be used in place of the original good. For example, if the price of sunflower oil increases then demand for canola oil, the cheaper substitute good, will increase.

#### 2.1.2 Complements

These are two or more products that can be used together or are connected in some way. A change in price or demand for one good will lead to a change in demand for complementary goods. There is a negative relationship between the price of a product and the demand for its complementary products. As the price of cell phones decreases, the demand for and price of hands free sets will increase.

## 2.2 Supply relationships

There is a positive relationship between the amount produced or supplied and the price. As the price increases, so does the supply. (See Figure 6.2.)

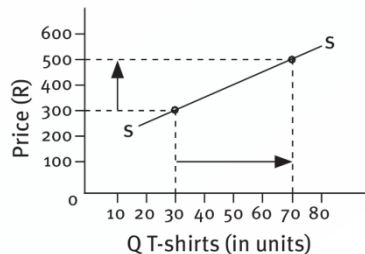


FIGURE 6.2 The market supply curve for T-shirts

Factors that cause supply to change:

- change in price
- size of the industry
- cost of production
- new technology
- weather conditions.

As with demand relationships, there are two types of supply relationships.

### 2.2.1 Substitutes

Producers will manufacture the product they can sell at the highest price to achieve the highest profit. They have to consider the prices of other products they produce because an increase in the production of one product will lead to a decrease in the production of others.

### 2.2.2 Complements

Some products are produced together and an increase in the production of one product will therefore lead to an increase in the production of the others.

### 3 The relationship between goods and factor markets

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The goods and factor markets are closely connected, and a change in one will affect the other. For example, a shortage of computer technicians on the factor markets will lead to less computers being produced on the goods markets. As a result, the supply curve shifts. An increase in the demand for a product means that producers can increase the supply, and this in turn leads to increased demand for factors of production.

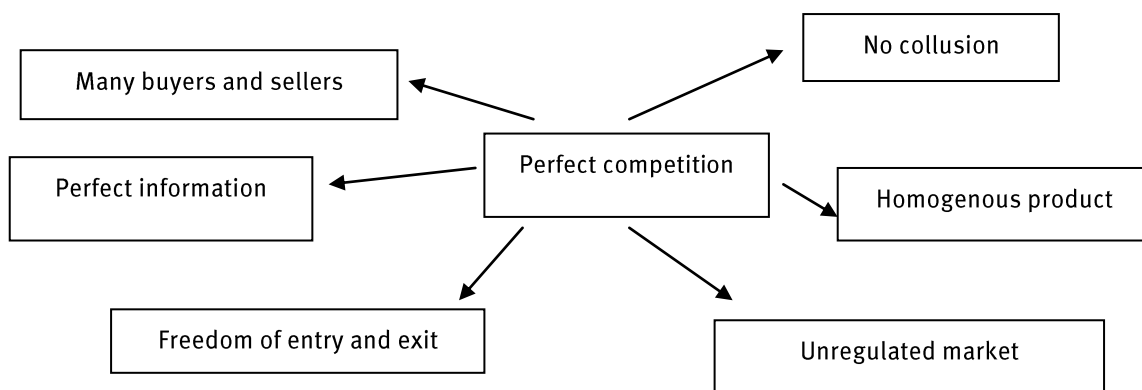
## 4 Market structures

Markets can be divided into perfect markets and imperfect markets.

### 4.1 Perfect markets

This type of market only exists in theory and is a market in which many different large businesses all produce identical goods and the only thing that sets one apart from the others is the price. These businesses are called price takers as they have to accept the market price, which is set by the laws of supply and demand. The market price, **equilibrium point**, is the point where demand and supply meet, demand and supply are equal, and there is no shortage or surplus. The conditions under which a perfect market can exist do not exist in the real world. Those conditions are:

- products are identical
- there are many buyers and sellers
- there is no collusion between buyers and sellers
- complete knowledge of the market
- open and free access to the market
- no government intervention
- all producers have the same transport costs
- all producers use the same technology.



## 4.2 Imperfect markets

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This is a market in which a producer or a group of producers can influence the price by changing the quantity supplied. Almost all markets are imperfect. Imperfect markets have the following characteristics:

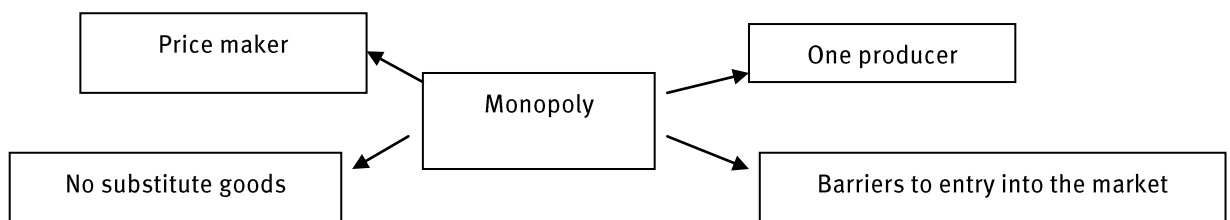
- products are not identical
- less competition – one or a few sellers control the supply and price
- some producers collude to set prices
- incomplete knowledge of market conditions
- many barriers to new firms entering the market
- state intervention in the form of subsidies
- transport costs vary
- unequal access to technology.

There are four main reasons why markets are not perfect, and usually they aren't perfect because only one or a few suppliers have:

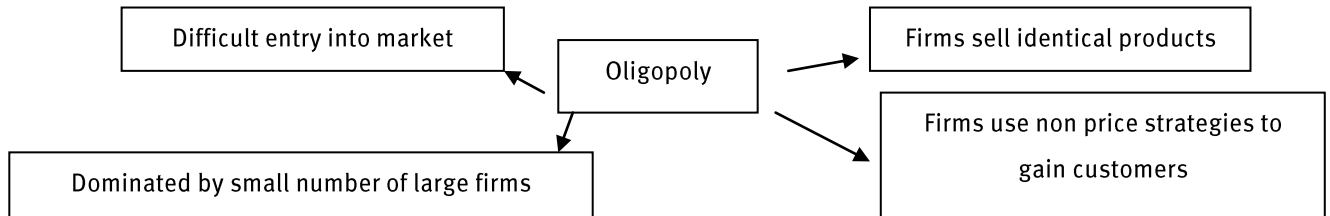
- the capital needed to set up production
- own all the sources of a raw material
- own the patent or copyright to use a certain process
- have the technology that is needed.

There are three types of imperfect markets.

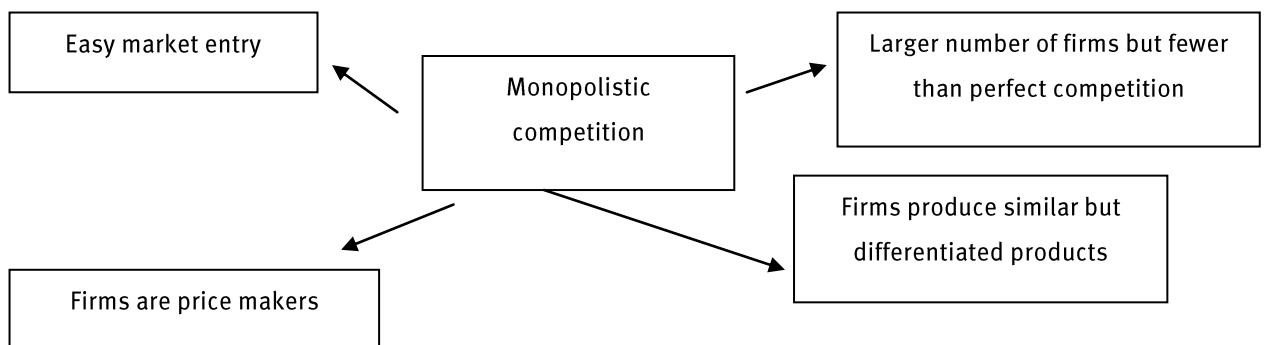
- 1 A **monopoly** is the most imperfect of all markets. One producer controls the price and quantity for sale and there are no substitute goods or services available.



- 2 An **oligopoly** occurs when there is either a small number of businesses that control all or a large majority of a group of producers who make similar products. Each producer produces enough of the total output to be able to influence the price and quantity supplied. In South Africa, we have the Competition Board to ensure fair competition between businesses.



- 3 A **monopolistic competition** occurs when several or many sellers each produce similar goods or services which only differ slightly. Each producer sets its own price and quantity without affecting the marketplace as a whole.





## 5 Classification of models

TABLE 6.1 Classification of models

Structure	Number of firms	Characteristics of models	Market power	Entry and exit
Perfect competition	Many	Homogenous product	Price taker	Free
Monopoly	One	Unique product	Price maker	Blocked
Monopolistic competition	Many firms but less than perfect competition	Heterogeneous product	Price maker	Free
Oligopoly	Few firms	Heterogeneous product	Price maker	Restricted

## Questions

- 1 Explain what we mean by the term *relative prices*. (2)
- 2 Explain why relative prices are important. (4)
- 3 Explain the terms *complementary products and substitutes*. (8)
- 4 Explain the type of relationship that exists between the price of a product and the demand for its complementary product. (2)
- 5 Explain the relationship between supply and price. (4)
- 6 Explain the relationship between the goods and factor markets. (4)
- 7 List the factors that influence supply. (10)
- 8 List eight characteristics of a perfect market. (16)
- 9 Define *monopolistic competition*. (4)
- 10 Explain what an *imperfect market* is. (4)

[58]

## Answers

- 1 The term relative price is used to show how the price of a good or service is relative to the price of another good or service. For example, a Golf motor car may be relatively cheaper than a Mercedes. √√ (2)
  - 2 A change in relative price causes a change in demand. √√ For example, if the price of meat goes up but your salary doesn't increase, you will buy less meat. √√ (2 x 2) (4)
  - 3 **Substitutes.** These are products that can replace the original good or that can be used in place of the original good. √√ If the price of a good increases, then demand for the cheaper substitute good will increase. √√  
**Complements.** These are two or more products that can be used together or are connected in some way. √√ A change in price or demand for one good will lead to a change in demand for complementary goods. √√ (4 x 2) (8)
  - 4 There is a negative relationship between the price of a product and the demand for its complementary products. √√ (2)
  - 5 This is a positive relationship. √√ If the price of a product or service increases then suppliers will increase their output. √√ (2 x 2) (4)
  - 6 Goods and factor markets are closely linked. A change in one will affect the other. √√ For example, a shortage of computer technicians on the factor markets will lead to less computers being produced on the goods markets. √√ (2 x 2) (4)
  - 7 size of the industry, √√ change in price, √√ cost of production, √√ new technology, √√ weather conditions √√ (5 x 2) (10)
  - 8 products are homogeneous, √√ consists of many buyers and sellers, √√ no collusion between buyers and sellers, √√ complete knowledge of the market, √√ free access to the market, √√ no government intervention, √√ all producers have the same transport costs, √√ efficient technology √√ (8 x 2) (16)
  - 9 A monopolistic competition occurs when several or many sellers each produce similar goods or services which are only slightly different. √√ Each producer sets its own price and quantity without affecting the marketplace as a whole. √√ (2 x 2) (4)
  - 10 This is a market in which a producer or a group of producers can influence the price by changing the quantity supplied. √√ Almost all markets are imperfect. √√ (2 x 2) (4)
- [58]

# Dynamics of markets: effects of cost and revenue

## Overview

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This topic deals with the impact of production costs on the profit of the firm.

Topic 7			
DYNAMICS OF MARKETS: EFFECTS OF COST AND REVENUE			
Page 67	Page 68	Page 72	Page 74
1	2	3	4
Objectives of businesses	Short run costs	Long run costs	Revenue calculations

## 1 Objectives of business

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The main objective of a business is **profit maximisation** (to make as much profit as possible). Profit can be:

- the difference between the cost of production and its selling price
- the amount left over after all the production costs have been paid
- any additional income received by entrepreneurs.

**Opportunity cost** is the value of the next best alternative that is sacrificed so that something else can be achieved. As a consumer we all know that goods, services and money are scarce and we have to make choices as to what we do and don't buy with our money.

There are three ways in which profit can be expressed.

- 1 **Accounting profit.** Businesses incur explicit and implicit costs.
  - Explicit costs are expenses easily accounted for such as wages, rent, etc.
  - Implicit costs are intangible costs such as time and effort that goes into running a business.

The accounting profit only takes into account the explicit costs of running a business. The accounting profit is the amount left over after all these costs have been paid. This method creates the wrong impression as the **implicit costs** have been omitted.

- 2 **Economic profit (or loss)** is the difference between the revenue received from the sale of an output and the opportunity cost of the inputs used plus the explicit costs. It shows how well resources are being utilised relative to other options showing that the business is earning more than it could in another way.

The opportunity costs of using the resources for another purpose are deducted from revenues earned. This means that it is possible to have an accounting profit with little or no economic profit.

- 3 **Normal profit.** This is the minimum level of profit needed for a business to remain competitive in the market. This occurs when its resources are being efficiently used and could not be better used. It is different from accounting profit because opportunity cost is considered.

## 2 Short run costs

The short run is the period of time during which at least one of the costs in the production process is a fixed factor and the output can only be changed by using more or less of a variable factor. For example, the size of a factory building is fixed in the short run until it can be enlarged or a new building found. The amount of labour used and electricity are examples of variable inputs.

**Variable costs** are costs that vary directly with output.

**Average variable cost (AVC) = total variable costs (TVC) divided by output (Q)**

**Fixed costs** are costs that do not change when there are changes in production levels.

Average fixed costs fall as output increases because the total fixed costs are spread over a higher level of production.

**Average fixed costs (AFC) = total fixed costs (TC) divided by output (Q)**

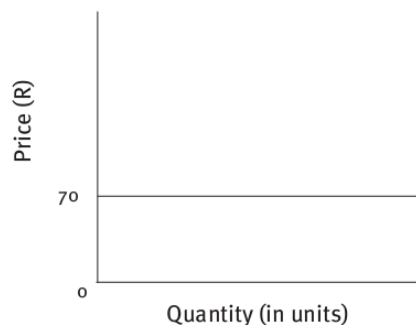


FIGURE 7.1 Fixed cost curve

**Marginal costs** are the additional costs of producing more than one item and the amount by which the total costs increase when that extra item is made. The marginal cost of production falls as output rises.

**Total costs** are the sum of all variable and fixed costs in production.

**Total cost (TC) = fixed costs (FC) plus variable costs (VC)**

**Average total cost (ATC) = total cost (TC) divided by output (Q)**

TABLE 7.1 Example of total costs of production for FG Fruit canners

Quantity of fruit cans in 1000s	Labour units	Fixed cost ( R)	Variable cost ( R)	Total cost
0	0	50 000	0	50 000
1	5	50 000	5 000	55 000
2	10	50 000	10 000	60 000
3	15	50 000	15 000	65 000
4	20	50 000	20 000	70 000
5	25	50 000	25 000	75 000
6	30	50 000	30 000	80 000

The **law of diminishing returns** states that as more of a variable input is used, whilst all the other inputs are kept the same, each additional unit of the variable input will eventually produce less and less output. **Marginal product** is the amount of extra output produced as the variable input increases.

In the table below, additional labour is used to produce more shoes in a shoe factory. Initially shoe production increases significantly but after the third extra worker production slows down because there is not enough other equipment for them all to work efficiently. **Marginal product** at first increases then decreases.

TABLE 7.2 Production of shoes in a factory

Amount of units of labour	Total product	Marginal product
1	10 pairs	
2	20 pairs	10 pairs
3	32 pairs	12 pairs
4	40 pairs	8 pairs
5	44 pairs	4 pairs

## 2.1 Average fixed, average variable, marginal and average total costs

Average fixed costs is the fixed costs divided by the number of units.

$$\text{AFC} = \frac{\text{fixed costs}}{\text{number of units}}$$

Average variable costs is the variable cost divided by the number of units.

$$AVC = \frac{\text{variable cost}}{\text{number of units}}$$

Average total cost is the total cost divided by the number of units.

$$ATC = \frac{\text{total cost}}{\text{number of units}}$$

Marginal cost is the change in total cost resulting from one additional unit of output.

$$MC = \frac{\text{change in total cost}}{\text{change in units of output}}$$

## 2.2 Cost curves

A cost curve can be defined as a graphic illustration of the level of a specific cost compared to the level of output.

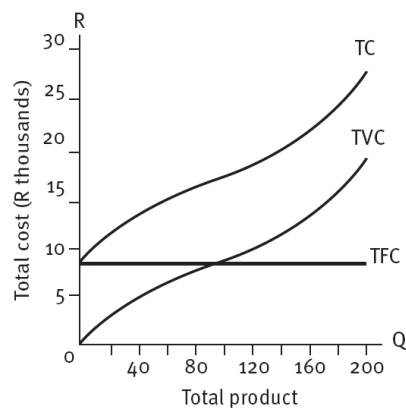
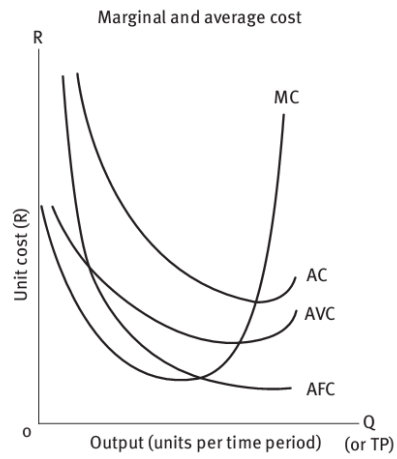


FIGURE 7.2 Cost curve

Marginal cost cuts through average total and average variable costs at their minimum values.





**FIGURE 7.3** Marginal cost curve

### 3 Long run costs

The **long run** is the period of time when all the inputs become variable as the business can:

- adapt its production methods
- expand its premises
- buy more capital equipment.

A long run cost curve is created by putting together all the short run cost curves over the time period.

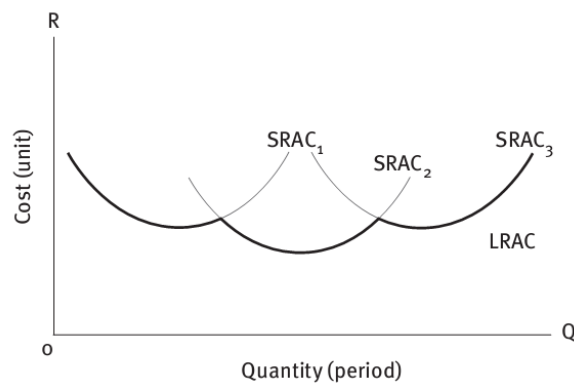


FIGURE 7.4 Long run cost curve

#### 3.1 Returns to scale

This term describes the relationship between outputs and the cost of inputs in the long run and changes in production that occur as the scale of production increases. There are four different types of returns to scale.

- 1 10% increase in inputs
- 2 Constant returns to scale are when the percentage increase in inputs is the same as the increase in outputs.

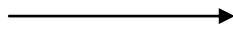
10% increase in inputs



10% increase in outputs

- 3 Increasing returns to scale are when the increase in inputs leads to a larger percentage increase in output.

10% increase in inputs



20% increase in outputs

- 4 Decreasing returns to scale are when the percentage increase in inputs results in a smaller percentage increase in output.

10% increase in inputs



5% increase in outputs

Economies of scale are:

- the cost advantages that a business can use by increasing their scale of production in the long run
- when there is an increasing return to scale as the cost of production drops in relation to the increase in output
- the advantages of large scale production that results in lower unit costs.

Factors that lead to economies of scale:

- the use of modern technology
- better production methods
- improved production organisation
- the use of bulk buying raw materials to lower costs.

