



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS

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MEMORANDUM

MARKS: 300

This memorandum consists of 25 pages.

SECTION A (COMPULSORY)**QUESTION 1**

1.1 Various options are provided as answers to the following questions.

- | | | | |
|--------|----------------------------|----------|------|
| 1.1.1 | B – supply-driven ✓✓ | | |
| 1.1.2 | C – public ✓✓ | | |
| 1.1.3 | C – production ✓✓ | | |
| 1.1.4 | C – industry ✓✓ | | |
| 1.1.5 | B – equilibrium ✓✓ | | |
| 1.1.6 | A – ceteris paribus ✓✓ | | |
| 1.1.7 | C – demand-side ✓✓ | | |
| 1.1.8 | B – economic indicator ✓✓ | | |
| 1.1.9 | A – value-added ✓✓ | | |
| 1.1.10 | A – private benefit ✓✓ | | |
| 1.1.11 | B – general price level ✓✓ | | |
| 1.1.12 | B – expenditure ✓✓ | (12 x 2) | (24) |

1.2 Give ONE term for each of the following descriptions by choosing a term from the list.

- | | | | |
|-------|---|---------|------|
| 1.2.1 | Moving average ✓✓ | | |
| 1.2.2 | Perfect market ✓✓ | | |
| 1.2.3 | General Agreement on Tariffs and Trade ✓✓ | | |
| 1.2.4 | Inflation targets ✓✓ | | |
| 1.2.5 | Non-renewable ✓✓ | (5 x 2) | (10) |

1.3 Choose a description from COLUMN B that matches an item in COLUMN A.

- | | | | |
|-------|---|---------|------|
| 1.3.1 | C – exogenous factor influencing business cycles ✓✓ | | |
| 1.3.2 | E – supply of goods and services ✓✓ | | |
| 1.3.3 | F – the best available production has not been achieved ✓✓ | | |
| 1.3.4 | G – it illustrates the relationship between unemployment and inflation ✓✓ | | |
| 1.3.5 | B - the degree of inequality in the distribution of income ✓✓ | | |
| 1.3.6 | D – calculated as a certain amount per unit, mass or size of an article ✓✓ | | |
| 1.3.7 | A – charged for the adverse effects on the environment on output or consumption ✓✓ | | |
| 1.3.8 | H – consumption by one person does not in any way reduce the consumption by someone else ✓✓ | (8 x 2) | (16) |

TOTAL SECTION A: 50

SECTION B

Answer any THREE of the four questions from this section.

QUESTION 2: LO1 AS1 – AS4**2.1 Choose the correct word(s) between brackets.**

2.1.1 absolute ✓✓

2.1.2 peak ✓✓

2.1.3 upswing ✓✓

2.1.4 high ✓✓ (4 x 2) (8)

2.2 List THREE factors that influence the demand for foreign exchange – US dollar.

- South Africans visiting the USA ✓✓
- Imports from USA ✓✓
- USA obtaining loans from South Africa ✓✓
- Services rendered by the USA ✓✓
- SA paying interest and dividends to the USA ✓✓
- Repayment of loans ✓✓
- Investing in the USA ✓✓ (Any 3 x 2) (6)

2.3 Study the budget information and answer the questions that follow.

2.3.1 February ✓✓ (2)

2.3.2 Income tax ✓✓ (2)

2.3.3 deficit ✓✓ (R642 990 m. – R738 562 m.) ✓ = -R95 572 m. ✓ (4)

2.3.4 It consists of a 3-year rolling expenditure and revenue projections for the national and provincial governments, presented against the backdrop of economic and fiscal goals and prospects for the economy. ✓✓ (2)

2.4 2.4.1 The balance of payments is a systematic record of the country's trade and financial transactions with the rest of the world. ✓✓ (2)

2.4.2 2005 ✓✓ (2)

2.4.3 A negative effect/increased the deficit ✓✓ it is clear from the figures given, that the deficit increased from year to year ✓✓ (4)

