



# education

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Department:  
Education  
**REPUBLIC OF SOUTH AFRICA**

**SENIOR CERTIFICATE EXAMINATION – 2008**

**ECONOMICS**

**HIGHER GRADE**

**MAY/JUNE 2008**

**MEMORANDUM**

**MARKS: 400**

**This memorandum consists of 27 pages**

**SECTION A****QUESTION 1 (COMPULSORY)**

## 1.1 MULTIPLE-CHOICE QUESTIONS

<b>1.1</b>	<b>MULTIPLE CHOICE</b>		<b>1.2</b>	<b>TRUE OR FALSE</b>
1.1.1	C	expenditure within the boundaries of a country	1.2.1	FALSE
1.1.2	D	Services	1.2.2	FALSE
1.1.3	A	R2 000	1.2.3	TRUE
1.1.4	C	non-durable	1.2.4	FALSE
1.1.5	B	limited intensity	1.2.5	TRUE
1.1.6	B	marginal	1.2.6	TRUE
1.1.7	A	right	1.2.7	TRUE
1.1.8	A	short-term price	1.2.8	TRUE
1.1.9	C	standard of living	1.2.9	FALSE
1.1.10	B	geographical areas in a country	1.2.10	FALSE
1.1.11	D	Cities		<b>10 X 2 (20)</b>
1.1.12	D	Australia	<b>1.3</b>	<b>CHOOSE FROM LIST</b>
1.1.13	C	the creation of employment	1.3.1	Real income
1.1.14	D	assets and liabilities	1.3.2	Monopoly
1.1.15	A	Customs duty	1.3.3	Economic growth
1.1.16	C	An increase in export to	1.3.4	Economic integration
1.1.17	A	Capital outlay	1.3.5	Tax
1.1.18	D	Finance	1.3.6	Wages
1.1.19	B	1 April to 31 March	1.3.7	Productivity
1.1.20	B	Legal methods used by individuals to reduce tax burden	1.3.8	Wage subsidies
		<b>20 X 3 (60)</b>	1.3.9	PPI
			1.3.10	Sasol
				<b>10 X 2 (20)</b>
	<b>TOTAL SECTION A 100</b>			

**SECTION B**

Answer any FOUR questions from this section in the ANSWER BOOK.

**QUESTION 2: NATIONAL INCOME**

- 2.1 Choose the correct word(s) in brackets and write only the word(s) next to the question number (2.1.1 - 2.1.4).
- 2.1.1 intermediate✓✓ (2)
- 2.1.2 GDP✓✓ (2)
- 2.1.3 structural✓✓ (2)
- 2.1.4 macro✓✓ (2)
- 2.2 List any *THREE* methods to increase national income.
- (a) Increase in productivity✓✓
- (b) Availability of factors of production✓✓
- (c) Technological development✓✓
- (d) Effective government policy✓✓
- (e) Investment✓✓
- Any 3 x 2 (6)

## 2.3 DATA RESPONSE:

2.3.1 Identify the following labels from the diagram:

- (a) A Household / consumers✓✓✓
- (b) B Services of factors of production✓✓✓
- (c) C Businesses / firms / producers/business sector✓✓✓
- (d) D Supply of goods and services✓✓✓
- (e) E Market for goods and services✓✓✓
- (f) F Expenditure on goods and services✓✓✓

6 X 3 (18)

- 2.3.2 Circular flow /Economic cycle✓✓ (2)  
[20]

- 2.4 Explain the 'services that are not included' and 'accuracy' as two of the problems in determining national income.

**Services that are not included**

- (a) Services provided by *housewife*, as a market price cannot be allocated✓✓
- (b) *Production in the household*, e.g. repair work, gardening✓✓
- (c) Services by people working in *voluntary organisations*, such as church councils✓✓
- (d) *Harmful side effects*, such as pollution✓✓
- (e) The existence of an *informal sector*, e.g. self-employment✓✓

4 x 2 (8)

**Accuracy**

- (a) National income is a good way to measure the extent of economic activity, but it is *not a measure for all economic activities* ✓✓
- (b) Even *the method of calculating is not very accurate* ✓✓
- (c) The income of millions of individuals cannot be calculated because many individuals *do not declare certain sources of income*, while others enjoy *fringe benefits* ✓✓
- (d) Many services are not included in the national income calculations ✓✓

(Accept any other relevant facts)

4 x 2 (8)

(16)

**[50]****QUESTION 3: PRICE FORMATION**

3.1 Choose the correct word in brackets and write only the word next to the question number (3.1.1 - 3.1.4).

3.1.1 opportunity cost ✓✓ (2)

3.1.2 reserve ✓✓ (2)

3.1.3 diamonds ✓✓ (2)

3.1.4 economic ✓✓ (2)

3.2 List any THREE characteristics of a monopoly ✓✓

(a) Single producer ✓✓

(b) No close substitute ✓✓

(c) Prices can be manipulated by producer ✓✓

(d) Producer may restrict output in order to raise price ✓✓

(e) Imperfect knowledge of the market, which is deliberately exploited by advertising ✓✓