### 3.1.1 Advantages to economies of scale

- More efficiency in production
- Average cost of production decreases
- Consumers gain as prices fall
- Greater competitive advantage over other suppliers
- Sales increase leading to higher profits

## 4 Revenue calculations

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### 4.1 Total revenue

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Total revenue is the total revenue the firm receives from sales of its products.

Total revenue (TR) = price (P) x quantity (Q)

### 4.2 Marginal revenue

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Marginal revenue is the additional revenue gained from selling one more unit of output.

Marginal revenue =  $\frac{\text{change in total revenue}}{\text{change in units sold}}$

### 4.3 Changes in revenue

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Changes in the price or the quantity of output sold affect the revenue of the firm.

### 4.4 Profits and losses

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Total profit is the difference between revenue and costs.

Total profit = total revenue (TR) – total costs (TC)

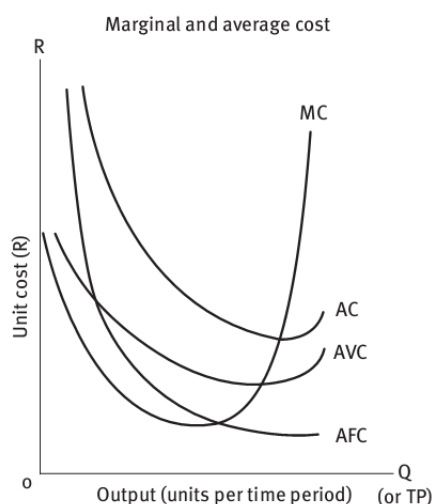
If the firms' revenue exceeds its costs it makes a profit, and if its costs exceed its revenue it makes a loss.

## Questions

- 1 Explain the term *opportunity cost*. (2)
  - 2 Give an example of how the term opportunity cost may affect you. (2)
  - 3 Define *accounting profit*. (4)
  - 4 Define *normal profit*. (4)
  - 5 Explain what we mean by the term *short run costs*. (4)
  - 6 Explain what we mean by the term *fixed costs*. (2)
  - 7 Complete the following statement:  
When the marginal product of labour increases, the marginal cost \_\_\_\_\_,  
and when the marginal product decreases, the marginal cost \_\_\_\_\_. (2)
  - 8 Use an average variable cost curve, an average total cost curve and a marginal cost curve to show how marginal cost cuts average variable cost and average total costs at their minimum values. (10)
- [30]

## Answers

- 1 This is the value of the next best alternative that is sacrificed so that something else can be achieved. √√ (2)
- 2 I have R100. I can buy a pair of jeans or a jersey but not both together. Therefore you have to make a choice. √√ (2)
- 3 Accounting profit. Businesses incur explicit and implicit costs. √√  
Explicit costs are expenses easily accounted for such as wages, rent, etc.  
Implicit costs are intangible costs such as time and effort that goes into running a business. √√ (4)
- 4 This is the minimum level of profit needed for a business to remain competitive in the market. This occurs when its resources are being efficiently used and could not be better used. √√ It is different to accounting profit because opportunity cost is considered. √√ (4)
- 5 Short run costs are costs that occur in a decision-making time period in which at least one variable cost is fixed. √√√√ (4)
- 6 Fixed costs are costs that do not change when there are changes in production levels. √√ (2)
- 7 When the marginal product of labour increases, the marginal cost decreases, and when the marginal product decreases, the marginal cost increases. √√ (2)
- 8 2 marks for each line, √√√√√√ 2 for correct intersections, √√ 2 for correct labelling √√ (10)



[30]

# Economic growth and development: economic growth

## Overview

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Topic 8 discusses the problems of uneven distribution of income and methods of creating economic growth.

Topic 8				
ECONOMIC GROWTH AND DEVELOPMENT; ECONOMIC GROWTH				
Page 78	Page 79	Page 81	Page 82	Page 84
1 Wealth creation process	2 Measuring the distribution of wealth	3 Reasons for an uneven distribution of wealth	4 Economic growth	5 Factors which determine the standard of living

## 1 Wealth creation process

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### 1.1 Definition

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The term **wealth** can be defined in many different ways. In economic terms we define it as being an abundance of valuable material possessions or resources; riches.

### 1.2 Characteristics

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- It can earn or generate an income.
- It can increase or decrease in value.
- Investments are included in the term wealth as they yield an income which we call interest.

### 1.3 Sources of wealth

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Savings are the most important source of wealth. Savings come from income and income that is not consumed is saved.

**Income (Y) = consumption expenditure (C) + savings (S)**

Other sources of wealth include:

- luck
- inheritance
- profits generated by the running of a business.



## 2 Measuring the distribution of wealth

Throughout the world wealth is unevenly distributed. In South Africa we have a very uneven distribution of wealth. There is a wide gap between the wealthiest and poorest households.

There are two different methods we can use to measure the distribution of wealth: the Lorenz curve and the Gini coefficient.

### 2.1 The Lorenz curve

The Lorenz curve shows how a nation's wealth is distributed across its population. It is a graphical representation of wealth distribution which was developed in 1905 by American economist Max Lorenz. On the graph, a straight diagonal line represents perfect equality of wealth distribution; the Lorenz curve lies beneath it, showing the reality of wealth distribution. The difference between the straight line and the curved line is the amount of inequality of wealth distribution, a figure described by the Gini coefficient. The more the Lorenz curve deviates from a straight line, the more uneven is the distribution of wealth.

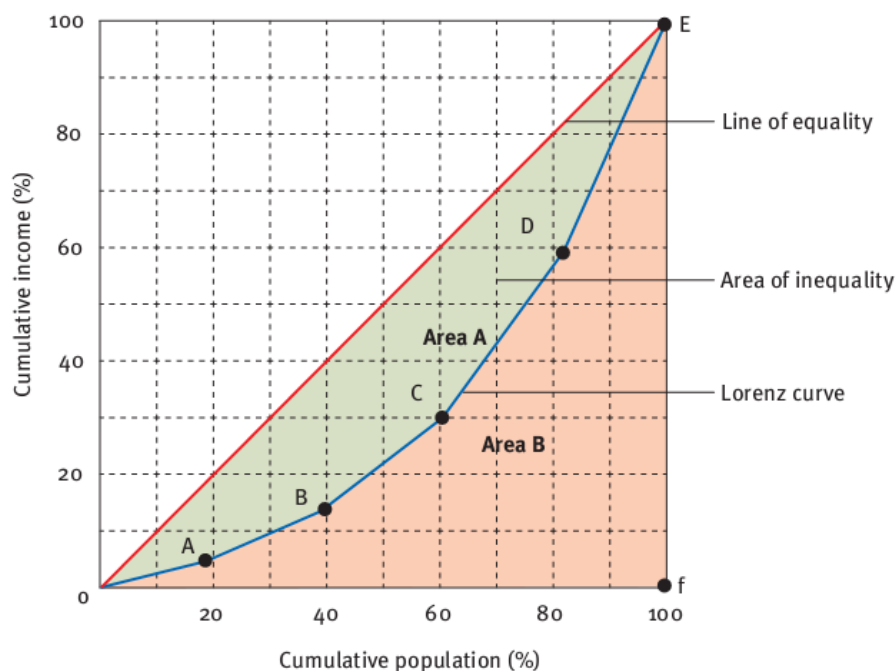


FIGURE 8.1 A Lorenz curve

## 2.2 The Gini coefficient

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The Gini coefficient is calculated mathematically based on the Lorenz curve. The Gini coefficient can range from 0 to 1; it is sometimes expressed as a percentage ranging between 0 and 100. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while a higher Gini coefficient indicate more unequal distribution, with 1 corresponding to complete inequality.

### 2.2.1 Advantages of the Gini coefficient as a measure of inequality

The Gini coefficient's main advantage is that it is a measure of inequality by means of a ratio analysis and it is easy to interpret. It avoids references to statistical averages or positions unrepresentative of most of the population, such as per capita income or gross domestic product. It allows for comparison of income distributions across different groups as well as countries, for example, the Gini coefficient for urban areas differs from that of rural areas in many countries (though not in the United States). Gini coefficients can be used to compare income distribution over time, thus it is possible to see if inequality is increasing or decreasing independent of absolute incomes. The Gini coefficient satisfies four principles suggested to be important:

- **Anonymity.** It does not matter who the high and low earners are.
- **Scale independence.** The Gini coefficient does not consider the size of the economy, the way it is measured, or whether it is a rich or poor country on average.
- **Population independence.** It does not matter how large the population of the country is.
- **Transfer principle.** If income (less than the difference) is transferred from a rich person to a poor person, the resulting distribution is more equal.

### 3 Reasons for an uneven distribution of wealth

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- Inheritance may give some people an advantage.
- Household size may determine the amount of money that can be saved.
- The economic system may give certain people an advantage.
- Different people have different skills and talents.
- Discrimination may prejudice certain people.
- A person's ill-health may cause disadvantage.

#### 3.1 Methods of wealth redistribution

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In South Africa, we use different methods to try to redistribute wealth:

- social grants
- free benefits
- job creation programmes
- minimum wages
- reducing discrimination through legislation such as the Employment Equity Act
- land restitution policy
- taxation.

## 4 Economic growth

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries.

The growth of an economy is thought of not only as an increase in productive capacity but also as an improvement in the quality of life of the people of that economy.

There are several factors that cause economic growth:

- capital investment
- increased labour productivity
- the discovery and exploitation of raw materials
- improvements in technology.

The image below shows South Africa's economic growth from 1994 to 2003 compared to that of several other countries.

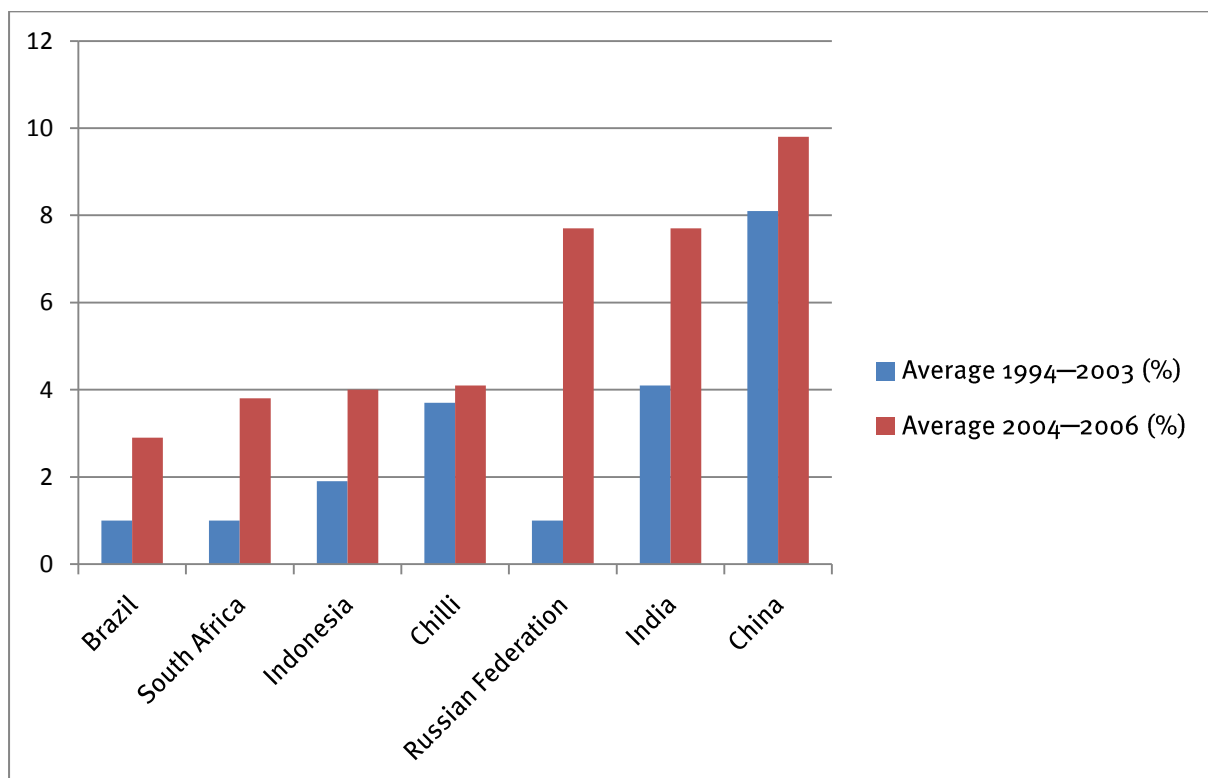


FIGURE 8.2 South Africa's economic growth rate (1994–2003)

## 4.1 Standard of living

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When we use the term **standard of living** we refer to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographical area. The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, hours of work required to purchase necessities, gross domestic product, inflation rate, number of vacation days per year, affordable (or free) access to quality healthcare, quality and availability of education, life expectancy, incidence of disease, cost of goods and services, infrastructure, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate and safety. The standard of living is closely related to quality of life.

## 4.2 Measuring the standard of living using the per capita income

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The **per capita income** GDP is a measure of the total output of a country that takes the gross domestic product (GDP) and divides it by the number of people in the country.

$$\text{Per capita GDP} = \frac{\text{GDP}}{\text{total population}}$$

The per capita GDP is especially useful when comparing one country to another because it shows the relative performance of the countries. A rise in per capita GDP signals growth in the economy and tends to translate as an increase in productivity.

### 4.2.1 Problems with the per capita GDP

- It is an average figure meaning that its accuracy depends on an equal distribution of income in a country.
- A money value has to be converted into a common money unit before it can be used for comparisons internationally.

## 4.3 Economic growth in South Africa

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South Africa has averaged economic growth of 2–3 % in most years recently, although the global economic recession has had an impact. South Africa has never achieved the very high rates of China which has experienced growth rates of over 10%.

## 5 Factors which determine the standard of living

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Factors which determine the standard of living include:

- economic growth
- population size
- level of employment
- type of government
- levels of security, crime and violence.

## Questions

- 1 Explain the term *wealth*. (4)
  - 2 Name four different ways wealth can be created. (8)
  - 3 Explain the Lorenz curve and the Gini coefficient. (8)
  - 4 Give seven different ways we can ensure a more even distribution of wealth in South Africa. (14)
  - 5 Explain the term *economic growth*. (4)
  - 6 List the factors that determine economic growth. (8)
  - 7 Explain the term *standard of living*. (6)
  - 8 Explain the term *per capita income*. (6)
- [58]

# Answers

- 1 In economic terms we can define it as being an abundance of valuable material possessions or resources; riches. √√ (4)
- 2 Savings are the most important source of wealth; √√ luck √√ inheritance, √√ profits generated by the running of a business √√ (8)
- 3 The Lorenz curve can be used to show what percentage of a nation's residents possess what percentage of that nation's wealth. √√ The difference between the straight line and the curved line is the amount of inequality of wealth distribution, a figure described by the Gini coefficient. √√ The more the Lorenz curve deviates from a straight line the more uneven is the distribution of wealth. The Gini coefficient can range from 0 to 1; it is sometimes expressed as a percentage ranging between 0 and 100. √√ A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to complete inequality. √√ (8)
- 4 social grants, √√ free benefits, √√ job creation programmes, √√ minimum wages, √√ reducing discrimination through legislation such as the Employment Equity Act, √√ land restitution policy, √√ taxation √√ (7 x 2) (14)
- 5 An increase in the capacity of an economy to produce goods and services, √√ compared from one period of time to another. √√ (4)
- 6 capital investment, √√ increased labour productivity, √√ the discovery and exploitation of raw materials, √√ improvements in technology √√ (4 x 2) (8)
- 7 Refers to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. √√ The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, hours of work required to purchase necessities, gross domestic product, inflation rate, number of vacation days per year, affordable (or free) access to quality healthcare, quality and availability of education, life expectancy, incidence of disease, cost of goods and services, infrastructure, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate and safety. √√ The standard of living is closely related to quality of life. √√ (3 x 2) (6)
- 8 The per capita income GDP is a measure of the total output of a country that takes the gross domestic product (GDP) and divides it by the number of people in the country. √√√√ The per capita GDP is especially useful when comparing one country to another because it shows the relative performance of the countries. √√ A rise in per capita GDP signals growth in the economy and tends to translate as an increase in productivity. √√ (3 x 2) (6)

[58]



# TERM 3

## Overview

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TERM 3			
TOPIC 9	TOPIC 10	TOPIC 11	TOPIC 12
Page 90	Page 103	Page 110	Page 122
Economic growth and development: economic development	Economic issues of the day: poverty	Money and banking	Economic growth and development: South Africa's economic importance in Africa

# Economic growth and development: economic development

## Overview

Topic 9 discusses the characteristics of developing countries and strategies for economic development.

Topic 9				
ECONOMIC GROWTH AND DEVELOPMENT: ECONOMIC DEVELOPMENT				
Page 91	Page 93	Page 95	Page 96	Page 99
1 Methods of development	2 Common characteristics of developing countries	3 Developing strategies	4 South Africa's endeavours	5 Indigenous knowledge systems (IKS)

## 1 Methods of development

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### 1.1 Definition of development

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Economic development can be defined as an increase in the standard of living for all the people in a country. This is not the same as economic growth which may give an unequal rise in the standard of living for people within a country.

**Developing countries** are countries where the average income is much lower than in industrialised countries. In many developing nations, rapid population growth threatens the supply of food. Developing nations are also called underdeveloped nations. Most of them are in Africa, Asia, and Latin America.

The criteria for evaluating the degree of development is to look at gross domestic product (GDP), the per capita income, level of industrialisation, amount of widespread infrastructure and general standard of living.

### 1.2 Strategies

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Economic growth can be encouraged by improving the quantity and quality of the factors of production that a country needs to produce more goods and services. These strategies include:

- 1 **Improving the quality and quantity of natural resources.** Where possible, the products of primary industry should be processed before being exported. This is a process called **benefication** which involves processing primary products so that they increase in value. This also ensures that additional jobs and training for workers are provided.
- 2 **Greater quality of trained labour.** The quality of the available labour can be improved by:
  - improving school education with an emphasis on mathematics and science
  - improving skills training with an emphasis on the use of technology in production
  - improving the health of the population
  - improving the workers motivation to work hard.

- 3 **More capital investment.** It is important that developing countries increase the level and quality of investment in new technology as this leads to economic growth, a more productive work force and better quality goods and services being produced. Capital investment can take two forms:
  - directly productive capital such as new machinery in factories
  - indirectly productive capital in infrastructure such as roads and bridges.
- 4 **Promoting entrepreneurship.** Entrepreneurship is important because it increases employment, improves the standard of living and provides a greater quantity and variety of goods and services. To improve the quantity and quality of its entrepreneurs, the government can provide training programmes and initiatives to encourage entrepreneurs and provide education and training for management.

## 2 Common characteristics of developing countries

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- They have a low standard of living which is characterised by:
  - low per capita income
  - a high level of poverty
  - low economic growth
  - an uneven distribution of income
  - a low life expectancy.
- High population growth rates and many dependants.
- Dependence on primary products such as agricultural produce.
- Low productivity because of:
  - primitive technology
  - poor organisation
  - limited capital and human inputs
  - low skill levels in workers.
- High unemployment.
- Inadequate infrastructure.

