



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2020

**ECONOMICS  
MARKING GUIDELINES**

Time: 3 hours

300 marks

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

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

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

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

**SECTION B****QUESTION 2      MACROECONOMICS**

2.1    2.1.1    Expenditure method

2.1.2    A = 641 512

B = Change in inventories

C = Residual item

D = Exports

E = 937 740

2.1.3    **Formula and/or application of the formula 2 marks, answer 2 marks**

$$3\,144\,539 - 3\,119\,984 / 3\,119\,984 \times 100 = \mathbf{0,79\% \text{ or } 0,8\%}$$

2.2    2.2.1    Describe 2 marks; Example 1 mark

The marginal propensity to consume is the fraction of additional income that households will spend on consumption. OR The marginal propensity to consume reflects the proportion of any extra income received that will be spent. (max 2)

For example, if the  $mpc = 0,6$  it means that the consumer will spend 60% of extra income. OR It implies that the consumer will spend R60 of every additional R100 received. (max 1)

2.2.2    **Formula and/or application of the formula 1 mark, answer 2 marks**

Formula:

$$\frac{1}{1 - mpc}$$

$$= \frac{1}{0.2}$$

$$= 5$$

2.2.3    **Initial calculation 1 mark**

$$R20 \text{ million} - R4 \text{ million} = R16 \text{ million}$$

**Formula and/or application of the formula 1 mark, answer 2 marks**Initial injection  $\times$  multiplier = Total increase in GDP

$$R16 \text{ million} \times 5 = \mathbf{R80 \text{ million}}$$

OR

Size/Value of injection/s

$$\frac{\quad}{1 - mpc}$$

$$= \frac{16}{1 - 0.8}$$

$$= \frac{16}{0.2}$$

$$= \mathbf{R80 \text{ million}}$$

- 2.3 2.3.1 It is of little use to businesses that want to anticipate and prepare for future changes in the business cycle.

2.3.2 **Explanation 4 marks; Usefulness 2 marks**

Leading economic indicators are indicators that change before the economy changes. Lagging economic indicators do not change direction until a few quarters after the economy does.

For the purposes of planning and predicting, leading indicators are more useful than lagging indicators. OR Leading indicators are not always accurate in predicting what happens next.

OR

Lagging indicators do provide valuable insight into structural problems in the economy. OR They also serve the useful purpose of confirming business cycle changes.

- 2.4 2.4.1 The balance of payments account is a systematic record of all economic transactions between residents of a country and the rest of the world. OR The balance of payments records the value of a country's transactions with the rest of the world.

2.4.2 **Formula and/or application of the formula 3 marks, answer 1 mark**

Merchandise exports + Net gold exports – Merchandise imports

$$1\,175\,547 + 71\,678 - 1\,222\,944 = \underline{24\,281}$$

- 2.4.3 Deficit Change in net gold and other foreign reserves decreasing/negative.

2.4.4 **Name 3 × 1 = 3 marks; Explanation 3 × 2 = 6 marks; Suggestion 1 × 2 = 2 marks**

Direct investments (FDI) – includes transactions relating to the investments of businesses for the purpose of obtaining a meaningful share (10% plus) or control of such a business.

OR Flows of money that are used to purchase resources in the form of existing companies or to set up new companies.

Portfolio investments – Portfolio investment is investment in financial assets. Portfolio investment refers to the purchase of assets such as shares or bonds between foreigners and South Africans. The motive for portfolio investment is short-term financial gain. OR The flow of money between countries where money is used to buy shares quoted on that country's stock market.

Hot money or other investment – Refers to flow of money into and out of countries as investors seek to get the highest rate of return OR Consists of flows of money such as deposits, loans or currency investment. These flows are volatile.

**Suggestion:** (max 2 marks)

Encouraging foreign investment in South Africa, especially direct investment in the form of equity ownership and participation.