(f) Barriers restrict rivals from entering the market ✓✓

(g) Discrimination is possible ✓✓

Any 3x2

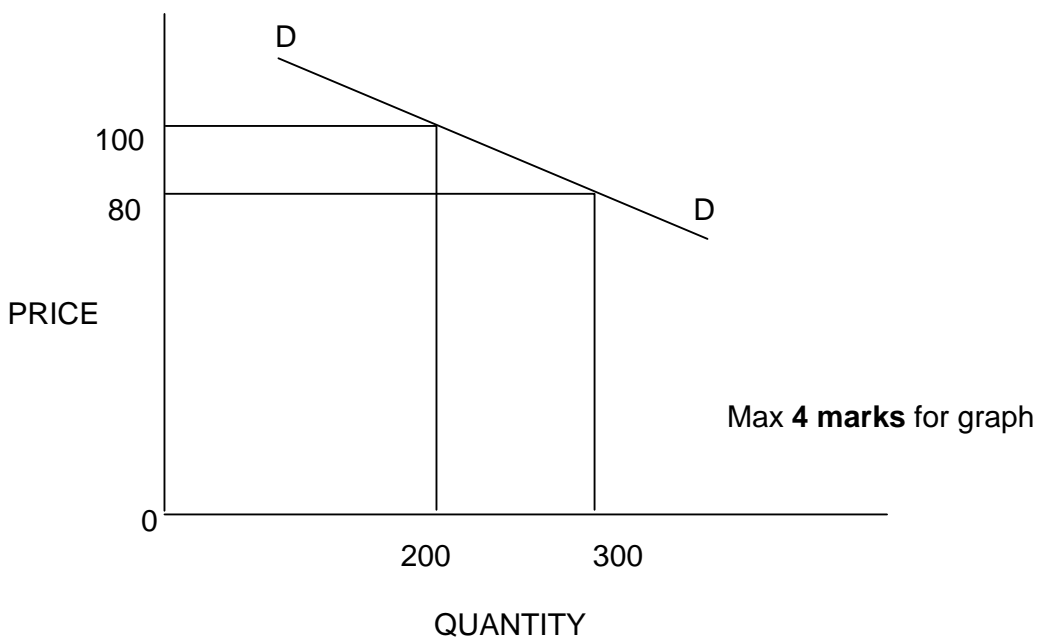
(6)

## 3.3 DATA RESPONSE:

3.3.1  $OP_1/P_1$  ✓✓✓ (3)3.3.2  $OQ_1/OQ_1$  ✓✓✓ (3)3.3.3  $D_1D_1$  When the quantity of books demanded decreased the demand curve DD shifted to the left to  $D_1D_1$  ✓✓✓✓✓✓ (6)

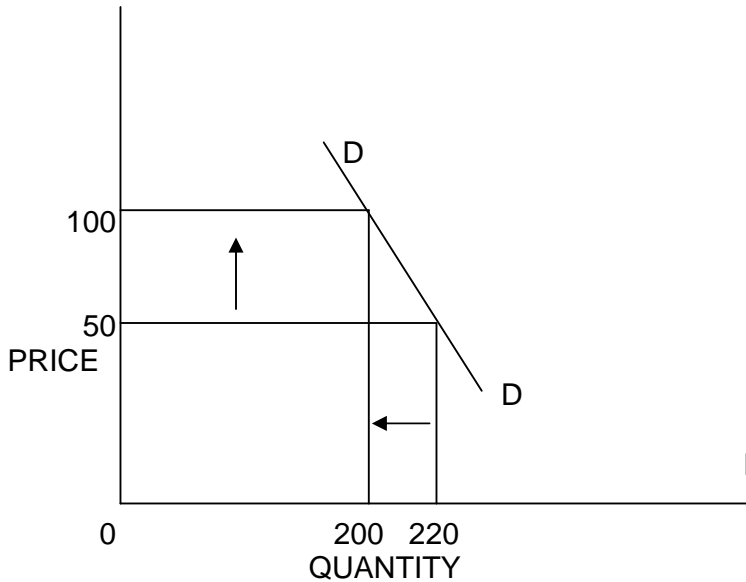
3.3.4 Supply decreases when price decreases and producers produce less /smaller quantity. Supply curve will shift to left. When supply decreases price may increase. ✓✓✓✓✓✓ (6)

3.3.5 The price at which the quantity demanded and quantity supplied are equal / demand and supply are equal. ✓✓ (2)

3.4 Explain *relatively elastic* and *relatively inelastic* demand curves. Use graphs to illustrate your answer.Relatively elastic demand

- In this kind of demand situation, the percentage change in quantity is greater than the percentage change in price. ✓✓
- Eg a 100 % change in price will lead to a 150 % change in the quantity demanded. ✓✓
- A price rise from R80 to R100 leads to a drop in the quantity demanded from 300 to 100 units. ✓✓

Max 4 marks for explanation

Relatively inelastic demand

Max 4 marks for graph

- The quantity demanded changes by a smaller percentage than the percentage change in the price. ✓✓
- E.g the quantity demanded decreases from 220 to 200 units if the price increases from R50 to R100. ✓✓
- The price changes by 100 % and the quantity demanded changes by only 9%. ✓✓
- The demand is therefore not very responsive to price changes. ✓✓

Max 4 marks for explanation

[16]  
/50/

**QUESTION 4: ECONOMIC AND REGIONAL DEVELOPMENT AND URBANISATION**

- 4.1 Choose the correct word in brackets and write only the word next to the question number (4.1.1 - 4.1.4).
- 4.1.1 GEAR ✓✓ (2)
- 4.1.2 IDT ✓✓ (Independent Development Trust) (2)
- 4.1.3 exports ✓✓ (2)
- 4.1.4 consumption ✓✓ (2)
- 4.2 List any *THREE* development corridors within South Africa.
- (a) Maputo corridor ✓✓  
 (b) Wild Coast Development programme and the Fish River SDI ✓✓  
 (c) Lubombo Initiative ✓✓  
 (d) West Coast Investment Initiative ✓✓  
 (e) Platinum SDI ✓✓  
 (f) Phalaborwa Sub - corridor ✓✓  
 (g) Coast - to - coast corridor ✓✓
- ANY 3 X 2 (6)
- 4.3 DATA RESPONSE:
- 4.3.1 Informal sector ✓✓✓ (3)
- 4.3.2 a) Small scale production. ✓✓✓  
 b) Only source of income ✓✓✓.  
 c) Mainly labour-intensive ✓✓✓  
 d) Capital is scarce. ✓✓✓  
 e) Low level of training. ✓✓✓  
 f) Little protection of workers. ✓✓✓  
 g) Working conditions are poor ✓✓✓  
 h) Many illegal practices. ✓✓✓  
 i) Survival is only motive. ✓✓✓
- Any 3x3 (9)
- 4.3.3 a) Serves as a safety net for the unemployed. ✓✓✓  
 b) Generates an income and combats poverty. ✓✓✓  
 c) Gives potential entrepreneurs experience ✓✓✓  
 d) Contributes to the GDP. ✓✓✓
- Any 2 x 3 (6)
- 4.3.4 Taverns, ✓✓ taxis, ✓✓ hair saloon, ✓✓ panel beating, ✓✓ etc./informal.  
 (Accept any reasonable example.) (2)