### 2.1 Measuring development using the Human Development Index

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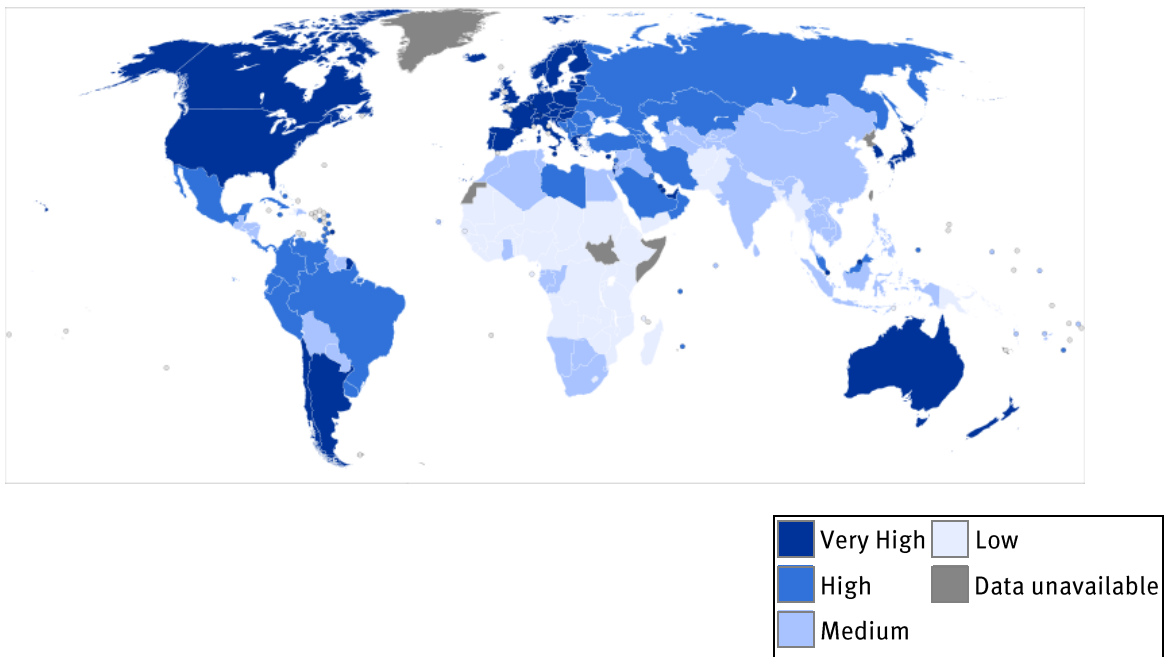
The **Human Development Index (HDI)** is a statistic used to rank different countries by level of "human development" and distinguish "very high human development", "high human development", "medium human development", and "low human development" countries. The HDI is a comparative measure of life expectancy, literacy, education, and standards of living for countries worldwide. It is a standard means of measuring well-being, especially child welfare. It is used to distinguish whether the country is a developed, a developing or an underdeveloped country, and also to measure the impact of economic policies on quality of life. HDI measures a country's population's ability to:

- live a long healthy life
- communicate with others
- participate in the economy
- earn sufficient income to live a decent life.

The three statistics used to compile the HDI are:

- life expectancy at birth (longevity)
- the education index (adult literacy and average years in schooling)
- GDP per capita.

The HDI ranks all the countries of the world on a scale of 0 to 1 where 0 ranks the lowest human development and 1 ranks the highest human development. For example, in 2010 Norway's HDI was 0,929 while South Africa's was 0,597.



**FIGURE 9.1** The United Nations Human Development Index (HDI) rankings for 2011

(Source: [http://en.wikipedia.org/wiki/File:2011\\_UN\\_Human\\_Development\\_Report\\_Quartiles.svg#filelinks](http://en.wikipedia.org/wiki/File:2011_UN_Human_Development_Report_Quartiles.svg#filelinks))

### 3 Developing strategies

---

A strategy is a plan designed to achieve a specific goal. There are five phases in the economic development of a country:

- 1 the traditional society
- 2 the transitional stage
- 3 the take-off stage
- 4 the drive to maturity
- 5 high mass consumption.

## 4 South Africa's endeavours

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The main challenges are:

- widespread poverty
- extreme inequality
- substandard quality of education for many poor black South Africans
- inadequate infrastructure in many areas
- corruption.

The UN Development Report classified South Africa as being in the medium development category and ranked 129<sup>th</sup> out of 182 countries. After 1994, the South African economy has been restructured and four macroeconomic policies have been introduced. These are:

- Growth, Employment and Redistribution Policy (GEAR)
- Reconstruction and Development Programme (RDP)
- Accelerated Shared Growth Initiative for South Africa (ASGISA)
- New Economic Growth Path.

### 4.1 Growth, Employment and Redistribution Policy (GEAR)

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GEAR is the macroeconomic reform programme of the South African government, intended to foster economic growth, create employment, and redistribute income and opportunities in favour of the poor. It does this by focusing on the following factors:

- stabilising the economy
- long term growth
- slowing down spending
- paying back international debts
- attracting foreign direct investment
- making the economy more export oriented.

### 4.2 Reconstruction and Development Programme (RDP)

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The RDP needed the economy to be restructured so that development could take place. GEAR was introduced so that this could be done in a sustainable way.



### 4.3 The Accelerated Shared Growth Initiative for South Africa (ASGISA)

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ASGISA was introduced in 2006. It focuses on:

- fixing some of the problems with GEAR as economic growth had not been as good as expected
- increasing growth to 6%
- boosting government investment in infrastructure.

### 4.4 Millennium Development Goals (MDG)

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The **Millennium Development Goals (MDGs)** are eight international development goals that all 193 United Nations member states and at least 23 international organisations have agreed to achieve by the year 2015. The goals are:

- eradicating extreme poverty
- achieving universal primary education
- promoting gender equality and empowering women
- reducing child mortality rates
- improving maternal health
- combating HIV and AIDS, malaria, and other diseases
- ensuring environmental sustainability
- developing a global partnership for development.

Each of the eight goals has specific stated targets and dates for achieving those targets. To accelerate progress, the G8 Finance Ministers agreed in June 2005 to provide enough funds to the World Bank, the International Monetary Fund (IMF), and the African Development Bank (ADB) to cancel an additional \$40–55 billion debt owed by members of the Heavily Indebted Poor Countries (HIPC). This will allow impoverished countries to re-channel the resources saved from the forgiven debt to social programmes for improving health and education and for alleviating poverty.

### 4.5 Role of the World Bank in development

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The **World Bank** is an international financial institution that provides loans to developing countries for capital programmes.

The World Bank's official goal is the reduction of poverty. According to the World Bank's Articles of Agreement, all of its decisions must be guided by a commitment to promoting foreign investment, international trade and facilitating capital investment. For the poorest developing countries in the world, the bank's assistance plans are based on poverty reduction strategies. The country's government identifies the country's priorities and targets for the reduction of poverty, and the World Bank aligns its aid efforts accordingly.

## 5 Indigenous knowledge systems (IKS)

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IKS is knowledge that is unique to any given culture or society. Indigenous knowledge systems are a key element in the development of poor communities and offer "culture-fit" problem-solving strategies for issues such as primary health care, preventive medicine and veterinary medicine.

Traditional herbs play an important role in informal medical systems in South Africa. Since 1994, the South African government has accepted that indigenous knowledge has value and must be investigated and preserved.

A network of regional and national indigenous knowledge resource centres has been set up to document the indigenous knowledge of ethnic groups around the world which is at risk of being lost.

Indigenous knowledge systems are constantly in a form of flux as new knowledge is added to existing sets of knowledge.

### 5.1 Characteristics of IKS

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- It is local – rooted in a particular community (culture) and situated within broader cultural traditions; it is a set of experiences generated by people living in those communities.
- It is culture specific.
- It is knowledge that is not easily codifiable.
- It is transmitted by word of mouth.
- It is experiential rather than theoretical knowledge.
- It is learned through repetition. Repetition aids in the retention, expansion, and reinforcement of IK.
- It is constantly changing – even though it is often perceived by external observers as being backward.

## Questions

- 1 Explain what a *developing country* is. (6)
  - 2 List the characteristics of a developing country. (10)
  - 3 Explain what the *Human Development Index* is. (4)
  - 4 Name four strategies we can use in South Africa. (8)
  - 5 List four policies South Africa uses to promote economic development. (8)
  - 6 Explain the difference between *economic growth* and *economic development*. (4)
  - 7 Discuss how improving the quality and quantity of the different factors of production may affect economic development. (16)
  - 8 List four characteristics of IKS. (8)
- [64]

## Answers

- 1 Developing countries are countries where the average income is much lower than in industrialised countries, √√ where the economy relies on a primary product exports, √√ and where farming is conducted by primitive methods. √√ In many developing nations, rapid population growth threatens the supply of food. Developing nations have also been called underdeveloped nations. √√ (3 x 2) (6)
- 2 They have a low standard of living which is characterized by: low per capita income, √√ a high level of poverty, √√ low economic growth, √√ an uneven distribution of income, √√ a low life expectancy, √√ high population growth rates and many dependants, √√ dependence on primary products such as agricultural produce, √√ low productivity, √√ high unemployment, √√ inadequate infrastructure. √√ (5 x 2) (10)
- 3 The Human Development Index (HDI) is a statistic used to rank different countries by level of "human development" and distinguish "very high human development", "high human development", "medium human development", and "low human development" countries. √√ The HDI is a comparative measure of life expectancy, literacy, education, and standards of living for countries worldwide. It is a standard means of measuring well-being, especially child welfare. √√ It is used to distinguish whether the country is a developed, a developing or an under-developed country, and also to measure the impact of economic policies on quality of life. √√ (2 x 2) (4)
- 4 Improving the quality and quantity of natural resources. √√ Where possible the products of primary industry should be processed before being exported. √√ This is a process called beneficiation which involves processing primary products so that they increase in value. √√ This also ensures that additional jobs and training for workers are provided. √√ (4 x 2) (8)
- 5 More capital investment. √√ It is important that developing countries increase the level and quality of investment in new technology √√ as this leads to economic growth, √√ a more productive work force √√ and better quality goods and services being produced. √√ (4 x 2) (8)
- 6 Economic development can be defined as an increase in the standard of living for all the people in a country. √√ This is not the same as economic growth which may give an unequal rise in the standard of living for people within a country. √√ (2 x 2) (4)
- 7 More capital in the form of investment and capital goods allows for the growth of secondary industries, √√√√ better quality labour through skills training and education allows for a more sophisticated economy, √√√√ better use of natural resources through beneficiation encourages the growth of secondary industries, √√√√ encouraging entrepreneurs creates more businesses and jobs. √√√√ (4 x 4) (16)

- 8 It is local and is culture specific. √√ It is knowledge that is not easily codifiable. √√ It is transmitted by word of mouth. √√ It is experiential rather than theoretical knowledge. √√ It is learned through repetition. √√ It is constantly changing. √√

(4 x 2) (8)

[64]

# Economic issues of the day: poverty

## Overview

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Topic 10 deals with the issue of poverty and efforts to eradicate it.

Topic 10	
ECONOMIC ISSUES OF THE DAY: POVERTY	
Page 104	Page 107
1 Poverty	2 The South African Government's measures to alleviate poverty

## 1 Poverty

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### 1.1 Definition of poverty

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The World Bank defines poverty as the inability of people to attain a minimum standard of living.

Three questions:

- 1 How do we measure the standard of living?
- 2 What is meant by a minimum standard of living?
- 3 How can we measure the extent of poverty?

#### 1.1.1 Absolute and relative poverty

**Absolute poverty** or **destitution** results from a low per capita income. Very unequal distribution of income refers to the one who lacks basic human needs, which commonly includes clean and fresh water, nutrition, health care, education, clothing and shelter. About 1,7 billion people are estimated to live in absolute poverty today. In South Africa, the poverty line was R1100 per household per month in 2003.

**Relative poverty** refers to a lack of a usual or socially acceptable level of resources or income as compared with others within a society or country. It means a person is considered poor compared to another person. For most of history, poverty had been mostly accepted as inevitable as traditional modes of production were insufficient to give an entire population a comfortable standard of living.

### 1.2 Measuring poverty

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- **Poverty line income.** This is the minimum income that is needed to cover people's basic needs. It is expressed as a certain amount of income per month or per day, is given as an amount per person or household and is based on whatever the current inflation rate is, meaning it has to be recalculated each year.  
When a person or household's income falls below the poverty line, we sometimes call this living below the bread line. Poverty line income is a very important statistic for two reasons:



- all other measures of poverty are based on this figure
- it influences the level and effectiveness of welfare grants.
- The **Headcount index** or **Rate of poverty**. The headcount index is the proportion or percentage of the population for whom consumption (or other measures of living standard) is less than the poverty line. The problem with this measurement is that it does not give you an indication as to how far below the poverty line these poor households are.
- **Poverty gap**. The average shortfall of the total population from the poverty line. This measurement is used to reflect the intensity of poverty.

### 1.3 Causes of poverty

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Poverty is caused by one or more of the following causes:

- lack of education and skills training
- lack of employment opportunities
- ill health and poor healthcare
- lack of access to resources
- corruption and a lack of good governance
- wars and civil unrest
- exploitation
- discrimination
- lack of access to land.

### 1.4 The effects of poverty

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Poverty is a big problem and can have the following effects:

- hunger
- increased crime rate and social unrest
- reduced demand for goods and services
- the state has to burden a high social welfare budget
- health problems
- lack of development
- rapid urbanisation caused by poor people moving to cities looking for employment
- a continuing cycle of poverty.

People living in poverty in South Africa have the following characteristics:

- women, children, disabled people and the elderly tend to live in poverty
- they are dependent on social grants
- have access to inadequate transport facilities
- low education levels
- lack of access to electricity, piped water and sanitation
- predominantly black and coloured people
- more rural than urban
- live in informal housing in overcrowded conditions.

## 2 The South African Government's measures to alleviate poverty

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In South Africa, we have taken the following steps to reduce poverty:

- social welfare grants are paid by the state
- the state provides some free or subsidised services such as housing and healthcare for poor people, a basic supply of water and electricity every month, healthcare for children under six years of age and schooling for children from poor families
- creating employment opportunities through government departments like the Department of Public Works
- promoting entrepreneurship through organisations like the Small Enterprise Development Agency and the National Youth Development Agency
- training schemes to develop skills
- improving basic services like piped water and housing
- stimulating economic growth and exports
- increasing land ownership to previously disadvantaged people
- creating income generating programmes and SMMEs.

### 2.1 The Millennium Development Goals

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The **Millennium Development Goals (MDGs)** are eight international development goals that all 193 United Nations member states and at least 23 international organisations have agreed to achieve by the year 2015. The first goal is to eradicate extreme poverty. This is to be achieved by:

- halve the proportion of people living on less than \$1 a day
- achieve decent employment for women, men, and young people
- halve the proportion of people who suffer from hunger.

## Questions

- 1 Explain the difference between *absolute* and *relative poverty*. (8)
  - 2 Name the different ways of measuring poverty. (6)
  - 3 List five different characteristics of poverty in South Africa. (10)
  - 4 Name and discuss the causes of poverty. (36)
  - 5 Explain the effects of poverty. (12)
  - 6 List four strategies used in South Africa to try and eliminate poverty. (8)
- [80]

## Answers

- 1 Absolute poverty or destitution refers to a lack of the ability to satisfy basic human needs, √√ which includes clean and fresh water, nutrition, health care, education, clothing and shelter. √√ About 1,7 billion people are estimated to live in absolute poverty today. √√ In South Africa, the poverty line was R1100 per household per month in 2003. √√ Relative poverty refers to a lack of a usual or socially acceptable level of resources or income √√as compared with others within a society or country. √√  
(4 x 2) (8)
  - 2 Poverty line income. √√ The Headcount index or Rate of poverty. √√ Poverty gap. √√  
(3 x 2) (6)
  - 3 Women, children, disabled people and the elderly tend to live in poverty √√ dependent on social grants, √√ inadequate access to transport facilities, √√ low education levels, √√ lack of access to electricity, piped water and sanitation, √√ predominantly black and coloured people, √√ more rural than urban, √√ live in informal housing in overcrowded conditions. √√  
(5 x 2) (10)
  - 4 lack of education and skills training, √√ lack of employment opportunities, √√ ill health and poor healthcare, √√ lack of access to resources, √√ corruption and a lack of good governance, √√ wars and civil unrest, √√ exploitation, √√ discrimination, √√ lack of access to land √√  
(9 x 4 plus explanation) (18)
  - 5 hunger, √√ increased crime rate and social unrest, √√ reduced demand for goods and services, √√ the state has to burden a high social welfare budget, √√ health problems, √√ lack of development, √√ rapid urbanisation caused by poor people moving to cities looking for employment, √√ a continuing cycle of poverty √√  
(8 x 2) (16)
  - 6 Social welfare grants are paid by the state. √√ The state provides some free or subsidised services; √√ creating employment opportunities; √√ promoting entrepreneurship. √√  
(4 x 2) (8)
- [80]

# Money and banking

## Overview

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Topic 11 examines the function of money and looks at the South African financial systems which are very advanced.

Topic 11				
MONEY AND BANKING				
Page 111	Page 113	Page 116	Page 117	Page 119
1 Money	2 Banking	3 Micro-lending	4 Central banking	5 Bank failures and consequences

## 1 Money

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### 1.1 Characteristics of money

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- It must be uniform.
- It must be generally accepted in a country or area.
- It must be durable.
- It must be divisible.
- It must be manageable.
- It must have value and be relatively scarce.
- It must be stable.

### 1.2 Technical functions of money

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- A means of payment for goods and services.
- A measure of value or accounting unit.
- A store of value.

### 1.3 Modern money

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Money is any good that is widely used and accepted in transactions involving the transfer of goods and services from one person to another. Economists differentiate between three different types of money: **commodity money**, **fiat money**, and **bank money**.

**Commodity money** is a good whose value serves as the value of money. Gold coins are an example of commodity money. In most countries, commodity money has been replaced with fiat money.

**Fiat money** is a good, the value of which is less than the value it represents as money. Rand notes are an example of fiat money because their value as slips of printed paper is less than their value as money.

**Bank money** consists of the **book credit** that banks extend to their depositors. Transactions made using **checks** drawn on deposits held at banks involve the use of bank money. Modern technology allows for money to be transferred from one bank account to

another without actually having to use bank notes or coins, hence the term modern money.

## **1.4 Money associated instruments**

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- Cheques
- Debit cards
- Credit cards
- Electronic money or e-money

## **1.5 Stabilising the value of money**

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To help curb inflation the SARB (South African Reserve Bank) does the following:

- increases interest rates when inflation is too high
- this makes credit more expensive which reduces demand
- encourages banks to be careful in granting credit
- uses inflation targeting as a means for curbing inflation.



## 2 Banking

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### 2.1 Bank deposits

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**Demand deposits:** money deposited in a current account (also called a cheque account) or a savings account can be withdrawn without notice.

**Short term deposits:** money deposited that can be withdrawn on 30 days or less notice.

**Long term deposits:** money that is deposited for longer periods of time.

### 2.2 Credit creation

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Credit creation is the multiple expansions of banks, demand deposits. Banks advance a major portion of their deposits to borrowers and keep smaller parts of deposits for customers on demand.

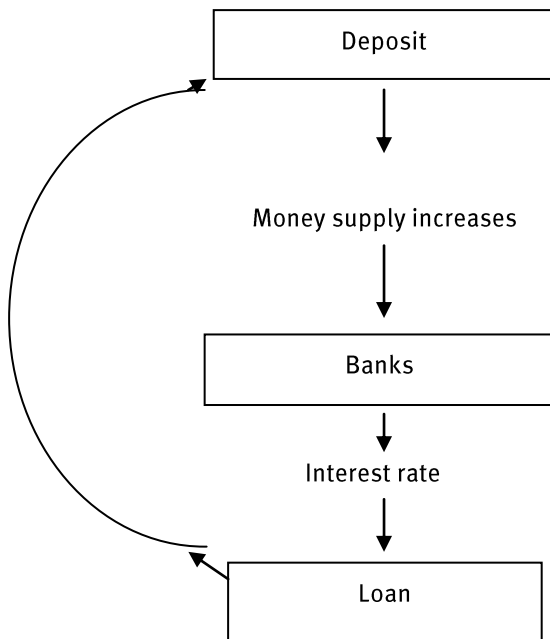
This tendency on the part of the commercial banks to expand their demand deposits as a multiple of their excess cash reserve is called the **creation of credit**.