2.4.4 Negative trend ✓✓ (2)

2.5 Discuss the trendline in the forecasting of a business cycle.

Trendline:

- It represents the average position of a cycle. ✓✓
- Indicates the general direction in which the economy is moving. ✓✓
- An upward trend suggest that the economy is growing. ✓✓
- Trendline usually has a positive slope, because production capacity increases over time. ✓✓
- Diagram showing trendline. ✓✓

Accept any other relevant facts ✓✓

(Any 4 x 2)

(8)

2.6 Discuss merit goods as a cause of market failure.

- Some goods that are highly desirable for the general welfare of the people of a country are often not highly rated by the market. ✓✓
- If people had to pay market prices for them, relatively too little would be consumed. ✓✓
- In that sense then, the market will fail, to the detriment of the economy and society. ✓✓
- Examples of such goods are health care and education. ✓✓
- Only a few people would pay for education if they had to meet the full cost. ✓✓

(Any 4 x 2)

(8)
[50]

QUESTION 3: LO2 AS1 – AS3**3.1 Choose the correct word(s) between brackets.**

3.1.1 oligopoly ✓✓

3.1.2 free ✓✓

3.1.3 street lights ✓✓

3.1.4 a market ✓✓

(4 x 2) (8)

3.2 List any THREE aims of a competition policy.

- Prevent the abuse of economic power e.g. monopolist. ✓✓
- Regulate the growth of market power by means of takeovers and mergers. ✓✓
- Prevent restrictive practices, e.g. the fixing of selling prices. ✓✓
- Improve efficiency of markets. ✓✓
- To ensure that effective competition exists. ✓✓
- Improve equity in markets by ensuring access to those people who were previously denied an equal opportunity to participate in the economy. ✓✓
- Contribute to developmental objectives. ✓✓

(Any 3 x 2) (6)

3.3 Study the graph and answer the questions that follow.

3.3.1 Subsidy: financial grant or other resources to support the production of a good, a service or a person by the government. ✓✓ (2)

3.3.2 Direct: i.e. cash grants, interest free loans ✓✓

OR

Indirect: interest discount, grants to cover expenses ✓✓ (2)

3.3.3 The graph illustrates the following:

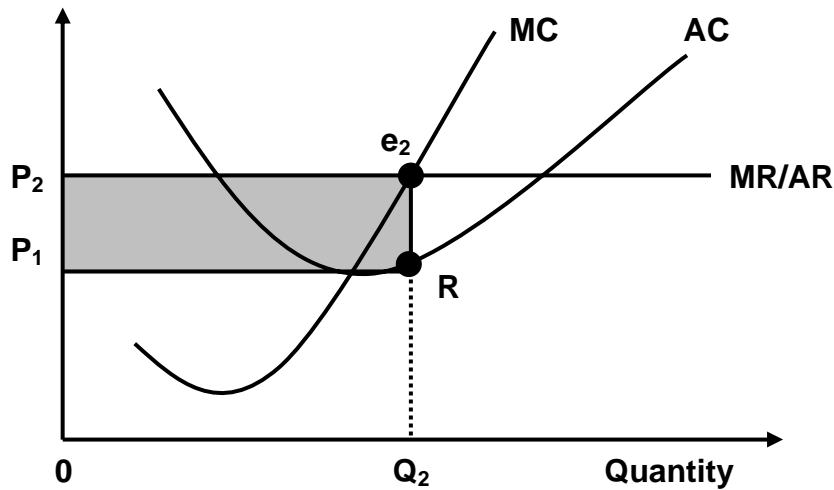
- The subsidy reduces production cost ✓✓
- Therefore farmers will produce more maize and the supply curve SS, shifts to the right, to S_1S_1 . ✓✓
- This results in a decrease in the market price of maize/wheat from PP to $P_1 P_1$. ✓✓
- An increase in the quantity supplied from Q to Q_1 . ✓✓

Accept any other relevant explanation. (Any 3 x 2) (6)