4.4 Discuss any FOUR disadvantages of urbanisation.

4.4.1 **Unbalanced urbanisation** ✓✓

4.4.2 South African cities are spread unevenly across the country and unbalanced in respect of their size. ✓✓

4.4.3 Example: The over concentration in the Gauteng area. ✓✓

4.4.4 **Problems of road and services/ Environmental disadvantage** ✓✓

4.4.5 Roads and services are often inadequate for the high concentration of the population and water is polluted. ✓✓

4.4.6 Uncontrolled urban growth has resulted in people having to travel far from their homes to their work places. ✓✓

4.4.7 High percentage of motor vehicles in proportion to the population.

4.4.8 **Inadequate facilities / Lack of services** ✓✓ -

4.4.9 Modern cities are unplanned and inadequate facilities for the removal of refuse and sewage, poor and inadequate housing, insufficient water supplies for a large number of people and industries. ✓✓

4.4.10 **Misuse of agricultural soil** ✓✓

4.4.11 The best agricultural soil is often utilised for urban needs. ✓✓

4.4.12 **Rapid development of cities / Increased unemployment** ✓✓

4.4.13 Lack of job opportunities in cities because of the fast development of cities ✓✓

4.4.14 **Residential density** ✓✓

4.4.15 Large number of people lives too close to one another and often there is neither privacy nor security where they stay. ✓✓

4.4.16 There is wide spread squatting and informal settlements

4.4.17 **Social problems** ✓✓

4.4.18 There is an increased rate of crime, high rate of divorce, drug abuse and alcohol, high rate of violence, and mental disorders. ✓✓  
(Accept any relevant facts)

(16)

Any 4x4

[50]

**QUESTION 5: INTERNATIONAL ECONOMICS**

5.1 Choose the correct word(s) in brackets and write only the word(s) next to the question number (5.1.1 - 5.1.4).

5.1.1 balance of payments ✓✓ (2)

5.1.2 revaluation ✓✓ (2)

5.1.3 substitution. ✓✓ (2)

5.1.4 dumping ✓✓. (2)

5.2 *List any THREE differences between national and international trade.*

(a) Different monetary systems or currency. ✓✓

(b) Countries' laws, rules, customs differ ✓✓

(c) Trade relations ✓✓

(d) No free movement of capital or labour ✓✓

(e) Granting of credit difficult ✓✓

(f) Cultural, social and political differences ✓✓

(g) Transport costs ✓✓

Any 3x 2 (6)

5.3 DATA RESPONSE:

5.3.1 Yen, Euro, British Pound or Pound Sterling, US dollar ✓✓✓ (9)

Any 3 x 3

5.3.2 British Pound / Sterling ✓✓✓ (3)

5.3.3 Euro. ✓✓✓ (3)

5.3.4 US Dollar ✓✓✓ (3)

5.3.5 Pula. ✓✓ (2)

5.4 *Explain any FOUR forms of economic integration.*

a) **Trade free area** ✓✓

Trade takes place without or at special tariffs. ✓✓

b) **Customs Union.** ✓✓

Member countries trade freely but levy a uniform tariff on non-member countries. ✓✓

c) **Common markets** ✓✓

Factors of production are allowed to move freely between member countries. ✓✓

d) **Economic Union** ✓✓

Member countries follow united economic policies. ✓✓

e) **Monetary Union** ✓✓

Member countries make use of a common monetary unit or currency. ✓✓

ANY 4 X 4 (16)  
**[50]**

**QUESTION 6: THE STATE**

- 6.1 Choose the correct word(s) in brackets and write only the word(s) next to the question number (6.1.1 - 6.1.4).
- 6.1.1 monetary ✓✓ (2)
- 6.1.2 Nationalisation ✓✓ (2)
- 6.1.3 Authorisation ✓✓ (2)
- 6.1.4 Direct ✓✓ (2)
- 6.2 List THREE categories in which the state expenditure can be classified
- (a) Functional ✓✓
- (a) Administrative ✓✓
- (c) Financial ✓✓ 3 x 2 (6)
- 6.3 DATA RESPONSE:
- 6.3.1 Pay As You Earn / PAYE ✓✓✓ (3)
- 6.3.2 Progressive ✓✓✓  
The more you earn the more tax you pay percentage wise. ✓✓✓ (6)
- 6.3.3  $R58\,125 ✓ + (35\% \times 50\,000) ✓✓$   
Therefore:  $R58\,125 ✓ + R17\,500 ✓ - R7\,740 ✓ = R67\,885 ✓✓✓$  (9)
- 6.3.4 South African Revenue Service /SARS. ✓✓ (2)
- 6.4 Discuss 'impartial' and 'convenient' as two requirements of a good tax system.
- 6.4.1 Impartial**
- a) Taxation is impartial if it is spread proportionally among all groups. ✓✓
- b) Taxpayers in the same financial or economic position should pay the same tax. ✓✓
- c) Factors such as the possession of capital, income, family responsibilities and medical expenses must be taken into account. ✓✓
- d) A system of taxation is impartial if everybody makes a similar sacrifice. ✓✓
- e) A progressive system of taxation can be regarded as impartial. ✓✓
- f) The income tax system in South Africa is impartial. ✓✓

Any 4 x 2 (8)

**6.4.2 Convenient**

- a) The taxpayer must know the time, place and method of payment. ✓✓
- b) It must be convenient for him/her at that time and place. ✓✓
- c) Payment of tax in one lump sum is inconvenient to the tax payer. ✓✓
- d) The income tax system in South Africa is convenient to the state and the tax payer. ✓✓
- e) The state receives a regular flow of funds and the taxpayer makes small payments at a time. ✓✓

Any 4 x 2 (8) (16)

**[50]**

**QUESTION 7****CHOICE MODULES (IMPORTANT SOUTH AFRICAN ECONOMIC TOPICS)**

Choose any TWO of the following topics. Make use of clear headings to indicate the topics of your choice.