It is the banking system as a whole which can expand loans by many times of its excess cash reserves. When a loan is advanced to an individual or a business concern, it is not given in cash. The bank opens a deposit account in the name of the borrower and allows him to draw upon the bank as and when required. The loan advanced becomes the gain of deposit by some other bank.

In 2010 the cash reserve, the amount that a bank has to keep in cash by law, was 2,5%. This means that banks were able to lend out 97,5% of the money deposited with them.

A banks ability to create money (credit) is restricted by:

- the size of its cash reserve
- the demand for bank loans (credit)
- the amount of money invested outside of the banking system
- the amount of money held by the public in cash
- the amount of investment held in foreign countries.



### Money creation through the banks

To measure the amount of money available in the economy, we use money supply measures called **M<sub>1</sub>, M<sub>2</sub> and M<sub>3</sub>**.

M<sub>1</sub> is equal to all notes and coins in circulation outside of the banking sector, plus all demand deposits of the domestic private sector with the banks.

The following equation is often used to represent the M<sub>1</sub> money supply:

$$M = C + D$$

where M = money supply

C = cash (notes and coins in circulation)

D = demand deposits.

## 2.3 Interest rates

An **interest rate** is the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. Interest rates are normally expressed as a percentage of the principal sum borrowed for a period of one year.

Interest rates targets are also a vital tool of monetary policy and are taken into account when dealing with variables like investment, inflation, and unemployment.

There are many different types of interest rates. The repurchase (repo) rate and the prime overdraft rate are two most commonly used.

- The **repurchase (repo) rate** is the interest rate at which commercial banks can borrow money from the South African Reserve Bank.
- The **prime overdraft rate** is the lowest rate at which a bank will lend money to its favourite customers. For this reason the prime overdraft rate is often simply referred to as prime.

Different factors will influence interest rates:

- the market rate
- risk factors
- length of time of loan
- expectations of future interest rates.

### 3 Micro-lending

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Micro-lending is the practice of granting small loans to those in need. Micro-loans may be loans for small amounts, and are typically used to help somebody start a business.

Recipients are most often poor people in urban areas and/or developing nations. In South Africa, micro-lending is regulated by the Micro Finance Regulatory Council (MFRC). It aims to:

- promote sustainable growth in the micro-lending industry
- serve the credit needs of those who do not have access to banks
- make sure that customer rights are protected.

In 2008, the National Credit Act came into force. It aims to ensure that borrowers are not charged excessively high interest rates and that loans are only granted to people who are able to service the debt.

## 4 Central banking

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### 4.1 The South African Reserve Bank

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The South African Reserve Bank (SARB) is the reserve bank of the Republic of South Africa. Its functions include the formulating and implementing of South Africa's monetary policy, ensuring the efficiency of South Africa's financial system and educating South Africa's citizens about the monetary and economic situation of the country. The South African Reserve Bank is, and has always been, privately owned.

### 4.2 South Africa's banking system

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South Africa has a well established and internationally recognised banking system. South Africa has five major banks that collectively control over 80% of the total assets of the banking sector. There are also many smaller banks. All banks in South Africa are supervised and regulated by the Registrar of Banks. South Africa's five major banks are:

- ABSA
- Nedcor
- Investec
- Standard Bank
- FirstRand Group.

### 4.3 Basic functions of the central bank

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The SARB has the following functions:

- it compiles and publishes macroeconomic information
- it acts as banker and funding agent to the government
- it issues new bank notes and coins
- keeps South Africa's gold and foreign reserves
- controls and supervises the banks and the banking system
- sets monetary and exchange rate policies
- controls inflation
- lends money to banks thereby controlling the money supply.

## 4.4 Monetary policy

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Monetary policy is concerned with price stability which affects economic growth. The SARB works to keep inflation within the targets set by the Minister of Finance in February each year.

The tool used by the SARB is the **repo rate**, which is the interest rate charged by the SARB to the banking system when they borrow money from the SARB. If the SARB increases the repo rate, then commercial banks have to charge borrowers higher interest rates. If the SARB lowers the repo rate, then commercial banks lower the interest rates charged to borrowers. This affects all borrowing including mortgages.

The SARB can also change the legal cash requirement, which is the amount of each deposit that must be held by a bank and not relent in credit creation.

These measures can be used to encourage economic growth and to slow it down if price levels (inflation) are rising too rapidly.

## 5 Bank failures and consequences

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In the 1990s, the South African banking system experienced some instability. If a bank fails, it affects the entire economy and can have disastrous consequences such as:

- customers (depositors) can lose their money
- shareholders in the bank can lose their investment
- employees of the bank lose their jobs
- a loss of public confidence in the banking system
- a negative knock on effect on other banks.

## Questions

- 1 Explain the term *money*. (8)
  - 2 Explain the term *credit creation*. (6)
  - 3 Compare the *repo rate* with the *prime rate*. (6)
  - 4 List five South African Commercial banks. (10)
  - 5 How does micro-lending help in economic growth? (6)
  - 6 What are the three functions of money? (6)
  - 7 Explain the roles of the SARB? (16)
  - 8 Explain what the consequences of a bank failure could be. (10)
- [68]



## Answers

- 1 Money is any good that is widely used and accepted in transactions involving the transfer of goods and services from one person to another. √√ Economists differentiate between three different types of money: commodity money, fiat money, and bank money. √√ Classically it is said that money acts as a unit of account, √√ a store of value, √√ and a medium of exchange. √√ (4 x 2) (8)
  - 2 Credit creation is the multiple expansions of banks' demand deposits. √√ Banks advance a major portion of their deposits to the borrowers and keep smaller parts of deposits to the customers on demand. √√ Customers of the banks have full confidence that the deposits lying in the banks are quite safe and can be withdrawn on demand. √√ The banks expand loans by much more than the amount of demand deposits possessed by them. √√ This tendency on the part of the commercial banks to expand their demand deposits as a multiple of their excess cash reserve is called creation of credit. √√ (3 x 2) (6)
  - 3 The repurchase (repo) rate is the interest rate at which commercial banks can borrow money from the South African Reserve Bank. √√√√ The prime overdraft rate is the lowest rate at which a bank will lend money to its favourite customers. √√ For this reason, the prime overdraft rate is often simply referred to as prime. (3 x 2) (6)
  - 4 ABSA, √√ Nedcor, √√ Investec, √√ Standard Bank, √√ FirstRand Bank √√ (5 x 2) (10)
  - 5 provides finance for small businesses which would not otherwise get a loan, √√ encourages growth of informal sector, √√ creates job opportunities as businesses grow √√ (3 x 2) (6)
  - 6 a means of payment for goods and services, √√ a measure of value or accounting unit, √√ a store of value √√ (3 x 2) (6)
  - 7 It compiles and publishes macroeconomic information. √√ It acts as banker and funding agent to the government. √√ it issues new bank notes and coins. √√ Keeps South Africa's gold and foreign reserves. √√ Controls and supervises the banks and the banking system. √√ Sets monetary and exchange rate policies. √√ Controls inflation. √√ Lends money to banks thereby controlling the money supply. √√ (8 x 2) (16)
  - 8 Customers (depositors) can lose their money. √√ Shareholders in the bank can lose their investment. √√ Employees of the bank lose their jobs. √√ A loss of public confidence in the banking system. √√ A negative knock on effect on other banks. √√ (5 x 2) (10)
- [68]

# Economic growth and development: South Africa's economic importance in Africa

## Overview

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Topic 12 examines South Africa's role and economic importance in Africa.

Topic 12
ECONOMIC GROWTH AND DEVELOPMENT: SOUTH AFRICA'S ECONOMIC IMPORTANCE IN AFRICA
Page 123
1
Africa's economic demarcations, for example, the AU and SADC

## 1 Africa's economic demarcations, for example, AU and SADC

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South Africa has played an important role in encouraging and fostering the economic integration of countries in Southern Africa. It has also been instrumental in setting up several economic and political organisations and agreements.

**The African Union (AU).** Among the objectives of the AU's leading institutions are:

- to accelerate the political and socio-economic integration of the continent
- to promote and defend African common positions on issues of interest to the continent and its peoples
- to achieve peace and security in Africa
- to promote democratic institutions, good governance and human rights.

**The New Partnership for Africa's Development (NEPAD).** NEPAD's objective is to enhance Africa's growth, development and participation in the global economy.

NEPAD aims to:

- eradicate poverty
- create sustainable growth and development
- promote integration into a global economy
- empower women
- promote good governance
- attract foreign investment.

**The South African Customs Union (SACU).** Its aim is to maintain the free interchange of goods between member countries. It provides for a common external tariff and a common excise tariff to this common customs area. All customs and excise collected in the common customs area are paid into South Africa's national Revenue Fund. The revenue is shared among members according to a revenue-sharing formula as described in the agreement. South Africa is the custodian of this pool.

**The Common Monetary Area (CMA).** The CMA links South Africa, Lesotho and Swaziland into a monetary union which uses one currency.

Of the SACU members only Botswana is currently out of the CMA, having replaced the rand with the pula in 1976.

**The Southern African Development Community (SADC).** The founding member states are: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

Objectives are to:

- achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the disadvantaged through regional integration
- evolve common political values, systems and institutions
- promote and defend peace and security
- promote self-sustaining development based on self-reliance, and the inter-dependence of member states
- promote and maximise productive employment and utilisation of resources of the region
- achieve sustainable utilisation of natural resources and effective protection of the environment
- strengthen and consolidate the long-standing historical, social and cultural affinities and links among the peoples of the region.

## 1.1 South Africa's economic position compared to the rest of Africa

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The **South African economy is much larger** than that of any other countries in Africa. South Africa has a population of roughly 49 million people out of a total African population of 876 million people. Africa is rich in natural resources. **South Africa in particular is very rich in mineral resources** such as gold, diamonds and platinum. These minerals make up roughly 60% of all exports from South Africa.

**The supply of electricity in Southern Africa is dominated by South Africa.** Eskom currently generates the majority of all electricity consumed in Africa. Eskom exports electricity to many of South Africa's neighboring countries. 75% of all South Africans have access to electricity which is higher than the average in the SADC which is roughly 25%. Zambia has a large supply of hydro-electric power and is the second largest exporter of electricity.

As many as fourteen African countries have a shortage of water. 86% of South Africa's population has access to safe drinking water.

The Johannesburg Stock Exchange (JSE) dominates all stock exchanges in Africa with regard to market capitalisation.

With very few exceptions, levels of welfare in African countries are very low. Most African countries have a high level of poverty.

## Questions

- 1 List five different organisations South Africa is involved in which foster economic integration in Southern Africa. (10)
  - 2 List six goals of NEPAD. (6)
  - 3 What currency is used in the CMA? (2)
  - 4 Name three of the founding members of the SADC. (6)
  - 5 Which country is the major supplier of electricity in Southern Africa? (2)
- [26]

## Answers

- 1 The African Union, √√ New Partnership for Africa's Development, √√ Southern African Customs Union, √√ Common Monetary Area, √√ Southern African Development Community √√ (10)
  - 2 eradicate poverty, √√ create sustainable growth and development, √√ promote integration into a global economy, √√ empower women, √√ promote good governance, √√ attract foreign investment (6)
  - 3 Rands √√ (2)
  - 4 Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe (Any 3 x 2) (6)
  - 5 South Africa √√ (2)
- [26]

# TERM 4

## Overview

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TERM 4	
TOPIC 13	TOPIC 14
Page 129	Page 139
Globalisation	Economic redress: environmental deterioration



# Globalisation

## Overview

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Topic 13 discusses the causes and effects of globalisation and the problems of the North–South divide and global inequality.

Topic 13		
GLOBALISATION		
Page 130	Page 133	Page 135
1 Globalisation	2 Absolute and comparative advantages and disadvantages of trade	3 The North–South divide

# 1 Globalisation

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## 1.1 Definition

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Globalisation means:

- the movement of the factors of production across national borders allowing for raw materials, labour and capital to move easily between countries. This allows for companies to set up new businesses anywhere in the world
- the removal of national barriers creating freedom of trade
- the integration of economic activities throughout the world
- increasing global relationships of culture, people, and economic activity
- the global distribution of the production of goods and services
- the reduction of barriers to international trade such as tariffs, export fees and import quotas.

## 1.2 Causes

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- The **free movement of capital** allowing businesses to invest or remove money from countries.
- **Improvement in communications.** Cheap, quick and reliable communication has enabled information to be spread around and has helped promote trade. Social networking sites like Facebook, Twitter and YouTube allow users to share information, opinions and thoughts with other users around the world.
- **Improvements in transportation** allow people and goods to be moved anywhere in the world. Advances in transport have also led to a reduction in transport costs which helps to increase international trade.
- **The growth of multinational companies.** Multinational companies will often move into new countries to use cheaper labour, take advantage of less stringent laws, have access to raw materials and find new markets to sell their products to.
- **Freedom of trade.** We use the term **free trade** to describe when products flow freely between countries because there are no barriers to the import and export of goods.
- **Labour availability and skills.** Some countries, such as India, have lower labour costs and less strict labour legislation.

### 1.2.1 Multinational companies

Multinational companies are large business organisations that produce and/or distribute their goods in several countries or globally.

Reasons for multinationals include:

- taking advantage of different climates
- using cheap labour
- taking advantage of less strict laws regarding pollution
- finding new markets
- exploiting resources such as minerals.

Arguments against multinationals include:

- caring only for profits
- pollution
- exploitation of workers.

### 1.2.2 Free Trade and world trade agreements

The **World Trade Organisation (WTO)** was established in 1995, with South Africa as a founding member. By 2010 the WTO had 153 member countries. The WTO deals with the rules of trade between nations. Its aims are to:

- promote free trade
- encourage the reduction of tariffs
- settle trade disputes
- spread the concept that free trade is essential to economic growth
- bring the benefits of economic development to all countries.

Other organisations that have been set up to further global cooperation include:

- the **United Nations Organisation** (promote world peace and human rights)
- **International Monetary Fund** (improve the world's economy)
- the **World Bank** (improve the world's economy)
- **World Health Organisation** (improve welfare especially in developing countries).

## 1.3 Consequences

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The growth of economies, such as that of China, is due to globalisation and the ability to trade internationally.

### 1.3.1 Advantages of globalisation

- A high level of investment has led to development and economic growth.
- Trade has been promoted and encouraged which has led to consumers having a wider range of available products.
- There is a wide range of technology and new ideas available all over the world.
- Governments and businesses have easier access to capital markets.
- There is an increased concern over the environment and climate change.
- Increased competition has led to reduced prices.

### 1.3.2 Disadvantages of globalisation

- Multinational companies can exert and influence governments.
- Richer countries have become richer while poorer people in poorer countries have become poorer.
- There has been a loss of national identity as Western culture has invaded other countries.
- An over-exploitation of resources.
- There has been an increase in environmental destruction and rising pollution levels.
- Increased competition has, in some countries, led to a collapse of local industries.
- Small businesses often cannot compete against bigger businesses.

## 2 Absolute and comparative advantages and disadvantages of trade

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Countries trade with each other to:

- obtain goods and services they cannot produce themselves
- increase choice
- obtain goods at a cheaper price than they can be produced in their own country
- increase sales and revenue
- specialise in the production of specific goods and services
- make use of an absolute or comparative trade advantage.

### 2.1 Absolute advantage in trade

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Absolute advantage in trade occurs when a country can produce a product using fewer resources at a lower cost than any other country would use to produce it. Often, we find that developed countries enjoy an **absolute advantage** over developing countries in manufacturing because they have more capital and more highly-skilled workers.

### 2.2 Comparative advantage in trade

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Countries benefit most by producing and exporting goods and services that they can produce more efficiently at a lower cost than other goods and services. A country can benefit from international trade by choosing to trade in products in which it has the best comparative advantage, even if it has higher production costs than the countries it trades with, meaning it has no absolute advantage.

#### 2.2.1 Advantages of absolute and comparative trade

- All trade **promotes economic growth** because global trade attracts foreign investment and gives governments more revenue to invest in infrastructure.
- There is an **increase in employment, higher per capita income and a better standard of living**.
- It **creates a greater awareness of global problems** which encourages countries to tackle these problems. Examples amongst others include poverty, climate change and global warming, HIV and AIDS and malaria.

### 2.2.2 Disadvantages of absolute and comparative trade

- Growth rates are not always sustained or sustainable and the benefits are not always passed onto the poorest people.
- Poverty levels are still high as the gap between rich countries and poor countries continues to grow.
- Free trade has never become a reality and trade protectionism and trade restrictions remain.
- The movement of large amounts of capital can create serious financial problems.

## 3 The North–South divide

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### 3.1 Definition

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The **North–South divide** describes the division of the world into the mostly developed economies in the northern hemisphere and the mostly developing economies in the southern hemisphere. There are exceptions to this generalisation, such as Australia and New Zealand who are both located in the southern hemisphere. Times have also changed and South Korea, Taiwan and Singapore should also now be included in the northern hemisphere.

### 3.2 Effects of the North–South Divide

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- There is a big discrepancy in income between the richer north countries and the poorer south countries.
- The industrialised north imports cheaper unprocessed goods from the south and exports higher priced manufactured goods back to the south.
- The USE, Japan and European Union use their power to maintain their position.
- The north exploits the south.
- Aid is given to promote development in the south but often tied to restrictive trading agreements.
- Uneven immigration patterns as people from the poorer nations try to move to the richer nations.

### 3.3 The Millennium Development Goals

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The United Nations is trying to diminish the divide between the north and south by establishing the Millennium Development Goals. These goals include:

- to eradicate hunger and poverty
- achieve universal education
- promote gender equality
- reduce child mortality rates
- improve maternal health
- combat diseases such as malaria and HIV and AIDS
- ensure environmental sustainability.

## Questions

- 1 Explain what causes globalisation. (10)
  - 2 List five advantages of globalisation. (10)
  - 3 List five disadvantages of globalisation. (10)
  - 4 Explain how globalisation has resulted in a loss of national identity. (4)
  - 5 Explain how globalisation has damaged the environment. (6)
  - 6 List four advantages of globalised trade. (8)
  - 7 List four disadvantages of globalised trade. (8)
  - 8 Explain the phrase *North–South divide*. (4)
- [60]



## Answers

- 1 The free movement of capital is the ability with which we can easily transfer capital from one country to another. √√ Technological advances in communication allow us to communicate with people and businesses all around the world. √√ Technological advances in transport allow people and goods to be moved anywhere in the world. √√ Multinational companies have grown in size and stature and can exert considerable influence over governments. √√ Free trade and world trade agreements. √√ (5 x 2) (10)
- 2 A high level of investment has led to development and economic growth. √√ Trade has been promoted and encouraged which has led to consumers having a wider range of products available to them. √√ There is a wide range of technology and new ideas available all over the world. √√  
Governments and businesses have easier access to capital markets. √√ There is increased concern over the environment and climate change. √√ There is increased competition has led to reduced prices. √√ (5 x 2) (10)
- 3 Multinational companies can exert and influence governments. √√ Richer countries have become richer while poorer people in poorer countries have become poorer. √√ A loss of national identity as Western culture invades other countries. √√ There has been an over-exploitation of resources. √√  
There has been an increase in environmental destruction and rising pollution levels. √√ Increased competition has in some countries led to a collapse of local industries. √√ Small businesses often cannot compete against bigger businesses. √√ (5 x 2) (10)
- 4 Globalisation has led to products, money, ideas and cultures moving around the world freely. √√ This has led to American and European cultures being spread around the world. √√ This has led to the domination of the English language √√ and American and European clothing and way of life and large companies like Kentucky Fried Chicken being found throughout the world √√ (2 x 2) (4)
- 5 Globalisation has led to an increase in demand for resources and large scale production. √√ These, in turn, lead to destruction of the natural environment, problems like pollution, √√ a high consumption of power, √√ climate change √√ and global warming √√ and resources being exploited. √√ (3 x 2) (6)
- 6 All trade promotes economic growth because global trade attracts foreign investment and gives governments more revenue to invest in infrastructure.  
It increases employment, higher per capita income and a better standard of living.  
It creates a greater awareness of global problems which encourages countries to tackle these problems. Examples include poverty, climate change and global warming, HIV and AIDS and malaria. (8)

- 7 Growth rates are not always sustained or sustainable and the benefits are not always passed onto the poorest people.