3.4 Study the graphs and answer the questions that follow.

- 3.4.1 Graph B ✓✓ (2)
- 3.4.2 Normal profit is a situation where total revenue is exactly equivalent to total costs – is amount entrepreneur pays himself – expense – minimum earnings required to prevent entrepreneur from leaving production sector/AR = AC ✓✓✓ (3)
- 3.4.3 E₂ where MR = MC ✓✓ (2)
- 3.4.4 (R6 X 60) – (R8 X 60) = total economic loss ✓
R360 – R480 = -R120 ✓✓ (3)

3.5 Use the graph and explain short-term economic profit for the perfectly competitive business.



- 3.5.1 The **AC** curve represents the average total cost in the short term. ✓✓
In the above graph, the minimum point of the short-term average cost curve (**AC**) is lower than the market price, **P₂** ✓✓ Whether the business makes profit or a loss depends on the location of the short-term average cost curve (**AC**) in relation to the market price when the business is in equilibrium. ✓✓
- 3.5.2 The business is in equilibrium at point **e₂**, ✓✓ where **MR = MC** and the business will therefore produce the quantity **Q₂** at the market price **P₂** ✓✓
- 3.5.3 To calculate a business's profit or loss, the total cost of production must be deducted from total revenue. ✓✓ Total revenue is therefore equivalent to **0P₂ X 0Q₂** ✓✓ and total cost is equal to **0P₁ X 0Q₂** ✓✓
- 3.5.4 Total revenue therefore exceeds total cost, which means that the business is making economic profit ✓✓ that is represented by the area **P₂e₂RP₁**. ✓✓ (Any 4 x 2) (8)

3.6 Discuss any TWO characteristics of a typical oligopoly.

- Type of product ✓✓ homogeneous (pure oligopoly) or differentiated (differentiated oligopoly) ✓✓
- Entry ✓✓ new producers have free entry although not easily illustrated – only few businesses in market ✓✓
- Control over prices ✓✓ producers generally have considerable control over price of products ✓✓
- Mutual dependence ✓✓ only few businesses – influenced by others' actions – competitors react ✓✓

Any other relevant facts.

(Any 2 x 4)

(8)
[50]

QUESTION 4: LO3 AS1 – AS4**4.1 Choose the correct word between brackets.**

4.1.1 growth ✓✓

4.1.2 Black Economic Empowerment ✓✓

4.1.3 quota ✓✓

4.1.4 subsidies ✓✓

(4 x 2) (8)

4.2 List any THREE examples of social benefits provided by governments to address poverty.

- Social security grants, e.g. child support grants/old-age pension ✓✓
- Benefits in kind/e.g. food parcels ✓✓
- Services like clean water and refuse removal/free electricity ✓✓
- Primary health care like free hospitalisation ✓✓
- Free education to those who cannot afford school fees ✓✓

Accept any other examples of social benefits

(Any 3 x 2) (6)

4.3 Study the cartoon and answer the questions that follow.

4.3.1 African Union ✓✓

(2)

4.3.2 The development of Africa and its people. ✓✓

(2)

4.3.3 NEPAD/New Economic Partnership for African Development ✓✓

(2)

4.3.4 No ✓✓ People expected help in the form of food, clothing, medicine – but received only best wishes cards ✓✓

(4)

4.4 Study the graph and answer the questions that follow:

4.4.1 When someone earns less than \$1 per day.

OR

When people's income is so low that they cannot maintain a reasonable standard of living. ✓✓✓

(Any other relevant answer)

(3)

4.4.2 • Eastern Cape ✓

• Limpopo ✓

• Free State ✓

(3)

4.4.3 Give any TWO reasons for the high poverty rate, applicable to all three provinces.

- High illiteracy levels ✓✓
 - High mortality rates ✓✓
 - Malnutrition ✓✓
 - Poor school enrolment ✓✓
 - Substance abuse/ crime ✓✓
 - High unemployment ✓✓
- (Any other relevant answer)