**7.1 LABOUR RELATIONS**

7.1.1 Choose the correct word(s) in brackets and write only the word(s) next to the question number (a– b).

(a) 65✓✓ (2)

(b) shortage✓✓ (2)

7.1.2 *List any TWO factors that determine the supply of labour in South Africa*

(a) Labour force participation rate ✓✓

(b) Population growth ✓✓

(c) Work hours ✓✓

(d) Migration ✓✓

(e) Level of skill ✓✓ ANY 2x2 (4)

7.1.3 DATA RESPONSE:

(a) It was less than the inflation rate. ✓✓✓ (3)

(b) 5.7% ✓✓✓ (3)

(c) National Union of Mineworkers. ✓✓✓ (3)

7.1.4 Explain the limitations of labour unions.

a) Must abide by all laws of the country. ✓✓

b) May not affiliate to any political party ✓✓.

c) They may not instigate strikes. ✓✓

d) If they are party to an industrial council agreement, they cannot strike during that period. ✓✓

e) Industrial action can only be taken after one year of official publication of such agreements. ✓✓

f) Disputes have to be firstly settled through the industrial councils set up for that industry. ✓✓ Any 4 x 2 (8)

**/25/**

AND / OR

**7.2 PRODUCTIVITY AND UNEMPLOYMENT**

7.2.1 Choose the correct word in brackets and write only the word next to the question number (a - b):

(a) increase ✓✓ (2)

(b) elastic ✓✓ (2)

7.2.2 List any TWO consequences of unemployment.

(a) Personal pride and dignity are affected ✓✓

(b) Increase in crime rate ✓✓

(c) Expensive skills and potential abilities are lost ✓✓

(d) Affect social stability ✓✓

(e) Negative effect on perception of the success of the market economy ✓✓

Any 2x 2 (4)

7.2.3 DATA RESPONSE

(a) Year 2000 ✓✓✓ (3)

(b) It was decreasing / Fluctuating ✓✓✓ (3)

(c) Productivity =  $\frac{\text{quantity of output}}{\text{quantity of input}}$  ✓✓✓ (3)

7.2.4 Briefly discuss 'structural unemployment.'

a) Occurs where certain structural changes take place within the economy. ✓✓

b) Structural means a mismatch between supply and demand. ✓✓

c) This is related to modernisation of economic processes, technological renewal and changing production techniques. ✓✓

d) Because of the important part played by technological change in the economy, this form of unemployment is referred to as technological unemployment. ✓✓

e) Structural unemployment particularly affects people with low levels of skills and who are unable to adapt to changed labour practice. ✓✓

f) In developing countries it is usually because the labour force grows so rapidly because of rapid population growth. ✓✓ Any 4 x 2 (8)

AND / OR

**/25/**

**7.3 INFLATION**

7.3.1 Choose the correct word(s) in brackets and write only the word(s) next to the question number (a - b).

(a) cost-push ✓✓ (2)

(b) stagflation ✓✓ (2)

7.3.2 List any TWO characteristics of demand-pull inflation.

(a) Demand for goods and services rise more rapidly than production ✓✓

(b) Consumers are not the only victims of demand inflation ✓✓

(c) Foreigners contribute to demand inflation ✓✓

(d) A relative increase in demand ✓✓

Any 2 x 2

(4)

7.3.3 DATA RESPONSE:

(a) Food and soft drinks ✓✓✓ (3)

(b) 3% - 6% ✓✓✓ (3)

(c) Consumer Price Index excluding mortgage lending rates ✓✓✓ (3)

7.3.4 Discuss any two key aspects of the definition of inflation.

a) It describes inflation as a process and a sustained condition. ✓✓  
if prices do not continue to rise, there is no inflation. ✓✓

b) The rise in price must be considerable, ✓✓ small increase of  
1 to 3 percent in the general price level could be accepted  
as normal and would not be regarded as inflation. ✓✓

c) An increase in certain isolated prices ✓✓ of products or in the  
prices of individual articles or services, without a rise in the  
general price level, do not indicate inflation. ✓✓

d) All the factors which affect the general price increase must be  
evident ✓✓ in monetary terms. ✓✓

e) As the general price level increases, the buying power ✓✓ of money  
decreases. ✓✓

Any 2 x 4

(8)

AND / OR

**/25/**

**7.4 STRATEGIC RESOURCES**

7.4.1 Choose the correct word in brackets and write only the word next to the question number (a-b).

- (a) nuclear ✓✓ (2)
- (b) agriculture ✓✓ (2)

7.4.2 Name any two renewable energy sources that can be used to generate electricity.

- (a) Sun ✓✓  
(b) Wind ✓✓  
(c) Water ✓✓  
(d) Tidal ✓✓

Any 2 x 2 (4)

7.4.3 DATA RESPONSE:

- (a) Mention any TWO initiatives to save energy.  
(a) Distributing energy- saving light bulbs ✓✓✓  
(b) Insulator blanket for geysers ✓✓✓  
(c) Ripple relay switches to geysers ✓✓✓  
(d) Incentives to buy solar heaters ✓✓✓

Any 2 x 3 (6)

- (b) Disinvestments / Decrease production ✓✓✓ (3)

7.4.4 *Briefly discuss the importance of water conservation in the secondary sector of South Africa.*

- a) Industrial development would be impossible without water ✓✓
- b) The farsighted policy of the department of water affairs and other bodies controlling water supply has laid the foundation for the sound development of industries in South Africa ✓✓
- c) Large, capital intensive industries such as basic metals and paper manufacturers use more water than smaller, labour - intensive industries ✓✓
- d) Without sufficient water the industries cannot contribute significantly to the national economy ✓✓
- e) The establishment and development of industries lead to the increase in production and create more employment opportunities ✓✓

Any 4 x 2

(8)  
/25/  
[50]

**TOTAL SECTION B: 200**

**SECTION C**

Answer any TWO questions from this section in the ANSWER BOOK.