Any improvement in the efficiency of the domestic economy to allow our products to be more competitive and therefore increase exports

Promoting exports.

Reducing imports through import substitution policies as well as import tariffs.

Political stability to encourage stability within the economy to promote growth.

Stronger regional economic co-operation and trade agreements.

Address shortcomings of failing SOEs to increase confidence in the economy.

Any reasonable answer.

Must expand on point to get the full 2 marks. (max 11 marks)

**QUESTION 3      MICROECONOMICS**

- 3.1    3.1.1   A = 10  
              B = 9  
              C = 22  
              D = 30

3.1.2   At Quantity 6,  $MR = MC$  OR the difference between TR and TC is the greatest.

- 3.2    **Per discussion point: Explanation 3 × 2 marks, with at least 2 of these marks for government response.**

**Externalities**

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

Externalities can be positive or negative. For example, the building of a new freeway may have a positive influence on those people in the area because they can now get to work quicker, but for others it might reduce the value of property because of the noise and pollution.

*Taxes, subsidies and regulations are the most common ways in which the government chooses to deal with externalities.*

**Merit/demerit goods**

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

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

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

Demerit goods are overproduced and over consumed.

Therefore under allocation of resources to merit goods and over allocation of resources to demerit goods. *Government can provide merit goods or subsidise the production of merit goods, e.g. government subsidy for education. Government uses regulations to prohibit the production and consumption of some demerit goods, e.g. gun licences.*

**Public goods**

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

Public goods are under produced by the market system. Too few consumers are prepared to pay for the good, would rather be free-riders.

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

*To get around this the government supplies public goods and pays for them by raising taxes.*

**Imperfect competition**

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

*One option is for government to do nothing about this and trust that large profits will attract competitors to the market.*

*Can regulate through competition policy.*

**Imperfect information**

Under conditions of perfect competition, consumers and producers are assumed to have access to all the information that is necessary to enable them to make the most informed decisions about production and consumption.

In the real world there is asymmetric information, e.g. seller of a used car has more information about the car than the buyer.

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

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

*Government can force firms to disclose information about their products, e.g. danger of cigarette smoking.*

**Unequal distribution of income**

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

**Immobility of factors of production**

Under conditions of perfect competition the factors of production are assumed to be perfectly mobile. However, in the real world factors of production are not free to move from one area to another. Capital is fixed. It is not easy to move factory and machinery. The government often has strict controls on the movement of labour between countries. As a result of immobility of factors of production the economy's capacity to produce output is reduced. *Government can introduce training schemes to ensure the unskilled acquire skills. Government can subsidise transport so workers can go from rural areas to the towns to work.*

**Accept any other relevant cause of market failure and the recommended government action.**

3.3 3.3.1 A monopoly is a market structure in which there is only one seller.

3.3.2 **Nature of the Product**

The good or service is unique and has no close substitutes.

DStv's offering is unique when it comes to satellite television, with its extensive range of channels and sports broadcasting rights.

**Access/entry to the market**

Entry to the market is completely blocked because of laws, ownership of a resource etc.

Satellite television is regulated through laws and licenses.

**Company's control over the price of the product**

Significant control, but cannot just charge any price OR Price-maker.

Due to limited direct competition, DStv has significant control over its price.

**Availability of market knowledge**

The Monopolist has perfect knowledge OR buyers have imperfect knowledge.

This is true in the case of DStv as consumers have imperfect information.

Accept any other reasonable answer arguing for or against the characteristics of the market structure.

3.3.3 Lower prices for consumers.

Improvements in quality.

Wide choice.