Poverty levels are still high as the gap between rich countries and poor countries continues to grow.

Free trade has never become a reality and trade protectionism and trade restrictions remain.

The movement of large amounts of capital can create serious financial problems. (8)

- 8 The term the North–South divide describes the division of the world into the mostly developed economies in the northern hemisphere and the mostly developing economies in the southern hemisphere. As a rule of thumb, this division follows latitude 30 degrees north. There are exceptions to this generalisation, such as Australia and New Zealand who are both located in the southern hemisphere. Times have also changed and South Korea, Taiwan and Singapore should also now be included in the northern hemisphere. (4)

[60]

# Economic redress: environmental deterioration

## Overview

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Topic 14 looks at the pressing problems of environmental deterioration and the approaches to dealing with these problems.

Topic 14			
ECONOMIC REDRESS: ENVIRONMENTAL DETERIORATION			
Page 140	Page 141	Page 143	Page 144
1 Environmental problems in South Africa	2 Protecting the environment	3 Approaches to sustainability	4 The global and local impact on South Africa

## 1 Environmental problems in South Africa

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The economy is strongly connected to the environment.

- A strong environment can provide support to businesses by providing raw resources.
- A strong environment can provide employment, for example is tourism.
- For economic development to be sustainable, the environment must be carefully managed.

Environmental issues that pose a threat to the continuation of life on earth include the following:

- climate change
- loss of biodiversity
- the energy crisis. Resources are being depleted rapidly
- natural resources have been over exploited
- land degradation, due to deforestation and overgrazing
- the world's population has doubled. Overpopulation leads to shortages of water and food, urban sprawl as towns and cities grow, destroying natural habitats, a shortage of farmland, destruction of natural environments and pollution and other waste products
- pollution including air pollution caused by motor vehicles and factories; water pollution caused by waste disposal from factories and runoff from farms into rivers; ground pollution caused by oil spills on land and human waste and sea pollution caused by shipping disasters at seas
- bad waste management leads to toxic waste spills.

## 2 Protecting the environment

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**The passing of laws to protect the environment.** The National Environment Laws Amendment Bill has amended several important pieces of legislation including the Atmospheric Pollution Prevention Act, the Environment Conservation Act and the National Environment Management Act. These Acts stipulate that new developments must produce environmental impact studies. These studies show what the developments' impact will be on the environment. The Acts also allow for environmental inspectors to inspect developments and for polluters who breach these Acts to be fined or sentenced to prison.

**The government can take other actions** to protect the environment. Examples include:

- providing subsidies for environmentally-friendly actions, such as solar or wind power
- building energy efficient houses for poor people
- passing legislation that prevent or reduce different forms of pollution
- reducing dangerous and harmful petrol additives.

**Emissions from motor vehicles** cause high levels of pollution in large cities and reducing them helps reduce pollution. There are several ways in which we can reduce emissions from motor vehicles, such as:

- using public transport
- more efficient traffic flow
- developing more fuel efficient engines and engines that emit less gases
- forcing fuel companies to remove dangerous and harmful additives from petrol.

**Technological discoveries** have made new methods of protecting the environment.

Examples include:

- renewable sources of power
- alternative fuels for motor cars
- methods to recycle waste more efficiently.

**Public opinion can be very powerful.** The internet, and especially social networking sites, allow people from around the world to voice their opinions on matters relating to pollution. This has caused businesses to take on environmental issues as part of their social responsibility, government to keep a close eye on new developments, and for people to be aware of the importance of having a healthy environment.

**There are many things that businesses and households can do to protect the environment such as:**

- manufacturers can use more recycled materials and less toxic and harmful materials
- reduce the amount of needless packaging and use more recycled materials
- businesses should reuse more paper
- by utilising more public transport we can cut down on the number of motor vehicles on the roads
- environmentally-friendly gardening can be introduced such as only growing indigenous plants which use less water
- waste should only be disposed of at designated sites
- households should recycle bottles, cans and other waste products
- use non-toxic cleaning materials in households and businesses.

### 3 Approaches to sustainability

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We need to ensure the long-term maintenance of the different parts of our ecosystem so that it functions well for future generations and to ensure that it is diverse and productive. Examples of how we can achieve this are:

- charging people and businesses for the right to use and enjoy the environment
- taxing producers of harmful and toxic products
- setting limits on the levels of pollution allowed
- providing educational information about the environment to the public such as:
  - educating the public about the environment
  - generating pride and passion about the natural environment through school programmes
  - introducing poor communities to our national parks
  - putting public pressure on businesses to reduce packaging
  - encouraging organic farming
  - managing and limiting the growth of informal settlements
  - using legislation to protect our natural environment
  - ensuring the careful disposal of waste.

## 4 The global and local impact on South Africa

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### 4.1 Environmental deterioration in South Africa

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Environmental deterioration in South Africa is caused by:

- pollution from mining
- overgrazing
- air pollution from coal burning for power in townships.

### 4.2 Government actions

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Government actions and bodies to combat environmental deterioration in South Africa include:

- the reconstruction and development programme
- Department of Environmental Affairs and Tourism
- National Environmental Management Act of 1998
- the Bill of Rights
- the Marine Living Resources Act of 1998
- the National Strategy for Sustainable Development.

### 4.3 Global actions

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- In 2012, the World Summit on Sustainable Development was held in Johannesburg. As a result, access to power and water for the poor has been increased, lead has been removed from our petrol, and biodiversity and conservation have been highlighted as being issues that need to be addressed to prevent the extinction of species.
- The National Strategy for Sustainable Development (NSSD) was set up in 2006 to help South Africa achieve the necessary objectives for future development. Environmentally sustainable nature-based tourism is being encouraged. The impact that the tourists have on these sensitive areas is being carefully managed. Many organisations and big businesses are promoting “green” projects which are good for the environment.
- Countries are working together on an international basis to take steps to protect the environment. The **Kyoto Treaty** is an international agreement between as many as 170



different countries to reduce the emission of greenhouse gases which cause global warming. The USA has not signed the Kyoto Treaty.

- The **Millennium Development Goals** are eight international development goals that all 193 United Nations member states and at least 23 international organisations have agreed to achieve by the year 2015. The seventh goal is to ensure environmental sustainability. This is to be achieved by:
  - integrating the principles of sustainable development into country policies and programmes to reverse the loss of environmental resources
  - reducing the rate of biodiversity loss significantly by 2010
  - reducing by half the proportion of people without sustainable access to safe drinking water and basic sanitation
  - achieving significant improvement in the lives of at least 100 million slum dwellers by 2020.

## Questions

- 1 List three ways in which the natural environment is linked to the economy. (6)
- 2 Give causes that have contributed to environmental deterioration. (12)
- 3 How does the government try to protect the environment? (10)
- 4 What can individuals and households do to protect the environment? (12)
- 5 Explain what is meant by the term *environmental sustainability*. (2)
- 6 List four steps that can be taken to achieve environmental sustainability. (8)
- 7 What steps have South Africa taken to promote sustainability? (4)
- 8 Give two examples of steps taken internationally to promote sustainability? (4)

[58]

## Answers

- 1 Environment is able to provide support to businesses by providing raw resources. √√  
The environment can provide employment. An example is jobs in tourism. √√ For economic development to be sustainable, the environment must be carefully managed. √√ (6)
- 2 the energy crisis, √√ natural resources have been over exploited, √√ land degradation has occurred, √√ the world's population has doubled, √√ overpopulation leads to shortages of water and food, √√ pollution has become a very serious activity, √√ bad waste management is becoming an ever-increasing problem as the world's population increases √√ (6 x 2) (12)
- 3 The passing of laws to protect the environment. √√  
The National Environment Laws Amendment Bill has amended several important pieces of legislation including the Atmospheric Pollution Prevention Act, the Environment Conservation Act and the National Environment Management Act. √√ These Acts stipulate that new developments must produce environmental impact studies. √√ The government can take other actions to protect the environment. Examples include: providing subsidies for environmentally-friendly actions such as solar or wind power, √√ building energy efficient houses for poor people, √√ passing legislation that prevent or reduce different forms of pollution, √√ reducing dangerous and harmful petrol additives. √√ (5 x 2) (10)
- 4 Manufacturers can use more recycled materials and less toxic and harmful materials. √√ They can reduce the amount of needless packaging and use more recycled materials. √√ Businesses should reuse more paper. √√ By utilising more public transport, we can cut down on the number of motor vehicles on the roads. √√ Environmentally-friendly gardening can be introduced such as only growing indigenous plants which use less water. √√ Waste should only be disposed of at designated sites. √√ Households should recycle bottles, cans and other waste products. √√ Use non-toxic cleaning materials in households and businesses. (6 x 2) (12)
- 5 Ensuring the long term maintenance of the different parts of our ecosystem so that it functions well for future generations, and ensure that it is diverse and productive. √√ (2)
- 6 charging people and businesses for the right to use and enjoy the environment, √√ taxing producers of harmful and toxic products, √√ setting limits on the levels of pollution allowed, √√ providing educational information about the environment to the public √√ (4 x 2) (8)
- 7 In 2012, the World Summit on Sustainable Development was held in Johannesburg. √√ The National Strategy for Sustainable Development (NSSD) was set up in 2006 to help

South Africa achieve the necessary objectives for future development. √√

Environmentally sustainable nature-based tourism is being encouraged. √√ (2 x 2) (4)

- 8 The Kyoto Treaty is an international agreement between as many as 170 different countries to reduce the emission of greenhouse gases which cause global warming. The USA has not signed the Kyoto Treaty. √√

The Millennium Development Goals are eight international development goals that all 193 United Nations member states and at least 23 international organisations have agreed to achieve by the year 2015. √√ (2 x 2) (4)

[58]

**MID-YEAR EXAMINATION 1****MACROECONOMICS**

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**INSTRUCTIONS AND INFORMATION****TIME: 1 1/2 HOURS****MARKS: 150**

Answer SIX questions as follows in your answer book:

SECTION A: COMPULSORY

SECTION B: Answer TWO questions

SECTION C: Answer any ONE question

Write the question number above each answer.

Number the answers correctly according to the numbering system used in this question paper.

Read the questions carefully and start each question on a NEW page.

Leave 2–3 lines between subsections of questions.

Write neatly and legibly.

Answer only the required number of questions.

Non-programmable calculators may be used.

**SECTION A**

Answer all parts.

**QUESTION 1**

- 1.1 Choose the most correct answer and only write the letter (A, B or C) next to the corresponding question number (1.1.1 – 1.1.8) in the ANSWER BOOK.
- 1.1.1 Which is not a factor of production?
- A) labour
  - B) tax
  - C) natural resources
- 1.1.2 Which is a characteristic of natural resources?
- A) They have to be processed.
  - B) They are evenly distributed.
  - C) Their supply is unlimited.
- 1.1.3 The reward received by workers for their labour is called ...
- A) wages
  - B) non-taxable income
  - C) freebies or giveaways.
- 1.1.4 Which is a characteristic of entrepreneurs?
- A) unwilling to take risks
  - B) do not like to start new businesses
  - C) enterprising and determined people
- 1.1.5 The Black Economic Empowerment Act was passed in order to ...
- A) give opportunities to those who had been disadvantaged during apartheid
  - B) give opportunities to those who had been disadvantaged during the Great Depression
  - C) give opportunities to those who had been advantaged during apartheid.
- 1.1.6 When calculating GDP per capita ...
- A) the size of the population is needed
  - B) the size of the population is irrelevant
  - C) the size of the population is divided by the total GDP of the country.
- 1.1.7 Which ONE of the following models indicates the flow of goods and services as well as the factors of production?
- A) economic cycle
  - B) circular flow
  - C) economic flow
- 1.1.8 The value of goods and services produced within the borders of a country is known as the ...
- A) gross national product
  - B) gross national income
  - C) gross domestic product.

(2 x 8) (16)

- 1.2 Answer all parts by writing the correct word from the box against the right sentence number. Only write the correct CONCEPT next to the corresponding question number (1.2.1 – 1.2.8) in the ANSWER BOOK.

fiscal policy	microeconomics	globalisation
circular flow	market	air
renewable resource	restaurants and shops	

- 1.2.1 Taxation forms part of this policy.  
 1.2.2 Comprised of the behaviour of individual consumers, households or firms.  
 1.2.3 The spread of firms across international boundaries.  
 1.2.4 Deals with the flow of goods and services within the economy.  
 1.2.5 An economy in which all decisions are made only by firms and consumers.  
 1.2.6 A free good.  
 1.2.7 A wheat farm plantation.  
 1.2.8 Tertiary sector enterprises.

(8 x 1) (8)

- 1.3 Choose a description from COLUMN B that matches a concept in COLUMN A.  
 Only write the correct letter (A–I) next to the corresponding question number (1.3.1–1.3.6) in the ANSWER BOOK

	<b>COLUMN A</b>		<b>COLUMN B</b>
1.3.1	Gini coefficient	A	Production, exchange and consumption of a country
1.3.2	Legal tender	B	The stock of assets the environment provides
1.3.3	Natural capital	C	Removal of restrictions like tariffs and quotas
1.3.4	Free trade	D	The value of specific coins and notes a person can use to pay for any purchase transaction
1.3.5	Circular flow	E	Cost that increase with increased production
1.3.6	Opportunity cost	F	Alternative sacrificed
		G	Measures the degree of inequality between the rich and the poor

(6 x 1) (6)

[30]

## SECTION B

Answer any two questions.

### QUESTION 2

2.1 Read the excerpt below and answer the questions that follow.

Despite the dismantling of apartheid in the early 1990s, and significant annual economic growth over the past 10 years, South African cities have the highest levels of inequality in the world, according to the UN Habitat's latest State of the World's Cities report.

- |       |   |      |
|-------|---|------|
| 2.1.1 | What has happened during the past ten years?                    | (2)  |
| 2.1.2 | Give two reasons for inequality of income in South Africa.      | (4)  |
| 2.1.3 | Name a system used to measure income inequality.                | (2)  |
| 2.2   | List five methods used in South Africa to redistribute wealth.  | (10) |
| 2.3   | Explain two sources of wealth.                                  | (2)  |
| 2.4   | Write a brief note on the factors that lead to economic growth. | (16) |
| 2.5   | Define the term "wealth".                                       | (4)  |
|       |   | [40] |

### QUESTION 3

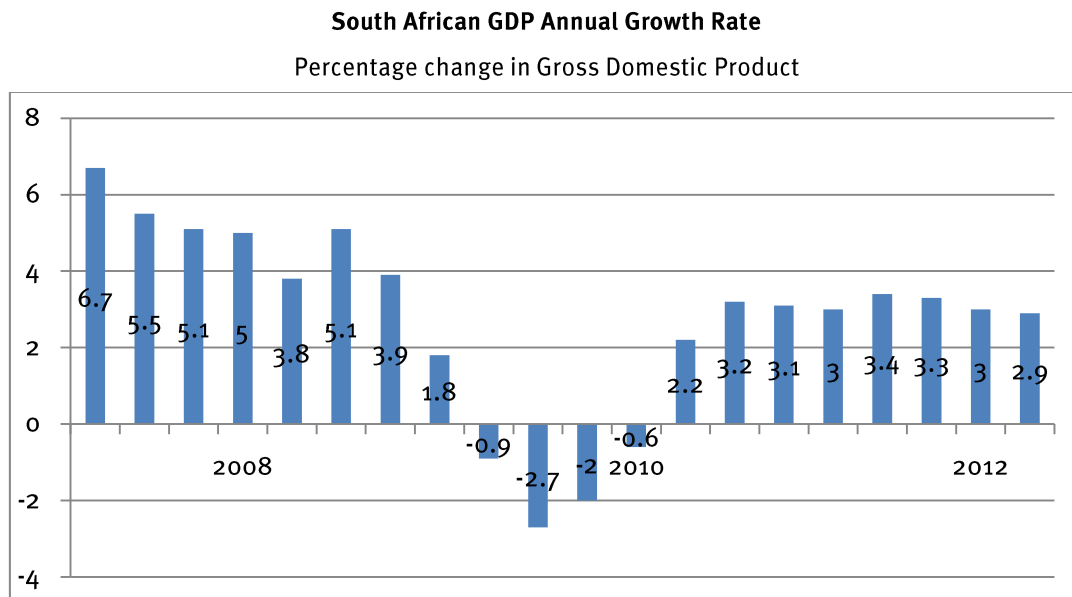
- |     |  |      |
|-----|--|------|
| 3.1 | Tabulate four differences between a command and a mixed economy.                           | (8)  |
| 3.2 | Write a brief note on the delivery of social services in South Africa.                     | (16) |
| 3.3 | Give three reasons why the tertiary sector plays such a large role in developed countries. | (6)  |
| 3.4 | Which sector of the economy do communication systems such as cell phones fall into?        | (2)  |
| 3.5 | Explain the four factors of production.  | (8)  |
| 3.6 | Which statistic do we use to measure growth in the economy?                                | (2)  |
|     |  | [40] |

### QUESTION 4

- |     |   |              |
|-----|---|--------------|
| 4.1 | Money invested in producing machines and buildings to be used in the production process, is known as (savings/capital). |              |
| 4.2 | If a country is a net exporter, its currency will tend to (appreciate/depreciate) in value.                             |              |
| 4.3 | To convert basic prices to market prices, taxes are added and (subsidies/inflation) subtracted.                         |              |
| 4.4 | Most of the income of households is spent on (durable/non-durable) goods.   | (4 x 2) (8)  |
| 4.5 | Explain the following equation: $GDP(E) = C + G + I (X - M)$ .  | (8 x 2) (16) |



4.6



(Source: Statistics South Africa: <http://www.tradingeconomics.com/south-africa/gdp-growth-annual>)

Using the graph above, write a brief note on the economic growth of South Africa from 2008– 2012. Make sure to explain the changes from 2009– 2010 and suggest a cause for this.

(16)

[40]

**SECTION C**

Answer any one question.

**QUESTION 5      ESSAY QUESTION**

*Economic growth cannot happen without equitable wealth creation.*

Answer the following in short paragraphs:

How does wealth creation occur? (10)

How does wealth creation create economic growth? (10)

Why is redistribution of wealth considered desirable in South Africa? (20)

[40]

**QUESTION 6      ESSAY QUESTION**

*An increase in the size of the tertiary sector is an indicator of a developing economy.*

Answer the following in short paragraphs:

Explain what is meant by the term tertiary sector. (10)

Give examples of tertiary sector industries. (15)

Explain the importance of the tertiary sector in the South African economy. (15)

[40]

**TOTAL MARKS: 150**

**MID-YEAR EXAMINATION 2****MICROECONOMICS**

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**INSTRUCTIONS AND INFORMATION****TIME 1 1/2 HOURS****MARKS: 150**

Answer FOUR questions as follows in your answer book:

SECTION A: COMPULSORY

SECTION B: Answer TWO questions

SECTION C: Answer any ONE question

Write the question number above each answer.