Essays must be well structured and presented in a systematic format. Responses should have an introduction, body and conclusion.

**QUESTION 8 (National income)**

"Upswings and downswings are regarded as essential features of the market economy"

Discuss the statement by referring to the nature and causes of business cycles.

**8.1 Introduction**

8.1.1 Cyclical changes refers to the phenomenon of successive periods of increasing economic activities. ✓✓

8.1.2 It influences the level of economic welfare of a country. ✓✓

8.1.3 There are various causes of these upswings and downswings. ✓✓  
(Accept any logical/original introduction)

[3]

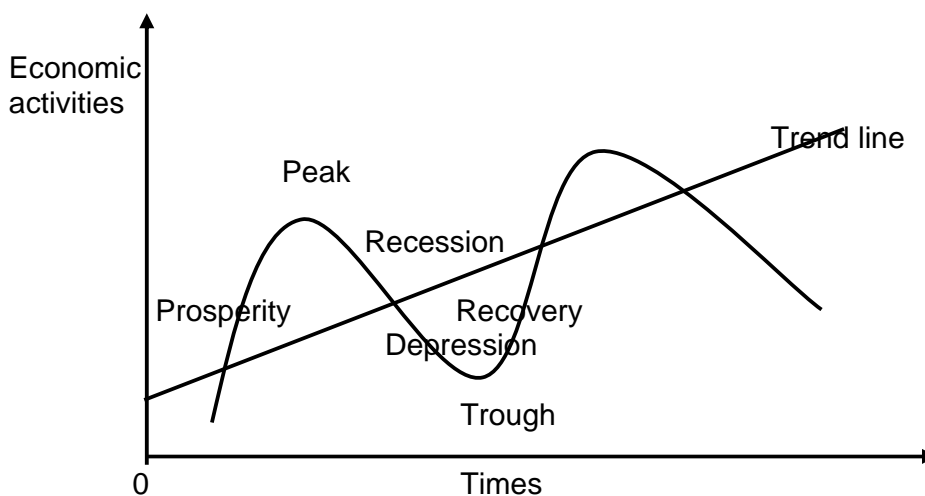
**8.2 Body****8.2.1 Cyclical trends ✓✓**

(a) A period of increasing prosperity is referred to as an upswing in the economy while a period of decreasing prosperity is referred to as downswing. ✓✓

(b) These cyclical trends are referred to as business cycles. ✓✓

MAX (3)

Business cycle may be represented graphically as follows. .



MAX 8 marks for graph

**CAUSES OF BUSINESS CYCLE****8.2.2 Real / actual causes ✓✓**

- (a) An increase in investment leads to a growth in economic activities and is associated with the upswing of the economy ✓✓
- (b) A decrease in investment leads to a decline in the economy and the following downturn ✓✓
- (c) Actual causes also found in the relationship between savings, investment and consumer spending ✓✓
- (d) With indirect production there is a division between both time and space between provision of raw materials, manufacturing of the means of production, and the eventual use of the products which leads to periodic firming which results in cyclical waves of upswings and downturns ✓✓
- (e) The reciprocal effect between the total market forces, e.g. total demand and supply is also a cause
- (f) Also favourable or unfavourable agricultural conditions e.g. droughts and floods ✓✓
- (g) In USA there may also be a parallel “political cycle” where the economy is stimulated about a year before the presidential elections by increased purchases by the government sector ✓✓
- (h) An increase in the money supply which puts the economy in an upswing and after elections the economy moves into a downswing ✓✓
- (i) The design of new profitable production processes leads to stimulation of demand and a new upswing phase is created ✓✓
- (j) The discovery and implementation of new technology and machinery ✓✓
- (k) The creation and exploitation of new markets ✓✓
- (l) The discovery of new resources, e.g. minerals and metals ✓✓

MAX

(14)

**8.2.3 Monetary causes of business cycle**

- (a) Money makes up an integral part of the economy and the availability of sufficient cash and particularly credit will play a role in the extent of economic activities ✓✓
- (b) Businesses make increasingly use of commercial banks for a supply of credit to finance short term economic activities and an increase in credit will lead to an upswing in the economy ✓✓
- (c) When production increases the demand for bank loans and credit extensions rise ✓✓
- (d) During the prosperity phase banks grant large volumes of credit because good profits banks make on their loans and services ✓✓
- (e) To prevent inflationary pressures and bankruptcies, banks begin to restrict and later reduce credit which initiates the downswing ✓✓
- (f) According to a second theory there is a natural rate of interest where the supply of credit equals the demand for credit ✓✓
- (g) Whenever the market rate of interest is lower than the natural rate of interest, the demand for loans increases because the interest rate for taking up credit is relatively low ✓✓
- (h) This results in an increase in economic activity leading to an upswing ✓✓
- (i) When the market rate of interest exceeds the natural rate, businesses tend to repay their loans because the interest rate for taking up credit is relatively high ✓✓

- (j) A third theory explains business cycles in terms of the fact that the bank rate determines the level of interest rates which banks charge ✓✓
- (k) If interest rates rise, businesses tend to reduce their inventories, produce less and place smaller orders, which gives rise to a downswing ✓✓
- (l) As interest rates drop, the cost of carrying inventories decreases and there is renewed demand for raw materials and more inventories are kept which marks an upswing ✓✓
- (m) This is known as the under-consumption theory ✓✓                      MAX (14)

#### 8.2.4 Psychological causes ✓✓

- (a) People's perceptions of a country's economy can be an important psychological cause of business cycle consumer confidence is important ✓✓
- (b) Waves of optimism/ pessimism and economic climate.- Positive expectations create the upswings while negative outlooks cause the down swing in the economy. ✓✓
- (c) Expectations of business leaders have an important influence in the level of investment / Business confidence. ✓✓                      MAX (6)  
[45]

#### 8.3 Conclusion

8.3.1 The business cycle is the result of human decisions and actions. ✓✓

(Accept any logical/original conclusion)

[2]  
/50/

**AND / OR**

**QUESTION 9 (Price formation)**

'In South Africa the market system is mainly used in the satisfaction of our needs and wants.'