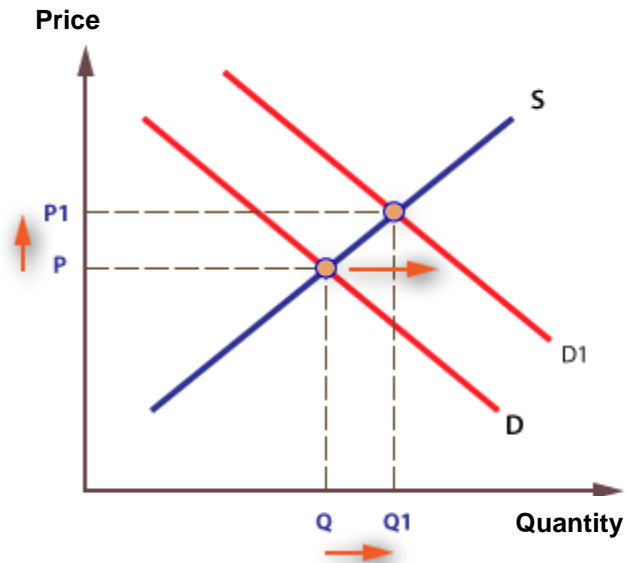
Leads to greater efficiency.

3.3.4 The cross price elasticity will be positive.

Online streaming and DStv can be considered to be substitutes.



3.3.5

**Mark allocation:**

Shift in demand curve up and to the right.  
Indicating the increase in price and increase in quantity.  
Correct labelling of axes and curves.

**QUESTION 4 CONTEMPORARY ECONOMIC ISSUES**

- 4.1 4.1.1 Economic growth: An increase in the productive capacity of an economy from one time period to the next OR increase in real GDP.  
Economic development: The process necessary to bring about a significant improvement in the general standard of living of the majority of the population or high unemployment or increase in GDP per capita.  
OR Economic development is a broader concept than economic growth. It is concerned with human development and deals with issues such as education and health or the increase in the general standard of living of the majority of the population in a country.
- 4.1.2 Chile
- 4.1.3 Indonesia
- 4.1.4 GDP per capita  
Life expectancy at birth  
Literacy rate (expected years of schooling for children and average years of schooling for adults)
- 4.1.5 Chile and Equatorial Guinea have the same GDP per capita but Chile's HDI is higher, suggesting that healthcare and/or education is better in Chile.  
Gabon and Indonesia have the same HDI but Gabon's GDP per capita is higher than Indonesia's, suggesting that Indonesia's healthcare and/or education is better than Gabon's.  
Accept any other reasonable answer.
- 4.2 4.2.1 The gap in income/wealth between one group and another.
- 4.2.2 Any TWO developing countries  $2 \times 1 = 2$ .  
Ethiopia, Niger, India, Tanzania, Russia, China, Zimbabwe, Cameroon, Brazil, South Africa  
Any TWO developed countries  $2 \times 1 = 2$ :  
Norway, Switzerland, United Kingdom, United States
- 4.2.3 The Gini coefficient is the measure of income inequality, ranging from 0 to 1. 0 is a perfectly equal society and a value of 1 represents a perfectly unequal society. Out of all the countries listed in the chart, South Africa has the highest income inequality/worst Gini coefficient.
- 4.2.4 **Action e.g. increasing direct tax and decreasing indirect tax**  
 **$2 \times 1$  marks Explanation  $2 \times 2$  marks**  
Increasing the top marginal rate of income tax ensures that those on higher incomes pay relatively more tax than those on lower incomes, decreasing income inequality.  
Decreasing the rate of an indirect tax such as the goods and services tax will improve income equality as those on lower incomes tend to spend more and hence pay a greater proportion of their income in tax.