(4)

4.5 Discuss employment as part of the evaluation of South Africa's economic growth policies.

- Employment in non-agricultural sectors decreased ✓✓
 - GEAR suggested a climate for employment creation by private sector employment in private sector increased ✓✓
 - became more efficient to compete internationally ✓✓
 - labour productivity increased ✓✓
 - the unemployment rate increased from 14% in 1994 to 26% in 2005 ✓✓
 - Yet, employment increased, mainly because of informal sector activities ✓✓
- (Any 4 x 2)

(8)

4.6 Explain any TWO major differences between developed countries in the North and the developing countries in the South (North-South divide).

NORTH-SIDE Developed countries	SOUTH-SIDE Developing countries
Per capita income – 87% produced by 15% of world's population ✓✓	85% of world's population living on 1/5 of world's income ✓✓
Life expectancy is high in developed countries = 75 years ✓✓	Life expectancy in developing countries is low due to malnutrition, disease and ill health = 48 years ✓✓
Level of education: high – everyone literate ✓✓	Level of education low – only 46% adult literacy. ✓✓
Trade: rich countries subsidise production – developing countries cannot compete ✓✓	Trade: developing countries are marginalised by subsidies. ✓✓
Mass consumption of oil and coal – damage to ozone layer – air, water, noise pollution and toxic waste ✓✓	Focus on agriculture – soil conditions, adequate rainfall and health of crops – degradation and depletion of land, water and vegetation – do not produce sufficient food – hunger and malnutrition ✓✓
(2 x 2)	(2 x 2)

Accept any other relevant format.

(8)
[50]

QUESTION 5: LO4 AS1 – AS4**5.1 Choose the correct word between brackets.**

5.1.1 externality ✓✓

5.1.2 deforestation ✓✓

5.1.3 the demand for exports ✓✓

5.1.4 hospitality ✓✓

(4 x 2) (8)

5.2 List any THREE indigenous forms of art in South Africa.

- Rock painting ✓✓
- Beading ✓✓
- Tiling ✓✓
- Weapons ✓✓
- Traditional clothing ✓✓
- Pottery ✓✓

Any other relevant forms.

(Any 3 x 2) (6)

5.3 Study the information and answer the questions that follow.

- 5.3.1
- Political instability ✓✓✓
 - Violence ✓✓✓
 - War/shocks ✓✓✓
 - Crime ✓✓✓

Any other relevant answer

(Any 1 x 3) (3)

- 5.3.2
- The multiplier describes the fact that changes in spending have an impact on income that is greater than the original change in spending. ✓✓
 - Private consumption spending will increase greatly ✓✓
 - Greater demand for local goods and services ✓✓
 - Leads to an increase in GDP ✓✓
 - Greater volume of exports ✓✓
 - Increase in job creation ✓✓
 - Increase in National Income ✓✓
 - Correction of balance of payments disequilibria ✓✓ (Any 2 x 2) (4)

- 5.3.3
- Yes ✓ e.g. infrastructure development ✓✓
/No ✓ e.g. not many sustainable jobs created ✓✓

Accept any other motivation that corresponds with the answer. (3)

5.4 Study the extract and answer the questions that follow.

- 5.4.1
- They do not have sufficient income resources ✓✓
 - They want to improve resource location ✓✓
 - It provides an additional source of revenue to the provinces ✓✓ (2)
- 5.4.2
- Taxes ✓✓
 - Levies ✓✓
 - Duties ✓✓
 - Surcharge ✓✓
 - User-charges + Vehicle license fees ✓✓
 - Loans ✓✓
 - Toll-gates fees ✓✓ (Any 2 x 2) (4)
- 5.4.3
- Inflation will increase ✓✓ transport costs will increase and lead to higher product prices ✓✓
 - Consumer spending will decrease ✓✓ less disposable income ✓✓
 - Shared lift opportunities/ lift clubs ✓✓
 - Knock-out effects ✓✓
- Accept any other relevant answer. (Any 2 x 2) (4)