With reference to the above statement explain the conditions of a perfect market.

**9.1 Introduction**

- a) A market refers to all sale and purchase transactions that affect the price of a commodity – any place or circumstances that allows buyers and sellers to meet and to bargain for prices. ✓✓
- b) A perfect market is the market situation, which could occur, in ideal circumstances. ✓✓
- c) Since reality does not reflect these ideal market conditions, the perfect market is hardly ever encountered in practice. ✓✓ Any (3)

**9.2 Body**

- a) The product to be marketed should be homogeneous ✓✓
  - 1. Each seller markets an identical commodity and the buyer cannot turn to substitutes. ✓✓
  - 2. All articles must be highly standardized, easy to grade or describe, identical in every respect to make trademarks unnecessary ✓✓.
  - 3. It should be immaterial to the buyer which seller he buys from. ✓✓ Max (6)
- b) There should be a large number of sellers offering a particular commodity ✓✓
  - 1. A seller who acts alone should be unable to affect the market price by varying the quantities he offers for sale. ✓✓
  - 2. Price is influenced not by a producer but by the market as a whole. ✓✓
  - 3. No supplier sells enough to create scarcity by withholding supply ✓✓. Max (6)
- c) There should be a large number of buyers that do not mind which seller to buy from ✓✓
  - 1. Only a lower price should induce a buyer to prefer one seller to another. ✓✓
  - 2. Buyers do not form alliances easily and it is difficult to persuade them to cooperate because each is pursuing its interests. ✓✓
  - 3. No consumer buys enough to affect the market price by buying more or by buying less. ✓✓ Max (6)
- d) Free competition is necessary ✓✓
  - 1. Anyone who wants to sell goods must be free to offer any article in any quantity. ✓✓
  - 2. There should be no state interference and no price control. ✓✓
  - 3. Buyers and sellers should have free access to the market and no forceful measures should be applied. ✓✓

4. Perfect competition requires mobility of resources or production factors. ✓✓
5. A resource such as a specific category of labour can enter the market or withdraw from the market at any time. ✓✓ Max (8)
- e) No preferential treatment or discrimination ✓✓
1. Buyers and sellers base their actions solely on price. ✓✓
  2. No preference is shown for buying or selling to any particular person. ✓✓
  3. Any slight fall in the price in one place will attract all buyers. ✓✓
  4. Similarly, if a seller raises prices, buyers will be reluctant to purchase from that supplier. ✓✓
  5. Unless the seller reduces the price to that asked by other sellers, sales will fall to zero. ✓✓ Max (7)
- f) Efficient transport and communication system ✓✓
1. Buyers and sellers should be able to communicate easily with one another in order to complete the transactions within the shortest possible time. ✓✓
  2. The publication of prices should keep buyers and sellers informed of market conditions elsewhere. ✓✓
  3. In this way an increased demand or a changed supply on one part of the market will affect the price across the whole market ✓✓.
  4. Suitable transport must be available to convey goods speedily from one place to another. ✓✓
  5. In this way suppliers can meet changes in demand promptly. ✓✓ Max (7)
- g) All participants (competitors) on the market must have perfect knowledge of market conditions ✓✓
1. Buyers and sellers must be familiar with the prices of suppliers, price quotations, conditions of demand, the economic climate and anything which may be important to the functioning of the market. ✓✓
  2. All buyers and sellers should be immediately aware of what is happening in any part of the market. ✓✓
  3. In this way an increased supply or change in demand in one part of the market will affect prices throughout the market. ✓✓ Max (6)
- (45)

### 9.3 Conclusion

- a) Although the perfect market has a limited application in practice, ✓✓
- b) it is a useful instrument to illustrate the way the market mechanism works. ✓✓

Any (2)  
[50]

**AND/OR**

**QUESTION 10 (Economic development, regional development and urbanisation)**

'A comparison between the developed countries and the developing countries indicates a development gap'.

**Discuss the characteristics of developing countries with reference to the above statement.**

**[50]****10.1 INTRODUCTION**

10.1.1 A comparison between the developed countries and developing countries indicates a development gap in respect of aspects such as standards of living, productivity, population growth, formation of capital, distribution of income, economic structure, ✓✓ etc.

10.1.2 The dominant characteristic of developing countries is widespread poverty. ✓✓

10.1.3 Alleviating this poverty requires an understanding of the broad economic and social characteristics that these economies share. ✓✓

(Accept any logical/original introduction)

**[3]****10.2 BODY****10.2.1 Low standard of living** ✓✓

- (a) This is generally in the form of *low incomes, resulting in poverty, inadequate housing, poor health, limited education and training, high infant mortality, low life expectancy and limited expectation of employment.* ✓✓
- (b) The *per capita gross national product or national income*, as an index of the welfare of a country, *is relatively low.* ✓✓
- (c) There is *widespread poverty, which can be ascribed to low average income and an imbalance in the distribution of income in the country.* ✓✓
- (d) Since incomes are low and people have to spend their income in order to survive, *savings are low and insufficient to finance the investment* (capital formation) needed for economic growth and development. ✓✓