Accept other reasonable answers, for example:

Increasing capital gains (or wealth) tax

Progressive/regressive taxes

Make income tax system more progressive (lower tax rates on lower incomes)

Company tax reduction that creates more employment

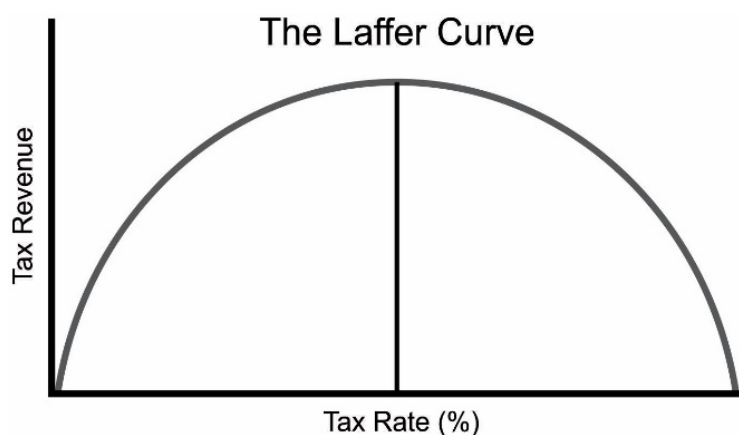
4.3 4.3.1 7 280 000 (13% of 56 000 000)

4.3.2 R70 000 to R500 000

4.3.3 South Africa's income tax system is progressive.

With a progressive tax system, the marginal rate of tax rises as income rises, i.e. as people earn more income, the rate of tax on each extra rand earned goes up.

4.3.4



**Mark allocation: Graph 4 marks, Explanation of graph 2 marks**

Drawing and labelling of the Laffer Curve.

Correct labelling of axes.

The Laffer Curve concept infers that a tax rate cut could lead to an increase in tax revenue, or a decrease in tax revenue, depending whether you have already passed the 'optimal tax rate'.

**Analysis 6 marks (3 × 2 = 6)**

People stop working if tax is too high.

People look to avoid/evade tax

Leave the country to seek work elsewhere.

Any other reasonable answer

**QUESTION 5      MIXED QUESTIONS**

- 5.1      5.1.1      Import tariff/s: These are duties or taxes levied on imported products by the government.  
Import quotas: The government limits the quantity of goods or services that can be imported into the country.

5.1.2      **[Relevant reason identified (2); Explanation (2)] × 3**

**Protection of specific industries/Infant industries:**

Newly established industries find it very difficult to compete with the cheaper costs of production of long-established firms.

They are also sometimes exposed to dumping when other countries sell goods at below cost.

Older industries that struggle to compete can also be protected.

**Increase in Employment:**

The protection of local industries is an important mechanism to protect jobs in a country. Keep local producers in business by eliminating competition thus preserving jobs.

It is reasoned that if local industries were not protected, they would not be able to compete, with the subsequent loss of vital jobs.

**Prevention of dumping:**

Dumping occurs when goods are sold on foreign markets at below the cost in the original country.

Imported cheap goods could be disastrous for local competitors and local jobs.

Sometimes these imported cheap goods are of inferior quality.

**Encourage economic growth.**

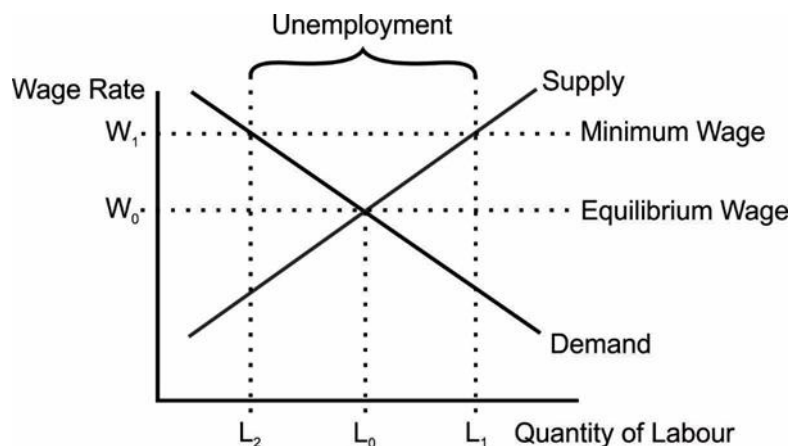
The more local production there is, the more jobs are created. This leads to higher demand and spending.