Number the answers correctly according to the numbering system used in this question paper.

Read the questions carefully and start each question on a NEW page.

Leave 2–3 lines between subsections of questions.

Write neatly and legibly.

Answer only the required number of questions.

Non-programmable calculators may be used.

**SECTION A COMPULSORY**

Answer all parts.

**QUESTION 1**

1.1 Choose the correct answer and write the letter (A, B or C) next to the corresponding question number (1.1.1–1.1.8) in the ANSWER BOOK.

1.1.1 The following two types of markets exist in the circular flow of the economy:

- A) factor and goods markets
- B) supply and demand markets
- C) competitive and non-competitive markets.

1.1.2 A change in relative price produces ...

- A) no change in demand
- B) a change in demand
- C) a change in demand but no change in supply.

1.1.3 The following are two types of demand relationships:

- A) substitutes and complements
- B) complements and consumers income
- C) market size and substitutes.

1.1.4 The following is a condition for a perfect market:

- A) many buyers and sellers
- B) no buyers and sellers
- C) inefficient technology.

1.1.5 The following is a condition for an imperfect market:

- A) the government does not intervene in the market
- B) buyers and sellers have complete knowledge of the market
- C) some producers try to collude to set prices.

1.1.6 A monopoly is ...

- A) the most perfect of all markets
- B) the most imperfect of all markets
- C) a fair market to operate in.

1.1.7 The main aim of all businesses is to ...

- A) make no profit
- B) make some profit
- C) to make the maximum profit.

1.1.8 The following is a characteristic of a diseconomy of scale:

- A) it is no longer worth increasing the outputs
- B) returns to scale are increasing
- C) the unit costs of the production decrease as the output increases.

(2 x 8) (16)

- 1.2 Answer all parts by writing the correct word from the box against the right sentence number. Only write the correct CONCEPT next to the corresponding question number (1.2.1–1.2.4) in the ANSWER BOOK.

microeconomics	macroeconomics	utility
total revenue	average revenue	marginal costs
substitute	complimentary	

- 1.2.1 The branch of economics dealing with the behaviour of individual consumers, households or firms.
- 1.2.2 The satisfaction gained by consuming one good rather than another.
- 1.2.3 The amount of money a firm receives from selling its goods or services within a given time period.
- 1.2.4 Goods which can be bought together. (4 x 2) (8)

- 1.3 Choose a description from COLUMN B that matches a concept in COLUMN A. Only write the correct letter (A–I) next to the corresponding question number (1.3.1–1.3.6) in the ANSWER BOOK.

	COLUMN A		COLUMN B
1.3.1	Intermediate good	A	Output increases at a greater rate than the rate of increase of inputs
1.3.2	Variable cost	B	Goods that are bought together
1.3.3	Opportunity cost	C	Coke and Pepsi
1.3.4	Increasing returns of scale	D	Cost that increases with increased productions
1.3.5	Complementary	E	Alternative sacrificed
1.3.6	Substitute goods	F	Flour bought by a bakery to bake bread

(6 x 1) (6)

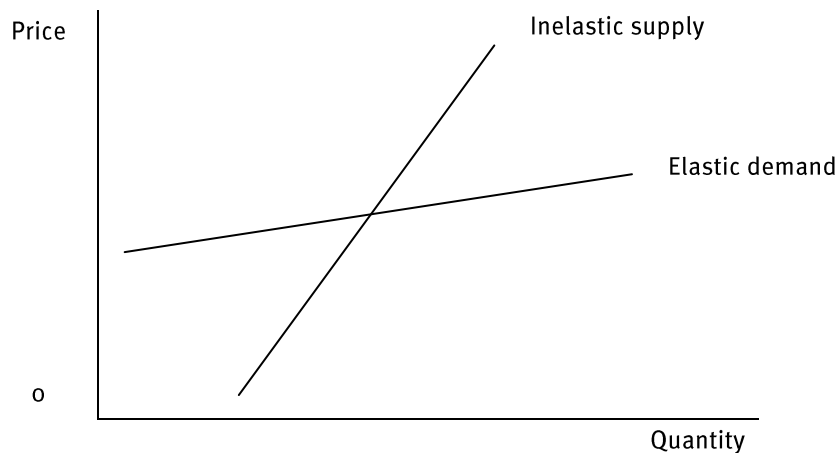
[30]

**SECTION B**

Answer any two questions.

**QUESTION 2**

- 2.1 Give four causes of imperfect markets. (8)
- 2.2 Using the diagram below, explain the difference between an elastic demand and an inelastic demand for a good. (16)



- 2.3 Explain the difference between an inferior good and a luxury good. (8)
- 2.4 Draw a supply curve and write a brief note to explain what will happen to the supply of tomatoes if the price drops. (8)
- [40]

**QUESTION 3**

- 3.1 Choose the most correct word from those given in brackets. Only write the word next to the corresponding question number (3.1.1–3.1.4.) in your answer book.
- 3.1.1 A perfect competitor is a price (taker/searcher). (4 x 2) (8)
- 3.1.2 Total cost equals fixed cost plus (average/variable) cost. (4 x 2) (8)
- 3.1.3 Consumers are in (sovereignty/equilibrium) when the marginal utilities of products purchased by the consumer are equal. (8)
- 3.1.4 As people's salaries increase, they decrease their demand for (inferior/normal) goods. (8)
- 3.2 List any FOUR characteristics of a perfect market. (8)
- 3.3 Fill in the gaps in the following table: (8)

Chocolate bars eaten	Marginal utility	Total utility
1		30
2	40	
3		85
4		90

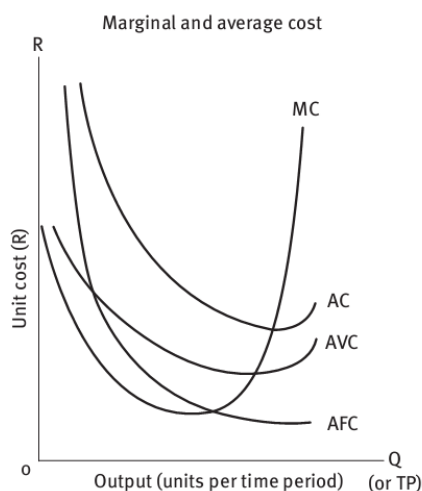
- 3.4 What is meant by the term total utility, and how is marginal utility calculated? (8)
- [40]

## QUESTION 4

Data response. Study the following revenue chart for Fruity Fruits (Pty)Ltd.

Quantity of fruit cans in 1000s	Labour units	Fixed cost (R)	Variable cost (R)	Total cost
0	0	50 000	0	50 000
1	5	50 000	5 000	55 000
2	10	50 000	10 000	60 000
3	15	50 000	15 000	65 000
4	20	50 000	20 000	70 000
5	25	50 000	25 000	75 000
6	30	50 000	30 000	80 000

- 4.1 Name three fixed costs. (3 x 2) (6)
- 4.2 Give examples of three variable costs. (3 x 2) (6)



- 4.3 What is included on the ATC curve? (3)
- 4.4 What cost is represented by the gap between AVC and ATC? (3)
- 4.5 Differentiate between short run costs and long run costs without drawing a graph. (16)
- 4.6 Explain the difference between normal profit and economic profit. (6)

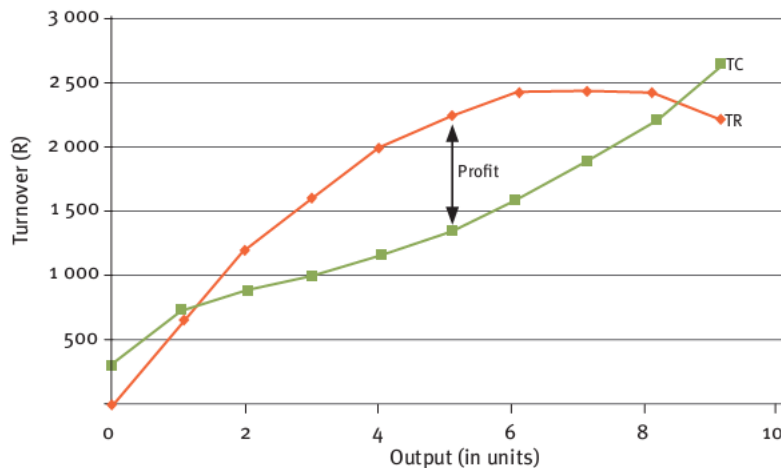
[40]

**SECTION C**

Answer one question.

**QUESTION 5**

Examine the diagram below and answer the questions that follow.



What does this diagram represent?

(4)

Explain the relationship between the profit a business earns and its costs and revenues.

(36)

[40]

**QUESTION 6**

“ The introduction of the new iPad (iPad 3) has created a huge interest in all our products, demand for related products such as the iPhone has increased and sales of iPad covers has also increased” said an Apple spokesman.

Explain what factors play a part in the price elasticity of demand for Apple products.

(10)

How does cross elasticity of demand affect the sales of items such as covers for iPad tablets?

(30)

[40]

**TOTAL MARKS: 150**



**END-OF-YEAR EXAMINATION 1****Macroeconomics and economic pursuits**

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**INSTRUCTIONS AND INFORMATION****TIME: 1 1/2 HOURS****MARKS: 150**

Answer FOUR questions in your answer book.

Make sure your name is on all your answer sheets.

Write the question number above each answer.

Number the answers correctly according to the numbering system used in this question paper.

Read the questions carefully and start each question on a NEW page.

Leave 2–3 lines between subsections of questions.

Write neatly and legibly.

Non-programmable calculators may be used.

**SECTION A COMPULSORY****QUESTION 1**

- 1.1.1 South Africa is generally considered to be a ... country.  
A) developing  
B) developed  
C) highly-developed
- 1.1.2 The ... divide shows the difference between rich and poor countries.  
A) east–west  
B) north–east  
C) North–South
- 1.1.3 Coal and oil are examples of ... resources.  
A) renewable  
B) non-renewable  
C) fixed
- 1.1.4 Globalisation has caused ...  
A) a reduction in poverty  
B) an increase in world trade levels  
C) a reduction of environmental problems.
- 1.1.5 One method of redistributing wealth through fiscal policy is by ...  
A) monetary policy  
B) price fixing  
C) taxation.
- 1.1.6 Which ONE of the following is NOT used to measure income inequality?  
A) Lorenz curve  
B) Gini coefficient  
C) elasticity coefficient
- 1.1.7 The International Monetary Fund (IMF) distinguishes between THREE groups of countries in measuring development. Which ONE does NOT fit the criteria of the IMF?  
A) first-world countries  
B) developing countries  
C) transitional economies
- 1.1.8 Free trade occurs when ...  
A) goods flow freely between countries  
B) state intervention protects local producers so that they can grow  
C) labour is allowed to move under a quota system. (16)

- 1.2 Give one word for each of the following descriptions by choosing a matching word from the box.

biodiversity	ecosystem	urban sprawl
alternative fuels	North–South divide	sweatshop
multinational company	free trade	greenhouse gases
the Kyoto Treaty	World Trade Organisation	poverty trap
centralised	monopoly	money market
repo rate	interest rate	oligopoly
relative poverty	mixed	

- 1.2.1 The variety of forms of life found within an ecosystem.  
 1.2.2 An international agreement to limit greenhouse gases.  
 1.2.3 the division of the world into mostly developed and less developed countries.  
 1.2.4 Organisation that promotes free trade.  
 1.2.5 When people are poor in comparison to others in the society.  
 1.2.6 A market composed of only a small number of dominant producers.  
 1.2.7 The rate at which the Reserve Bank is willing to extend credit to banks.  
 1.2.8 The economic system used in South Africa. (8)

- 1.3 Select the correct answer from the alternatives given in brackets. Write only the correct answer on your answer sheet.

- 1.3.1 (Globalisation/Free trade) occurs when two countries agree to trade without restrictions.  
 1.3.2 If a country is a net exporter, its currency will tend to (appreciate/depreciate) in value.  
 1.3.3 Globalisation has caused an (increase/decline) in the manufacturing sector.  
 1.3.4 Money invested in producing machines and buildings to be used in the production process is known as (savings/capital).  
 1.3.5 An international treaty to reduce greenhouse gas emissions is the (Kyoto/Millennium) treaty.  
 1.3.6 Fuels obtained from renewable plant sources are called (bio fuels/fossil fuels). (6)

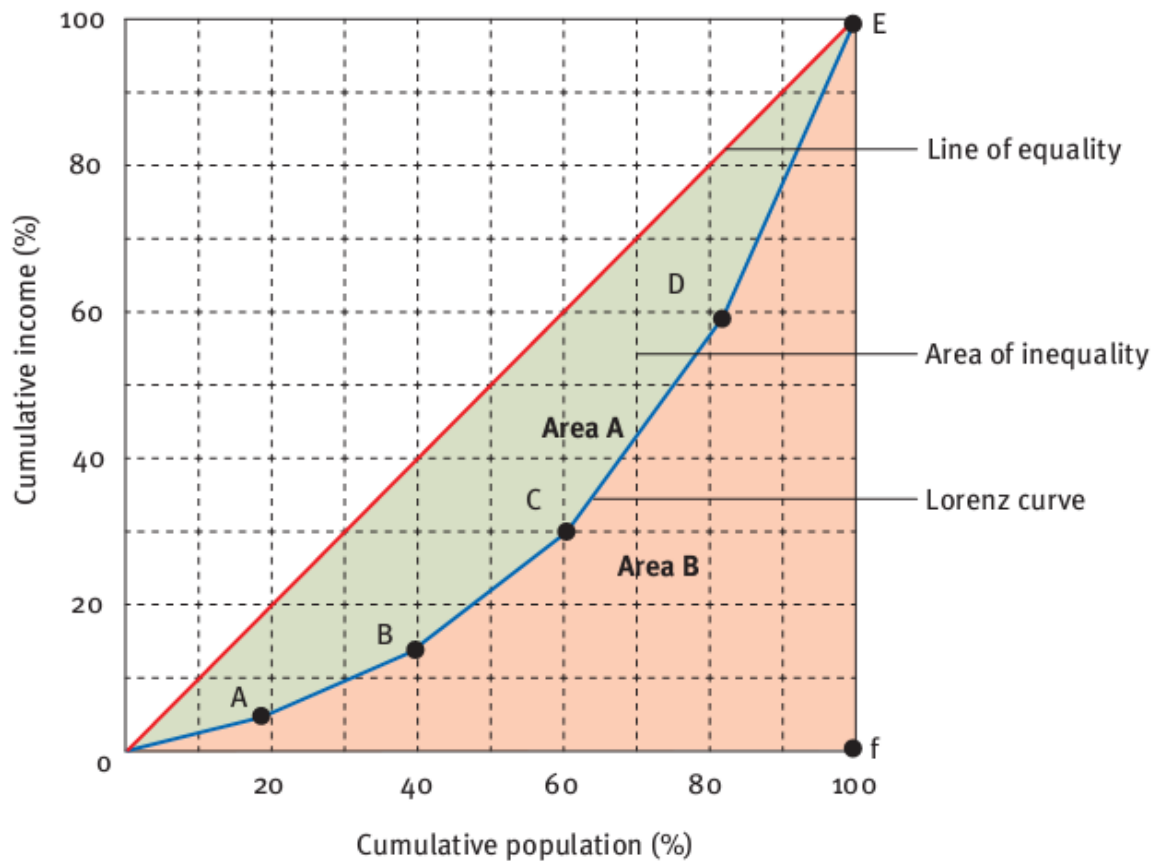
[30]

## SECTION B

Answer any two questions.

### QUESTION 2

2.1 Examine the table below and then answer the questions that follow.



- |       |  |      |
|-------|--|------|
| 2.1.1 | Explain what the Lorenz curve is used for and what it tells us.  | (8)  |
| 2.1.2 | Explain what the curve on the right tells us.                    | (4)  |
| 2.1.3 | Explain what the Gini coefficient is.                            | (8)  |
| 2.1.4 | What part of the graph above is related to the Gini coefficient? | (4)  |
| 2.1.5 | Give ways in which we can redistribute wealth in South Africa.   | (12) |
| 2.1.6 | Is a low Gini coefficient associated with a rich country?        | (4)  |

[40]

**QUESTION 3 ECONOMIC PURSUITS**

Data response.

Presently there are 38 known species of mammals that are extinct. However, of them there are some that are kept in captivity with scientists trying to save them from going extinct.

With global warming becoming a major issue, the fact is the existing 28 270 animal species of mammals are threatened by the harms done to the planet.

6 524 vertebrate species were listed as threatened, in the year 2006; in the same year 2 101 invertebrate-species were listed to be threatened.

In 2006, 253 fish species were listed as critically endangered; 442 amphibian-species were listed as critically endangered.

Currently 81 species of animals are considered extinct or critically endangered, as well as endangered or vulnerable.

- 3.1 Make a short note on the significance of the above facts on species at risk of extinction. (10)
  - 3.2 Explain the meaning of the word 'environment'. (2)
  - 3.3 Discuss the problem of land degradation. (6)
  - 3.4 List ONE type of pollution. (2)
  - 3.5 Explain any THREE negative consequences of globalisation. (3 x 2) (6)
  - 3.6 Explain any two aspects of environmental deterioration. (4)
- [40]

**QUESTION 4 MACRO ECONOMICS**

**The port of Ngqura** ( also known as Coega Harbour), which began commercial ship operations (containers) in October 2009, lies some 20km north-east of Port Elizabeth and is South Africa's 8th and latest commercial port development. The port of Ngqura is situated at the mouth of the Coega River in Nelson Mandela Bay (Algoa Bay). Transnet National Ports Authority of South Africa is responsible for developing the deepwater port, while Transnet Port Terminals (TPT) has been appointed to handle all terminal operations. The deepwater harbour at Coega is positioned as an important container terminal in sub-Saharan Africa.

- 4.1 Discuss two economic benefits of the new harbour. (4)
  - 4.2 How do you think the harbour has affected the tertiary sector of the economy? (4)
  - 4.3 Name an aspect of infrastructure development which benefited from the harbour. (2)
  - 4.4 Answer the following:
    - 4.4.1 The RDP was intended to be a strategy for (fiscal/socio-economic) transformation. (2)
    - 4.4.2 The main aim of GEAR is to improve (local/global) economic growth and development. (2)
    - 4.4.3 Liberal trade was started after the Second World War, with the establishment of the (IMF/GATT). (2)
  - 4.5 Discuss any four common characteristics of developing countries. (4 x 4) (16)
  - 4.6 How can increased tourism benefit South Africa? Give three ways. (6)
  - 4.7 Explain why improving the quality of the factors of production will promote economic growth. (8)
- [40]

## SECTION C

Answer any one question.