**10.2.2 Low productivity** ✓✓

- (a) The *productivity of labour*, measured by the output per worker is *very low.*
- (b) This can be *ascribed to poor physical health, inadequate or poor nutrition, low standards of personal hygiene, etc.* ✓✓
- (c) Another factor contributing to low productivity is the *lack of capital goods, managerial expertise, and motivation.* ✓✓
- (d) The *lack of adequate monetary capital for the development of human capital* is a serious defect. ✓✓
- (e) *Too little money is spent to develop human capital in the form of more efficient workers, managerial competence, entrepreneurship, etc.* ✓✓

**10.2.3 High population growth and the burden of dependants ✓✓**

- (a) In developing countries the *population growth*, as measured by the number of births, is *very high*. ✓✓
- (b) Although the *death rates are also high in developing countries, they are declining* because of the growing availability of modern medicine. ✓✓
- (c) High population growth rates imply that there is a *large number of young children who cannot support themselves and who are financially dependent on their parents*. ✓✓
- (d) *Children aged under 15 and people over 65 years of age are non-productive members of society and must be financially supported by the labour force and other limited resources*. ✓✓
- (e) The number of *children below the age of 15 years makes up about 40% of the total population, in comparison with less than 20% in highly developed countries*. ✓✓
- (f) The *natural growth rate for developing countries can vary from 2% to as high as 5%, in contrast to highly developed countries where it is as low as 1% and may even be nil*. ✓✓

**10.2.4 Unemployment and underemployment ✓✓**

- (a) The essential reason for the poverty in developing countries is that there are *not enough productive jobs for the labour force* ✓✓.
- (b) *Unemployment occurs where people who are willing and able to work cannot obtain work*. ✓✓
- (c) *Underemployment occurs where people do less work than they are capable of doing, e.g. labourers who work shorter hours, seasonal workers and people who are not as economically active as their full potential allows* ✓✓.
- (d) *About 30% of the work force in third world countries is not fully utilised, as a result of unemployment and underemployment*. ✓✓

**10.2.5 Defective economic structure / contribution of agriculture to GDP is high / sectoral distribution of production / dependence on agriculture ✓✓**

- (a) The majority of the population are *dependent upon the agricultural sector*. ✓✓
- (b) According to figures provided by the World Bank, in the low-income countries *agriculture provides an average of 32% and manufacturing 14% of the gross domestic product (GDP)*. ✓✓
- (c) In the industrialised countries, the *agricultural contribution is usually less than 4% and that of the manufacturing sector is more than 20%*. ✓✓
- (d) Agricultural productivity is generally low, because there are *large numbers of people in relation to the amount of land available* ✓✓
- (e) Other limiting factors are *elementary technology, poor organisational techniques, and a lack of physical and human capital* ✓✓.
- (f) A further weakness of the economic structure of developing economies is *dependence on the export of primary products*. ✓✓

- (g) The *export commodities of poorer countries usually comprise basic food substances* and raw materials that usually fetch relatively low prices on the international markets. ✓✓
- (h) *Secondary products*, of which there is a shortage in third world countries, *must be imported at very high cost.* ✓✓
- (i) Lack of capital has resulted in third world countries running up *huge sums in foreign debt.* ✓✓
- (j) The *redemption of foreign debt commitments further contributes to a poor economic structure.* ✓✓

**10.2.6 Weaker position in international relations** ✓✓

- (a) The *distribution of political and economic power* between the developed and the developing countries is *very unbalanced.* ✓✓
- (b) The *wealthier countries control the pattern of international trade* and influence the ability to convey technology, development aid, and capital to the poorer countries. ✓✓

Max. [45]

**10.3 CONCLUSION**

Although certain common features can be identified, significant differences exist between developing countries. Within the category of developing countries" the level of development varies, e.g. a developing country such as Brazil has a much more advanced economy than Somalia ✓✓ (2)

(Accept any logical/original conclusion)

**[50]****AND / OR**

**QUESTION 11 (International economics)**

Explain how the rate of exchange is determined in a system of free-floating exchange rates. Use graphs to illuminate your answer.

**[50]****11.1 Introduction**

- 11.1.1 The rate of exchange is the *price of the currency of a country expressed in terms of the currency of another country.* ✓✓
- 11.1.2. The purchase and sale of goods on foreign markets results in a need for an exchange market where monetary currencies of countries can be exchanged at definite prices. ✓✓
- 11.1.3. The export of goods and services, transfer payments from abroad, etc. which cause an inflow of money into the country result in a supply of foreign exchange on the market. ✓✓

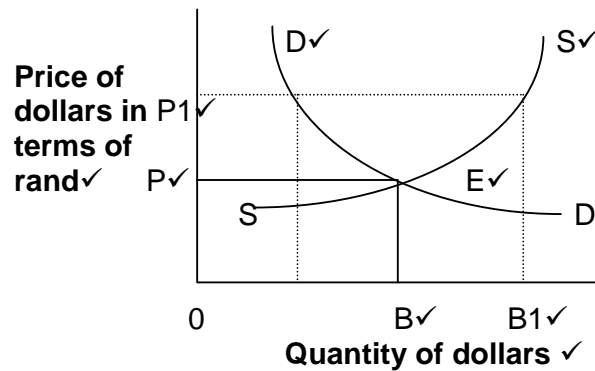
(Accept any logical/original introduction)

**[3]****11.2 Body****11.2.1 Floating exchange rate.** ✓✓

- (a) Under this form of exchange rate, the exchange rate is allowed to settle at a level determined by demand and supply. ✓✓
- (b) In free-floating exchange rate the value of a currency is determined by the market forces and there is no intervention by the authorities. ✓✓
- (c) Controlled floating exchange rates are rates, which may respond to the influences of market forces within certain limits. ✓✓
- (d) Monetary authorities may intervene when abnormally large movements in exchange rates are experienced. ✓✓
- (e) The Reserve Bank may use its own reserves and exchange its reserve liabilities by varying the supply of foreign exchange on the market. ✓✓ (8)