Any other reasonable answer.

- 5.2      5.2.1      The National Minimum Wage is the minimum pay per hour/per day workers are entitled to by law.

5.2.2      Congress of South African Trade Unions

## 5.2.3



Minimum wage clearly indicated. (one mark for just showing minimum wage line)

Correct labelling of axes and curves.

Indicating unemployment on the graph

5.2.4 **Benefits max 2; Drawbacks max 2; Evaluation max 4****Benefits**

- Higher wages increase incomes and are likely to cause higher consumer spending.
- An increase will enable people who are the minimum wage an opportunity to improve their standard of living /keep up with price inflation.
- Increased wages and spending raise demand and create more jobs.
- Lower unemployment and higher wages increase tax revenues.
- When workers earn higher wages, they rely less on governmental "safety net" programmes.

**Drawbacks**

- An increase in the Minimum Wage will increase the wage bill/ firms costs/ production costs, as they will have to pay their employees more.
- Firms will therefore increase their selling price to ensure profitability/survival.
- Increasing the minimum wage can, however, lead to unemployment and this could increase poverty levels.
- In labour-intensive industries, e.g. agriculture/mining where labour is a significant cost factor, an increase in National Minimum Wage will definitely increase their costs and reduce profitability/competitiveness.

**Evaluation:**

- It depends on the size of the increase. In order to make any meaningful difference to spending/standard of living, it would have to increase by a substantial amount.
- If businesses pass on the increased costs to consumers, then this would raise the cost of living and create a need for further minimum wage increases.

- It depends on the individual firm – some firms may choose to reduce profit margins, while others may look at ways to reduce workforce through retrenchment, redundancies, etc.
- The impact on relative poverty is not clear cut. The poorest sections of society tend to be out of work and receiving government benefits. They are not affected by a national minimum wage.
- If wage increases are accompanied by an increase in productivity it may mean that the firm's costs are lower due to e.g. economies of scale.

5.3 5.3.1 Stats SA

5.3.2 The CPI represents the cost of the "shopping basket" of goods and services of a typical or average South African household. Each good or service is 'weighted' to indicate its relative importance in the basket.

5.3.3 **Name 2 × 1 marks Explanation 4 × 2 marks**

Demand pull inflation

This occurs when the demand in the economy increases quicker than supply, leading to price increases.

Examples:

Expansionary monetary and fiscal policy leads to consumers spending more. These policies include lower interest rates and lower taxes.

Credit being more easily available will also cause demand to increase. Excessive government spending can also lead to demand inflation.

Cost push inflation

This is when production costs increase, leading to higher prices.

Examples:

Higher wages and salaries, decrease in productivity, depreciation of the exchange rate and natural disasters increasing food prices, cause increase in costs.

Increase input costs, supply shocks such as an increase in the price of oil or electricity has a knock-on effect that increases the price of other goods.

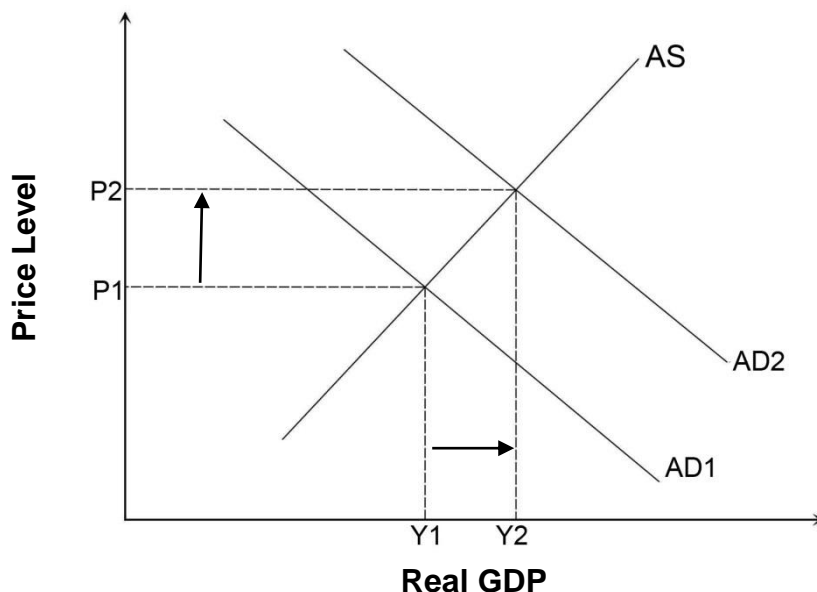
**SECTION C****QUESTION 6 DATA RESPONSE**