### QUESTION 5 ECONOMIC PURSUITS

- 5.1 Explain the meaning of absolute advantage in trade. (10)
- 5.2 With reference to country A and B below, discuss the possibility of trade. (10)

	Country A	Country B
Machinery	200	70
Clothing	300	30

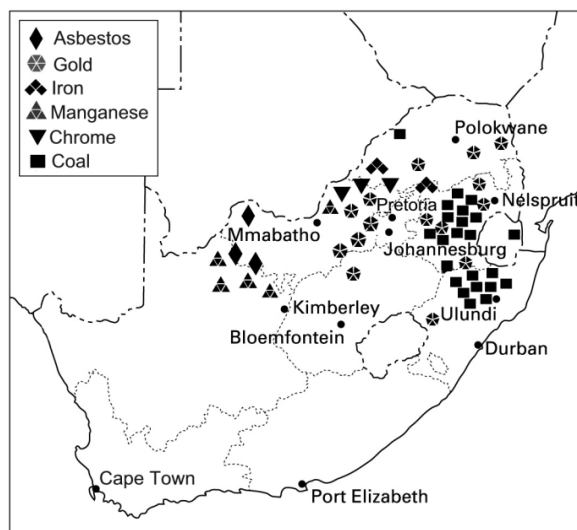
- 5.3 Globalisation has led to the widespread recognition of many brands. Discuss the positive and negative consequences that result from globalisation? (20)
- [40]

### QUESTION 6 ECONOMIC PURSUITS

Like all developing countries, South Africa must face the challenge of how to create economic growth whilst protecting the environment from degradation.

- Discuss the main environmental problems that must be addressed. (20)
- What steps can South Africa take to protect the environment? (20)
- [40]

### QUESTION 7



The chart above shows the geographical distribution of several important minerals in South Africa.

- 7.1 Discuss briefly the importance of the primary sector of the economy. (20)
- 7.2 Name the two other sectors of the economy. (4)
- 7.3 Give examples of three services. (6)
- 7.4 Explain how some South Africans were disadvantaged in the primary sector under the previous government. (10)
- [40]

TOTAL MARKS: 150

**END-OF-YEAR EXAMINATION 2****Microeconomics and contemporary economic issues**

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**INSTRUCTIONS AND INFORMATION****TIME: 1 1/2 HOURS****MARKS: 150**

Answer FOUR questions in your answer book.

Make sure your name is on all your answer sheets.

Write the question number above each answer.

Number the answers correctly according to the numbering system used in this question paper.

Read the questions carefully and start each question on a NEW page.

Leave 2–3 lines between subsections of questions.

Write neatly and legibly.

Non-programmable calculators may be used.

**SECTION A COMPULSORY****QUESTION 1**

- 1.1.1 The calculation for total revenue (TR) is ...  
A)  $TR = \text{price} - \text{quantity sold}$   
B)  $TR = \text{price} + \text{quantity sold}$   
C)  $TR = \text{price} \times \text{quantity sold}$ .
- 1.1.2 Which one of the following is not a concept associated with utility?  
A) total utility  
B) revenue utility  
C) marginal utility
- 1.1.3 Which one of the following is not a factor that determines price elasticity of demand?  
A) substitutes  
B) durability  
C) government intervention through the Reserve Bank
- 1.1.4 Price elasticity of demand is measured in ...  
A) percentages  
B) words  
C) diagrams.
- 1.1.5 The following is a factor that influences price elasticity of supply:  
A) exchange rate  
B) government legislation  
C) spare capacity.
- 1.1.6 Wealth is created by ...  
A) spending  
B) savings  
C) tax.
- 1.1.7 Factors of production include ...  
A) land  
B) interest  
C) rent.
- 1.1.8 The relationship between the cost of an input and an output in the long run is called the ...  
A) total variable cost  
B) economies of scale  
C) returns to scale.

(16)



1.2 Match the terms in the table below.

Column A		Column B	
1.2.1	Explicit costs	A	Does not include money
1.2.2	Non durable goods	B	A good that is consumed with another good
1.2.3	Short run	C	The additional costs of producing one more unit of a good
1.2.4	Marginal costs	D	The period of time in which at least one input in the production process is fixed
1.2.5	Complement	E	Air
1.2.6	Free good	F	Goods that are bought to be used in the production process
1.2.7	Fixed capital formation	G	Business expenses that are accountable
1.2.8	Wealth	H	Goods that can only be used once

(8)

1.3 Choose the correct word from the brackets.

- 1.3.1 Money invested in producing machines and buildings to be used in the production process, is known as (savings/capital).
- 1.3.2 Most of the income of households is spent on (durable/non-durable) goods.
- 1.3.3 A perfect competitor is a price (taker/searcher).
- 1.3.4 Total cost equals fixed cost plus (average/variable) cost.
- 1.3.5 If two products are jointly supplied and the price of one product increases, the supply of the other will (decrease/increase).
- 1.3.6 A market composed of only a small number of dominant producers is an (oligopoly/monopoly).

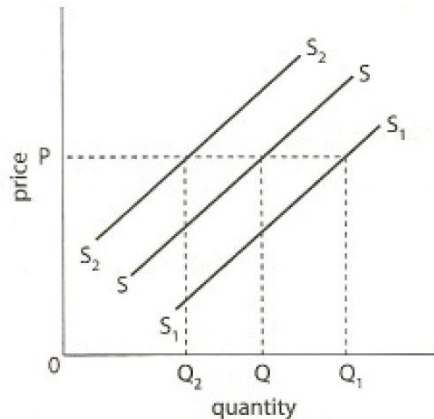
(6)

[40]

## SECTION B

Answer any two questions.

### QUESTION 2



- 2.1 The diagram above shows the supply curve,  $S$ , for a firm. Explain three factors that would make the supply curve shift to either  $S_2$  or  $S_1$ . (10)
- 2.2
- 2.2.1 Draw the diagram on your answer book and place on it a demand curve which intersects the three supply curves at the quantities given. (4)
- 2.2.2 The price is remaining constant. What does that tell you about the elasticity of demand?(6)
- 2.3 If butter and margarine are substitute goods, what will happen to the demand for butter if the price of margarine increases? Why? (4)
- 2.4 Write a brief explanation of the different types of income elasticity, giving examples. (16)
- [40]

### QUESTION 3

- 3.1 Give the correct answer for the following:
- 3.1.1 The price at which there is neither surplus nor shortage is called:
- the adjustment price
  - the equal price
  - the fair price
  - the market-clearing price.
- 3.1.2 Suppose that there has been a decline in the price of pork. What effect will this have on the market for beef?
- It will decrease demand and decrease supply.
  - It will decrease demand and decrease quantity supplied.
  - It will decrease quantity demanded and decrease supply.
  - It will decrease quantity demanded and decrease quantity supplied.
- 3.1.3 Which of the following will move the demand curve for pork to the right?
- a reduction in the cost of corn that is used to feed pigs
  - a reduction in the price of pork
  - an increase in the price of beef
  - all of the above

- 3.1.4 If both the demand curve and supply curve move to the left, we can predict:  
 A) price will fall, but we cannot predict quantity  
 B) price will rise, but we cannot predict quantity  
 C) quantity will rise, but we cannot predict price  
 D) quantity will fall, but we cannot predict price. (8)
- 3.2 Discuss four characteristics of labour. (8)
- 3.3 If bread and butter are complimentary goods, what will happen to the demand for butter if the price of bread increases? (2)
- 3.4 Explain what is meant by the term “wealth”. (6)
- 3.5 Explain and define the relationship between the two types of markets in the circular flow of the economy. (8)
- 3.6 List four conditions needed for a perfect market. (8)
- [40]

#### QUESTION 4

Look at the table below and answer the questions that follow.

Units of output	Price	AR	TR	MR
0	-	-	0	-
10	10	10	100	10
20	9	9		8
30	8	8	240	6
40	7	7		
50	6	6	300	2
60	5	5	300	0

- 4.1 What is the total revenue at output of 20 and 40 units? (4)
- 4.2 What is the marginal revenue at an output of 40 units? (2)
- 4.3 What is happening to the marginal revenue as sales increase? (2)
- 4.4 Complete the following sentence and write the full sentence in your answer book: Profits are ... at the level of output where MC = ... (4)
- 4.5 In order to supply goods, firms must plan their production. Draw a long run production diagram which explains how a producer’s average cost curve would be constructed. (8)
- 4.6 Explain the difference between constant, increasing and decreasing returns to scale. (12)
- 4.7 List four conditions found in an imperfect market. (8)
- [40]

**SECTION C**

Answer any one question.

**QUESTION 5**

Wal-Mart, the largest retailer worldwide, has been suspected of exercising market power over input providers, both merchandise suppliers and workers. It has been argued that Wal-Mart, in the United States, functions as a monopoly in certain market segments, as its buying power for a given item may dwarf the remaining market.

Write a report explaining how Wal-Mart may operate in an imperfect market. Include an explanation of how buying power over suppliers can be achieved by a large retailer such as Wal-Mart. [40]

**QUESTION 6**

*Many new businesses fail, not because of lack of work or opportunities but because they are unable to find the funding needed to get off the ground.*

Explain the meaning of the term “capital”, why venture capital is needed and why lack of capital hampers economic growth. [40]

**QUESTION 7**

*Profit is related to the costs incurred by a business and the revenues that the business earns.*

Discuss the statement above. [40]

**TOTAL MARKS: 150**

**MID-YEAR EXAMINATION 1****MACROECONOMICS****Memorandum**

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**TIME: 1 1/2 HOURS****MARKS: 150****SECTION A****QUESTION 1****1.1**

- 1.1.1 B
- 1.1.2 A
- 1.1.3 A
- 1.1.4 C
- 1.1.5 A
- 1.1.6 C
- 1.1.7 B
- 1.1.8 B

**(8 x 2) (16)****1.2**

- 1.2.1 Fiscal policy
- 1.2.2 Microeconomics
- 1.2.3 Globalisation
- 1.2.4 Circular flow
- 1.2.5 Command
- 1.2.6 Air
- 1.2.7 Renewable resource
- 1.2.8 Restaurants and shops

**(8 x 1) (8)****1.3**

- 1.3.1 G
- 1.3.2 D
- 1.3.3 B
- 1.3.4 C
- 1.3.5 A
- 1.3.6 F

**(6 x 1) (6)****[30]**

## SECTION B

## QUESTION 2

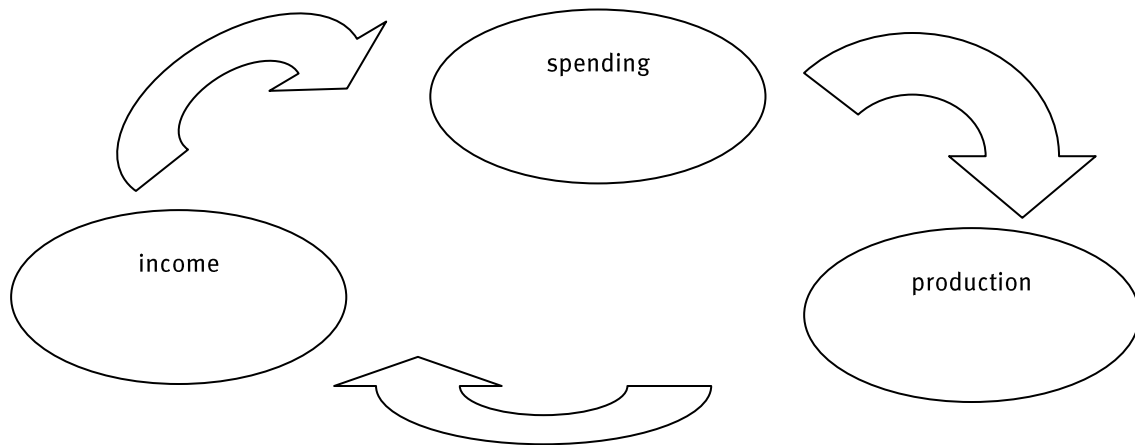
- 2.1
- 2.1.1 The gap has widened. √√ (2)
- 2.1.2 Lack of education √√ and training; √√ lack of employment. √√ (4)
- 2.1.3 Gini coefficient or Lorenz curve √√ (2)
- 2.2 social grants, √√ free benefits, √√ job creation programmes, √√ minimum wages, √√ reducing discrimination, √√ land redistribution, √√ taxation system √√ (5 x 2) (10)
- 2.3 luck, √√ savings, √√ inheritance, √√ profits from running a business √√ (2 x 1) (2)
- 2.4 capital investment – for new factories, businesses and mines and infrastructure √√√√  
improved labour productivity through better education, training and management √√√√  
raw materials – discovery of new deposits and better use of existing ones √√√√  
technological improvements to increase productivity of capital and labour √√√√ (16)
- 2.5 Wealth is all the factors of production owned by people and countries. It is not money. √√√√ (4)
- [40]

## QUESTION 3

- 3.1 The size of the primary sector decreased from 49% to 13 % of GDP. (2)
- 3.2 The secondary sector increased steadily from 6% to 26% during the period 1914–1960. √√ Since then, there has been a slight decrease from 26% to 21%. √√ The large increase is due to actions of the part of the government to create more secondary industries in South Africa √√ and reduce dependency on imported goods. √√ This increased economic growth has been matched by a similar increase in the size of the tertiary sector √√ which is an indication that our economy is developing. √√ (5 x 2) (10)
- 3.3 Formal markets exist; √√ there is a developed financial market; √√ people use more sophisticated communication methods; √√ more people demand professional services such as transport and hairdressers. √√ (3 x 2) (6)
- 3.4 Tertiary sector (2)
- 3.5 land, √√ labour, √√ capital, √√ entrepreneur √√ (4 x 2) (8)
- 3.6 gross domestic product (GDP) or gross domestic expenditure (GDE) (2)
- 3.7  $GDP(E) = C + G + I + X - M$ .  
Gross domestic product or expenditure √√ = household consumption √√ plus government consumption expenditure √√ plus investment (gross capital formation) √√ plus exports √√ LESS imports √√ (5 x 2) (10)
- [40]

## QUESTION 4

- 4.1 Rewards for factors of production can be wages for labour√√ or interest on capital or land. √√ (2 x 2) (4)
- 4.2 Imports would be a leakage from the economy √√ because money must leave the country to go overseas to pay for goods or services. √√ Exports would be an injection into the economy √√ because money will come into the country from overseas as foreign exchange from other countries that have bought our goods and services. √√ (4 x 2) (8)
- 4.3 6 marks for drawing √√√√√√



Factors of production buy goods and services (spending) √√ but they also offer factors of production for which they receive income. √√ Firms produce goods and services for which they receive income √√ and to produce these goods and services they spend on factors of production. √√ This creates a circular flow of goods, services and money. √√

(5 x 2) (10)

(16)

- 4.4 An intermediate good is still undergoing manufacturing √√ or is used further in the manufacturing process. √√ It is not yet ready for the final consumer. √√ A final good has completed the manufacturing process √√ and is ready to be bought by the final consumer. √√ It is not going to be sold again. √√

(4 x 2) (8)

- 4.5 air, sunshine, water in the sea √√√√

(2 x 2) (4)

[40]

## SECTION C

## QUESTION 5

## Wealth creation

- 1 Definition: wealth is the land labour and capital owned by people and countries and which allows people to earn an income. ✓✓ It is not money. ✓✓ The main sources of wealth are savings, inheritances, luck, and profits from running a business. ✓✓ (2)
- 2 Methods to create wealth: wealth is created by savings. ✓✓ Even if wealth has been inherited from a previous generation, the money must be saved in order to generate an income. ✓✓  $\text{Income (Y)} = \text{consumption spending (C)} + \text{savings (S)}$ . ✓✓ The main methods of wealth creation for a country are improved infrastructure, investment such as improving the skills of labour, increasing the quality of resources and use of more capital goods. ✓✓✓✓✓✓ (10)
- 3 Redistribution: wealth is not distributed evenly through the population of a country. ✓✓ This is particularly true of South Africa. ✓✓ The distribution of income can be shown using a Lorenz curve ✓✓ or using the Gini coefficient. ✓✓ The government uses various methods to redistribute income and improve the living conditions of the very poor. This helps create a more equitable and stable society. ✓✓ Methods to redistribute wealth include taxation, ✓✓ social grants, ✓✓ free benefits, ✓✓ job creation programmes, ✓✓ setting minimum wages, ✓✓ policies to reduce the effects of discrimination, ✓✓ land redistribution policies. ✓✓ (18)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

## QUESTION 6 ESSAY QUESTION

Definition: the tertiary sector consists of all the markets and circumstances where buyers and sellers of final goods and services meet. It is also called the services sector. ✓✓ (2) Examples of tertiary sector industries include finance, banking, transport, government services, retailing, accommodation and personal services. ✓✓✓✓ (4)

GDP: the tertiary sector is the dominant sector in more developed countries. ✓✓ Currently, the tertiary sector makes the biggest contribution to South Africa's GDP, ✓✓ which indicates that our economy is becoming more developed. ✓✓

Employment and training: ✓✓ because the tertiary sector is the biggest employer in our economy it provides opportunities for both skilled ✓✓ and unskilled workers. ✓✓ It also provides opportunities for training. ✓✓

Markets for goods and services: ✓✓ these are formal markets such as shops ✓✓ which operate in a legal form. ✓✓ The tertiary sector provides markets for goods and services both locally and internationally ✓✓ and many goods and services are either imported or exported. ✓✓ The tertiary sector provides communications systems that are needed to run efficient businesses ✓✓ and also a formal financial sector. ✓✓

Economic growth is created ✓✓ and industries such as tourism encourage overseas visitors to visit the country which brings in foreign exchange. ✓✓

The tertiary sector is also important in South Africa because it provides opportunities for affirmative action ✓✓ and Black Economic Empowerment. ✓✓ (Any 12 x 2) (24)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]



**MID-YEAR EXAMINATION 2****MICROECONOMICS****Memorandum**

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**TIME: 1 1/2 HOURS****MARKS: 150****SECTION A****QUESTION 1**

1.1

- 1.1.1 A
- 1.1.2 B
- 1.1.3 A
- 1.1.4 A
- 1.1.5 B
- 1.1.6 C
- 1.1.7 C
- 1.1.8 A

(8 x 2) (16)

1.2

- 1.2.1 Micro economics
- 1.2.2 Utility
- 1.2.3 Total Revenue
- 1.2.4 Complimentary

(8 x 2) (8)

1.3

- 1.3.1 F
- 1.3.2 D
- 1.3.3 E
- 1.3.4 A
- 1.3.5 B
- 1.3.6 C

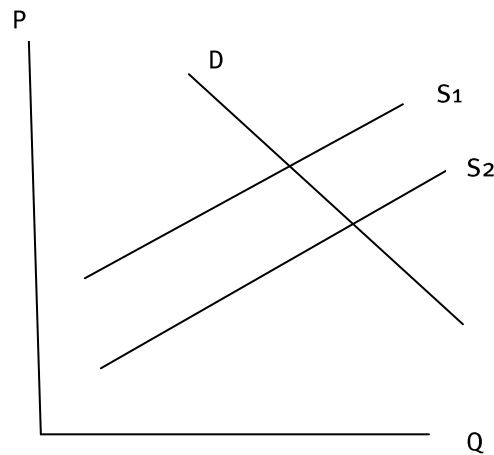
(6 x 1) (6)

[30]

## SECTION B

## QUESTION 2

- 2.1 Products are not homogenous; √√ there are often price setters; √√ producers collude; √√ incomplete market knowledge; √√ barriers to entry; √√ the state intervenes. √√ (4 x 2) (8)
- 2.2 substitutes, √√ durability, √√ time period, √√ income, √√ brand loyalty, √√ habit forming goods, √√ luxury goods or necessities √√√√ (8 x 2) (16)
- 2.3 An inferior good is one that people buy less of as income increases, such as bread and mealie meal, because they can afford to buy meat. √√√√ A luxury good is one that people buy more of as their income increases, such as jewellery, expensive yachts and cars. √√√√ (4 x 2) (8)



- 2.4 Supply curve shifts down; √√ farmers can supply more tomatoes at every price level; √√ demand curve does not change therefore more tomatoes are supplied at a lower price level. √√ (4 x 2) (8)  
[40]