**11.2.2 Equilibrium**

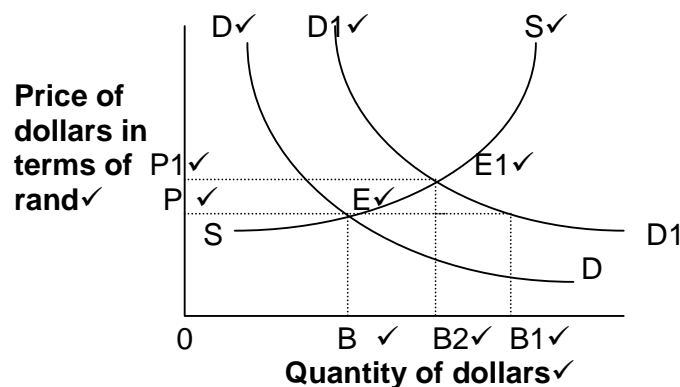
- (a) Changes in the *demand and supply of foreign exchange cause fluctuations* in the rate of exchange. ✓✓
- (b) If the *demand for a particular currency, e.g. the dollar, increases* because South Africa imports goods from America, *the price of dollars in terms of the rand will increase* ✓✓
- (c) *More rand must be paid* for the same number of dollars. ✓✓
- (d) The *value of the rand drops* in terms of the dollar. ✓✓
- (e) This means *goods and services from the United States become more expensive.* ✓✓
- (f) *Purchases in the United States decrease* and the demand for dollars will also drop. ✓✓
- (g) The *higher the price of dollars, the fewer dollars will be demanded.* ✓✓



Max 5

- (h) The *price* at which dollars are bought and sold is  $OP/P$ . ✓✓
- (i) If the price is  $OP_1$ , the *US* offers  $OB_1$  dollars, but only  $OB$  dollars are demanded. ✓✓
- (j) As the supply exceeds the demand the *price* is forced down to find buyers and is eventually determined at  $OP$ , where demand and supply are in equilibrium. ✓✓
- (k) The *balance of payments* is then in equilibrium. ✓✓ (8)

### 11.2.3 Equilibrium distorted by demand increase



Max 5

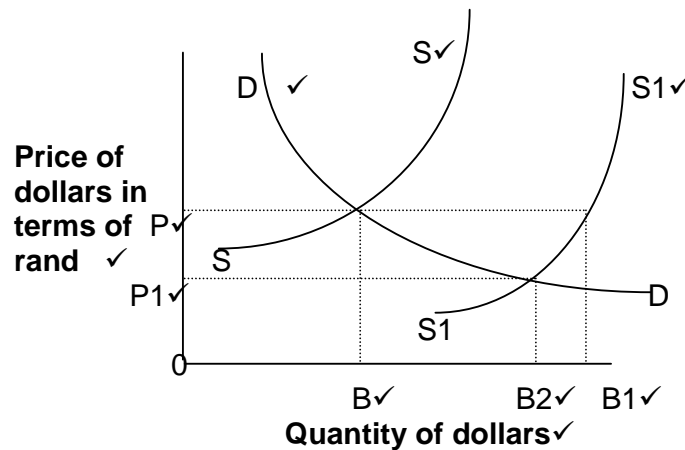
- (a)  $D_1D$  represents the increased demand for dollars ✓✓
- (b) At this stage,  $OB_1$  dollars are required and the *US* offers  $OB$  dollars only ✓✓
- (c) Because of the large demand for dollars and the relatively small supply, *SA* will offer a high price for the dollar ✓✓
- (d) As soon as the price rises, the *US* will offer more dollars in response to the demand ✓✓
- (e) In this way, the *price* of dollar will rise to  $OP_1$  where the demand will be satisfied at a quantity of  $OB_2$  dollars ✓✓
- (f) Demand and supply are again in equilibrium ✓✓ (8)

The demand for foreign exchange is determined by the following factors:

- (g) Importing goods. ✓✓
- (h) Services from foreign countries to the country concerned. ✓✓

- (i) Payment of interest and dividends on foreign capital. ✓✓
  - (j) Payments of instalments on repayments of overseas loans. ✓✓
  - (k) Transfer of capital to foreign countries. ✓✓
  - (l) Tourists or representatives spending money in foreign countries. ✓✓
  - (m) Other payments of foreign countries that may take place from time to time. ✓✓
- (4)

### 11.2.4 Equilibrium distorted by supply increases



Max. [5]

- (a)  $S_1S_1$  represents the increased in supply of dollars. ✓✓
  - (b) At this stage,  $OB_1$  dollars are offered, but only  $OB$  dollars are required. ✓✓
  - (c) Because of the large supply of dollars and the relatively small demand of dollars,  $A$  will offer a lower price for the dollar. ✓✓
  - (d) As soon as the price decreases, the  $US$  will offer less dollars in response to the demand. ✓✓
  - (e) In this way the price of dollar will decrease to  $OP_1$  where the supply will be satisfied at a quantity of  $OB_2$  dollars ✓✓
  - (f) Demand and supply are again in equilibrium. ✓✓
- (8)

The supply of foreign exchange is determined by the following factors:

- (a) Exporting goods. ✓✓
  - (b) Providing services to foreign countries. ✓✓
  - (c) Receiving interests and dividends on capital invested in foreign countries. ✓✓
  - (d) Inflow of foreign capital for reasons of security, and investments. ✓✓
  - (e) Expenditure on money by foreign power, tourists or travellers. ✓✓
  - (f) Raising new loans in foreign countries. ✓✓
  - (g) Other receipts of foreign currencies from time to time. ✓✓
- (4)

(Answers without graphs will score only 30 marks.)

[45]

**11.4 CONCLUSION**

The exchange rate market is similar to an ordinary market where goods and services are bought and sold at specific prices. In an exchange market, different national currencies are bought and sold at certain prices (rates of exchange). ✓✓  
(Accept any logical/original conclusion)

[2]  
**/50/**

**TOTAL SECTION C: 100**

**GRAND TOTAL: 400**