6.1 6.1.1 South African Reserve Bank

6.1.2 Expansionary

The SARB has reduced the repo rate by 25 basis points in an attempt to stimulate the economy.

6.1.3

**Mark allocation: Diagram (6 marks)**

Shift in aggregate demand curve up and to the right.

Indicating the increase in price level and increase in Real GDP/ National Income.

Correct labelling of axes and curves.

**Explanation of how monetary policy can boost the economy (6 marks)**

Expansionary monetary policy.

Interest rates can be lowered. This will lead to an increase in consumption as consumers will have more disposable income that will increase overall demand/ economic activity.

Lower interest rates may reduce the incentive to save and encourage spending.

Lower interest rates can increase the number of firms investing as the cost of borrowing decreases and this will stimulate economic activity.

Open market transactions. When the Reserve Bank buys bonds, money is injected into circulation, stimulating economic growth.

The minimum reserve requirement could be decreased. Therefore banks will be able to lend out more money which will increase spending and therefore lead to increase in economic growth.

Any other reasonable answer.

- 6.2 6.2.1 This is tax on the purchase of plastic shopping bags/plastic bags.
- 6.2.2 When a consumer uses a plastic bag, it imposes a cost on other people in society that the consumer does not take into account, i.e. this cost is not reflected in the price they pay for the bag. These costs on other people in society include the impact of littering, the lack of biodegradability in landfills and ocean contamination. In this situation, the full benefit to society from a consumer using a plastic bag is less than the private benefit the consumer receives.
- 6.2.3 Elastic  
There are a large number of substitute goods and therefore people will see the value in buying a recyclable bag even if the plastic bag price is still incredibly low.
- Inelastic  
The levy is such a small part/percentage of a person's income, you might expect demand to be relatively price inelastic.
- 6.2.4 **Name 1 × 2 Explain 2 × 2**
- Increase in unemployment**  
With around 60 000 people employed in the plastics and packaging industry, unemployment will increase.
- Decrease in government revenue**  
It is a small but dependable money-spinner for the National Treasury, which would be removed or decreased.  
Any other reasonable answer.
- 6.3 6.3.1 It is depicted as a snail, because of its slow movement/ no real progress/ it is growing at a snail's pace.
- 6.3.2 State capture – misallocation of state resources is limiting growth/ stopping the economy from growing/putting personal gain over the interest of others.
- Falling revenue collection – leads to poor service delivery affecting the standard of living and infrastructure.  
It also leads to an increase in the budget deficit which restricts government spending.
- Rising debts costs – more money being paid on servicing debt, which could have been directed at improving economic conditions and economic growth.
- Falling economic growth – this affects so many aspects of the economy and creates pressure on taxpayers, puts off foreign investors, etc.  
Any other reasonable answer.



- 6.4    6.4.1   Positive economic growth  
Balance of payments equilibrium/surplus/Exchange rate stability  
Low unemployment or full employment  
Equal/fair distribution of income  
Low inflation or price stability or 3–6%
- 6.4.2   Yes, the government should be concerned. Inflation is at the upper end of the target range. Economic growth rate remains low.

OR

No, the government should not be concerned. The inflation rate is within target range (3–6%). Although low, there is some growth.

**Total: 300 marks**