## QUESTION 3

- 3.1
- 3.1.1 price taker √√
  - 3.1.2 variable √√
  - 3.1.3 equilibrium √√
  - 3.1.4 inferior √√ (4 x 2) (8)
- 3.2 price taker, √√ homogenous goods, √√ freedom of entry and exit from market, √√ buyers and sellers have perfect knowledge √√ (4 x 2) (8)

3.3

Chocolate bars eaten	Marginal utility	Total utility
1	30	30
2	40	70
3	15	85
4	5	90

(8)

- 3.4 Total utility is the total satisfaction gained from consuming additional units of a good, for example ice cream. √√√√ Marginal utility is gained with each additional unit consumed until eventually no extra satisfaction is gained at all. √√√√ (4 x 2) (8)  
[50]

**QUESTION 4**

- 4.1 rent, √√ office staff, √√ mortgage √√ and interest repayments √√ (3 x 2) (6)  
4.2 labour, √√ electricity, √√ telephone, √√ hourly paid staff √√ (3 x 2)  
4.3 total costs divided by the quantity of output to give total cost per unit √√√ (3)  
4.4 average fixed costs √√√ (3)  
4.5 In the short run, it is difficult to alter production √√√ because changes in capital goods such as machinery and buildings √√ take time to implement, √√√ therefore short run is the time period in which at least one factor of production is fixed. √√√ In the long run, all factors of production become variable √√ and can be changed. √√ (16)  
4.6 Economic profit is the difference between the revenue received from sales and the opportunity cost of the inputs used in the process. √√√ Normal profit is the minimum level of profit needed by the firm to remain competitive. √√√ (6)  
[40]

## SECTION C

## QUESTION 5

- 1 Profit: the main aim of any business is to make maximum profit. ✓✓ Profit is the difference between the costs of production and the selling price. ✓✓ (4)
- 2 Explanation of fixed and variable costs: the short run is the period of time in which at least one factor of production is fixed ✓✓ and output can only be changed by using more or less of the variable factors. ✓✓ Variable costs are those that change directly with output, ✓✓ such as costs of raw materials, wages of part-time workers or hourly paid workers, costs of electricity and water. ✓✓  
Average variable costs (AVC) =  $\frac{\text{total variable costs (TVC)}}{\text{output (Q)}}$ . Fixed costs are costs that do not vary with output such as rent and salaries of full time staff. ✓✓ The average total cost is the cost per unit produced. ✓✓ (Any suitable answer 4 x 2 = 8)
- 3 Profit and loss: this is calculated by subtracting total costs from total revenue. ✓✓ Total revenue must exceed total costs or a loss is made. ✓✓ We can calculate profits and losses by using marginal revenue and marginal costs. ✓✓ Profits are maximised where MC = MR. ✓✓ (8)
- 4 The entrepreneur uses the factors of production, land, labour and capital to produce goods and services. ✓✓ He must look at the opportunity cost of producing one good rather than another. ✓✓ There are three types of profit that can be made: accounting profit, economic profit or normal profit. ✓✓ Normal profit is the minimum profit needed for the business to remain competitive. ✓✓ Economic profit is profit in excess of normal profit. ✓✓ It is the difference between the revenue received from the sale of output and the opportunity cost of using factors of production in another way. ✓✓ It shows that the firm is earning more than it could in any other way and that production processes are being used in the best possible manner. ✓✓✓✓ (10)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

## QUESTION 6

Price elasticity of demand tells us about how consumers react to a change in price of a good. We can measure the % change in quantity demanded with a change in price. This is important for suppliers as it tells them how consumers will react. ✓✓✓✓✓✓ (6)

Factors which affect elasticity are: substitute goods, ✓✓✓✓ the proportion of income spent on a good, ✓✓✓✓ durability, ✓✓✓✓ time period, ✓✓✓✓ brand loyalty, ✓✓✓✓ habit forming goods. ✓✓✓✓ In the case of cars, they are a luxury or durable goods, therefore they are income elastic, and in a recession people do not usually buy them. ✓✓✓✓ Maize products and bread are necessities and income inelastic, therefore people have to buy them. ✓✓✓✓ (Plus explanation) (24)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

**END-OF-YEAR EXAMINATION 1****Memorandum****Macroeconomics and economic pursuits**

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**SECTION A****QUESTION 1****1.1**

- |       |   |      |
|-------|---|------|
| 1.1.1 | A |      |
| 1.1.2 | B |      |
| 1.1.3 | B |      |
| 1.1.4 | B |      |
| 1.1.5 | C |      |
| 1.1.6 | C |      |
| 1.1.7 | C |      |
| 1.1.8 | A | (16) |

**1.2**

- |       |                          |     |
|-------|--------------------------|-----|
| 1.2.1 | biodiversity             |     |
| 1.2.2 | Kyoto treaty             |     |
| 1.2.3 | North–South divide       |     |
| 1.2.4 | World Trade Organisation |     |
| 1.2.5 | relative poverty         |     |
| 1.2.6 | oligopoly                |     |
| 1.2.7 | repo rate                |     |
| 1.2.8 | mixed                    | (8) |

**1.3**

- |       |            |      |
|-------|------------|------|
| 1.3.1 | free trade |      |
| 1.3.2 | appreciate |      |
| 1.3.3 | increase   |      |
| 1.3.4 | capital    |      |
| 1.3.5 | Kyoto      | (10) |
| 1.3.6 | bio fuels  | (6)  |
|       |            | [30] |

## SECTION B

## QUESTION 2

- 2.1.1 The Lorenz curve is used to show the distribution of income √√ in a country √√ and the level of inequality that exists. √√ The further from the centre median, the greater the inequality. √√√√ (8)
- 2.1.2 how unequal the distribution is. √√ (4)
- 2.1.3 The Gini coefficient measures the inequality of income. √√ A Gini coefficient of zero expresses perfect equality √√ where all values are the same √√ (for example, where everyone has an exactly equal income). √√ (8)
- 2.1.4 the curved line √√√√ (4)
- 2.1.5 taxation, √√ subsidies, √√ grants, √√ land redistribution √√ (4 x 3) (12)
- 2.1.6 Yes, a high coefficient represents inequality. √√√√ (4)
- [40]

## QUESTION 3

- 3.1 38 of the worlds species have gone extinct; √√ 81 are considered endangered; √√ 28 270 animal species are considered threatened; √√ many fish and amphibians are also threatened. √√ This means that nearly half of all species are either vulnerable or threatened. √√ (5 x 2) (10)
- 3.2 The environment is all living and non-living things that surround us. √√ (2)
- 3.3 damage to the land √√ such as deforestation, √√ soil erosion, √√ dangerous waste disposal, √√ bad farming practices √√ (3 x 2) (6)
- 3.5 air, √√ water, √√ ground, √√ sea √√ (2)
- 3.6 increased economic growth, for example China or India, √√ √√ widening of the gap between the rich and poor nations, due to MNCs, √√√√ loss of national identity – individual cultures get swamped, √√√√ changing patterns of employment conditions – use of sweat shops, √√√√ increased levels of trade – more choice, √√√√ destruction of the environment – exploitation of raw materials √√√√ (3 x 2) (6)
- 3.7 climate change √√ loss of biodiversity, √√ land degradation, √√ pollution, √√ problems of waste management, √√ energy crisis, √√ over exploitation of natural resources √√ (2 x 2) (4)
- [40]

## QUESTION 4

- 4.1 increased economic growth through infrastructure building, communications systems improved, inflows of money through building and commercial shipping, employment for construction √√√√(4)
- 4.2 banking, insurance, shops and other services √√√√ (4)
- 4.3 Roads or stadiums √√ (2)
- 4.4
- 4.4.1 socio economic √√ (2)
- 4.4.2 local √√ (2)
- 4.4.3 GATT √√ (2)
- 4.5 low standards of living, √√ low per capita income, √√ low levels of literacy, √√ low life expectancy, √√ high population growth rates, √√ dependency on primary products, √√ low productivity, high unemployment √√ (4 x 4) (16)
- 4.6 more employment, √√ inflows of foreign exchange, √√ skills training of labour √√ (6)
- 4.7 promoting entrepreneurship, √√ improving the quality and quantity of natural resources, √√ increased capital investment, √√ greater quality of trained labour √√ (8)
- [40]

**SECTION C****QUESTION 5**

A country has an absolute advantage over another country if it can produce more of a particular product √√ than other countries with the same amount of resources. √√ If two countries both have an absolute advantage in different products, √√ it is possible for specialisation √√ to lead to an increase in world output. √√ (10)

Country A has an absolute advantage in producing both goods but a comparative advantage in producing clothing. √√ Country B produces more machinery when it uses all its resources, √√ therefore they should trade, using their comparative advantages. Country A should produce clothing √√ and Country B should produce machinery. √√ (10)

Unrestricted globalisation can hamper the development of less developed countries. √√

Multinational companies may drive local companies out of business. √√

Countries become dependent on other countries for meeting their needs for goods and services. √√

Globalisation may also lead to faster spread of infectious disease. √√

Globalisation operates mainly in the interests of richer countries. √√

There are no guarantees that the wealth from inward investment will benefit the local community. √√

There is a loss of national identity. √√

The spreading of economic problems occurs because any economic problem in one of the major economies spreads rapidly to the rest of the world. √√

Destruction of the natural environment and problems such as pollution spread. √√

Resources are being exploited at a high rate. √√

The spread of American and European cultures to other parts of the world is happening. √√

The gap between the rich and the poor has widened. √√

Unemployment occurs in countries where smaller producers have not been able to compete with larger companies in China and India. √√ (10 x 2) (20)

[40]

**QUESTION 6**

Methods to protect the environment: passing of laws, √√ reducing emissions from vehicles, √√ using new technology, √√ public opinion, √√ awareness of businesses and households, √√ building energy efficient houses, √√ removing additives from petrol. √√ (Maximum 15)

Main environmental challenges: climate change, √√ loss of biodiversity, √√ energy crisis, √√ over exploitation of natural resources, √√ land degradation, √√ overpopulation, √√ pollution, √√ waste management. √√ (Maximum 15)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

**QUESTION 7**

7.1

- It provides raw materials for secondary industries.
- It provides power.
- It earns foreign exchange and stimulates trade.
- It contributes to GDP.
- It provides employment and training and increases skills.
- It produces food.
- It increases state income.

(Any 5 x 2 facts) (20)

7.2 secondary and tertiary

(4)

7.3 banks, shops, restaurants, doctors, schools

(Any three appropriate answers) (6)

7.4 Discrimination in South Africa before 1994 meant that many black people lost their traditional lands to white farmers and were unable to buy land outside of the areas reserved for black people. They were also unable to receive the state financial assistance that was provided for white farmers. The Land Redistribution Programme was started in 1995 and is aimed at improving the access of black people to farming land, however its progress in increasing black ownership of farms has been slow.

Mines have been mainly owned by foreign shareholders but the mining sector has concluded a large number of black empowerment agreements since 2006.

(10)

[40]

**TOTAL MARKS: 150**



## END-OF-YEAR EXAMINATION 2

## Memorandum

Microeconomics and contemporary economic issues

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## SECTION A

## QUESTION 1

## 1.1

- 1.1.1 B
- 1.1.2 B
- 1.1.3 C
- 1.1.4 A
- 1.1.5 C
- 1.1.6 B
- 1.1.7 A
- 1.1.8 C (16)

## 1.2

- 1.2.1 G
- 1.2.2 H
- 1.2.3 D
- 1.2.4 C
- 1.2.5 B
- 1.2.6 E
- 1.2.7 F
- 1.2.8 A (8)

## 1.3

- 1.3.1 capital
  - 1.3.2 non durable
  - 1.3.3 price taker
  - 1.3.4 variable
  - 1.3.5 decrease
  - 1.3.6 oligopoly (6)
- [40]

## SECTION B

## QUESTION 2

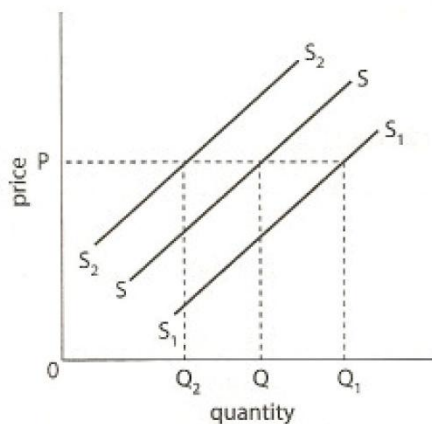
- 2.1 changes in price of inputs, technological changes, changes in consumer tastes, availability of inputs, changes in complimentary or substitutes goods √√√√√ (3 x 2) (6)

Positive changes will shift the supply curve upwards to the left; the firm can supply more at every price level. Negative changes will shift the supply curve downwards to the right; the firm will supply less at every price level. √√√ (4)

(10)

2.2

2.2.1



(4)

- 2.2.2 Consumers are only prepared to buy at the current price, therefore the demand is inelastic. √√√√√ (6)

- 2.3 People will switch to buying margarine √√ therefore the demand for margarine will increase. √√ (4)

2.4

- 2.4.1 Normal goods have a positive income elasticity of demand. As the income of consumers rises, more is demanded at each price level, and as the income of consumers drops less is demanded at each price level. Examples are fruit and clothing. √√√√  
Essential goods are income inelastic because they are essential. The change in income is greater than the change in demand. Examples are basic necessities such as bread, milk, bus and taxi fares. √√√√

Luxury goods are income elastic; the change in income is less than the change in quantity demanded. Examples are expensive cars, jewellery and holidays. √√√√

Inferior goods are goods which have a negative income elasticity of demand because as the income of consumers rise, less is demanded at every price level. Examples are state housing and non-branded supermarket goods. √√√√ (16)

[40]

## QUESTION 3

3.1

3.1.1 D

3.1.2 C

3.1.3 D

3.1.4 D

3.2 Ownership can't be separated from the person selling the service. √√ Usually, labourers need to be physically present when their services are used. √√ Labour cannot be stored or hoarded for use in the future. √√ The geographical and occupational mobility of labour is relatively low. √√ Labour is heterogeneous. √√ The use of labour by a firm is a bargaining process between the firm and the worker. √√ It is not possible to increase the supply of labour on short notice. √√ (4 x 2) (8)

3.3 The demand for butter will decrease. √√ (2)

3.4 Wealth is all the factors of production owned by people and countries, that is, land, labour and capital. It is NOT money in the bank. √√√√ (4)

3.5 The circular flow of the economy comprises of two markets, the goods markets and factor markets, √√ the goods market is made up of all the individual goods and services demanded, √√ and the factor market is made up of the factors of product which are used by the entrepreneur – land labour and capital. √√ The two markets are interlinked. √√ (8)

3.6 homogenous products, √√ many buyers and sellers, √√ buyers and sellers do not get together, √√ complete knowledge of the market, √√ free access to the market, √√ no government intervention, √√ all sellers have the same transport costs √√ (8)

[40]

## QUESTION 4

Units of output	Price	AR	TR	MR
0	-	-	0	-
10	10	10	100	10
20	9	9	180	8
30	8	8	240	6
40	7	7	280	4
50	6	6	300	2
60	5	5	300	0

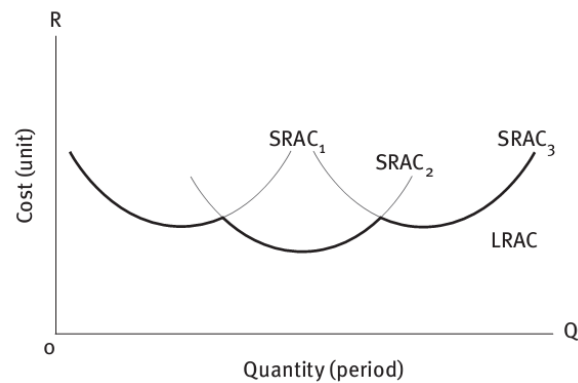
4.1 180 and 280 √√√√ (4)

4.2 4 √√ (2)

4.3 It decreases. √√ (2)

4.4 Profits are maximised at the level where marginal revenue equals marginal costs. √√√ (4)

4.5



The diagram should be clearly marked and show both the long run cost curve and a series of short run curves. ✓✓✓✓✓✓✓✓ (8)

4.6 Constant returns to scale occur when the increase in total revenue is proportional to the increase in total costs. ✓✓✓✓ Increasing returns to scale occur when the increase in total profits is greater than the increase in total costs. ✓✓✓✓ Decreasing returns to scale occur when the increase in total profits is less than the increase in total costs. ✓✓✓✓ (12)

4.7 barriers to entry, ✓✓ no homogenous products, ✓✓ imperfect knowledge on the part of buyers and sellers, ✓✓ sole ownership of a resource, ✓✓ collusion between sellers, ✓✓ firms are price setters ✓✓ (8)

[40]

## SECTION C

## QUESTION 5

Types of imperfect markets: monopoly, oligopoly, monopolistic competition √√√√√ (6)

Reasons: capital, ownership of raw materials, ownership of patent or copyright, technology √√√√√√√ (4 x 2) (8)

Characteristics of each type of market: monopoly, oligopoly, monopolistic competition (16)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

## QUESTION 6

Definition of capital: manufactured goods used in the production of consumer goods. √√√ (4)

Sources: households, businesses, government, foreign countries √√√√√√√ (8)

Characteristics: essential for economic growth, capital goods depreciate and need replacing, can be classified as social or human capital √√√ (4)

Importance: economic growth cannot occur without capital. √√ When businesses spend money on capital goods it is called investment; √√ needed for maintaining production; √√ allows economic growth to occur; √√ capital deepening occurs when the amount of capital per worker increases so that the stock of capital is greater than the number of workers; √√ direct foreign investment √√ occurs when a foreign company builds a factory locally. √√ (14)

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

## QUESTION 7

*Profit is related to the cost incurred by a business and the revenues that the business earns.*

Discuss the statement above.

The main objective of a business is **profit maximisation**. √√ Profit can be:

- the difference between the cost of production and its selling price
- the amount left over after all the production costs have been paid
- any additional income received by entrepreneurs. √√√√√

**Opportunity cost** is the value of the next best alternative that is sacrificed so that something else can be achieved. As a consumer we all know that goods, services and money are scarce and we have to make choices as to what we do and don't buy with our money. √√√√√

There are three ways in which profit can be expressed: accounting profit, economic profit and normal profit.

- 1 **Accounting profit.** Businesses incur explicit and implicit costs. Explicit costs are expenses easily accounted for, such as wages, rent, etc. Implicit costs are intangible costs such as time and effort that go into running a business. The accounting profit only takes into account the explicit costs of running a business. The accounting profit is the amount left over after all these costs have been paid. This method creates the wrong impression as the **implicit costs** have been omitted. √√√√√
- 2 **Economic profit (or loss).** This is the difference between the revenue received from the sale of an output and the opportunity cost of the inputs used plus the explicit costs. It shows how well

resources are being utilised relative to other options, showing that the business is earning more than it could in another way. ✓✓✓✓✓✓

The opportunity costs of using the resources for another purpose are deducted from revenues earned. This means that it is possible to have an accounting profit with little or no economic profit.

- 3 **Normal profit.** This is the minimum level of profit needed for a business to remain competitive in the market. This occurs when its resources are being efficiently used and could not be better used. It is different to accounting profit because opportunity cost is considered. ✓✓✓✓✓✓

Profits and losses – total profit equals total revenue less total costs. ✓✓ If TR is greater than TC, the firm is making a profit, ✓✓ and if TR is less than TC the firm is making a loss. ✓✓

Format – 5 marks

Body – 30 marks

Interpretation of question – 5 marks

[40]

**TOTAL MARKS: 150**