5.5 Discuss headline and CPIX inflation as types of consumer Inflation.

- Headline inflation
 - Measured by the Consumer Price Index (CPI). ✓✓
 - Represents the cost of the 'shopping basket' of goods and services of a typical South African household. ✓✓
 - The unadjusted CPI inflation rate is also known as headline inflation. ✓✓ (2 x 2)
 - CPI inflation
 - Interest rates are the main monetary instrument used by the SARB to fight inflation. ✓✓
 - Main indicator of inflation in its pursuit of the inflation target set by the Reserve Bank ✓✓
- Accept any other relevant facts. (2 x 2) (8)

5.6 **Since the 1970s international events have been organised to address sustainable development. Discuss decisions taken at any TWO of these events, and indicate how South Africa tried to implement them.**

Stockholm Conference:

- recognised that rapid changes in science and technology, have given human beings the power to transform their environment ✓✓
- both natural and man-made environment are essential to mankind's well-being and to the enjoyment of basic human rights ✓✓ (Any 2 x 2)

Rio de Janeiro:

- the Earth Summit establish new and equitable global partnership through creation of new levels of co-operation among states, key sectors of societies and people ✓✓
- Agreement that humans are at centre of sustainable development and entitled to healthy and productive life in harmony with nature ✓✓
- Agenda 21: social and economic issues (poverty, consumption patterns, protect and promote health) ✓✓; conservation and management of resources (atmosphere, deforestation, oceans, freshwater resources, wastes ✓✓
- Rio Plus 5 noted that globalization made some countries poorer (low level of growth) ✓✓ – what place, share and benefits are there for a global system (Any 2 x 2)

Johannesburg Summit on sustainable development:

- Focus attention on difficult challenges (improving people's lives, conserving natural resources, ever-increasing demand for food, water, shelter, sanitation) ✓✓
- Divide between rich and poor posed major threat to global prosperity and stability ✓✓ (Any 2 x 2)

(8)

[50]

TOTAL SECTION B: 150

QUESTION 6: LO1 & LO3 AS1 – AS4**6.1 Choose the correct word between brackets.**

- 6.1.1 Exchange ✓✓
- 6.1.2 Skills Support Programme ✓✓
- 6.1.3 The multiplier ✓✓
- 6.1.4 Employment Equity Act ✓✓ (8)

6.2 List any THREE reasons for international trade.

- Factors of production are unevenly distributed ✓✓
- Climates vary from country to country ✓✓
- Not all countries enjoy the same availability of technology ✓✓
- Not all countries have an educated, skilled and productive labour force ✓✓
- Principle of absolute advantage and comparative advantage ✓✓
Any other relevant forms. (Any 3 x 2) (6)

6.3 Study the information and answer the questions that follow.

- 6.3.1 R2 150 203 ✓✓✓ (3)
- 6.3.2 R2 407 689 ✓✓✓ (3)
- 6.3.3 Income method ✓✓ (2)
- 6.3.4 Production (Value Added) method / Expenditure method ✓✓ (2)

6.4 Study the extract and answer the questions that follow.

- 6.4.1 A statistic that shows the behaviour of one or other economic variable ✓✓✓ (3)
- 6.4.2
- Economic growth ✓✓
 - Total production ✓✓
 - Production capacity of a country ✓✓
- Any other relevant fact. (Any 1 X 2) (2)
- 6.4.3 Real GDP ✓
Population ✓ (2)
- 6.4.4 R1 595 874 ✓
35 909 ✓
= 44.44 million (3)

6.5 Discuss the economies of scale and innovation as arguments in favour of free trade.

ECONOMIES OF SCALE:

- Trade allows economies of scale to be maximized and thus unit costs are reduced ✓✓
- Economies of scale are a source of comparative advantage ✓✓

INNOVATION:

- Free trade implies competition ✓✓
- A lack of free trade often leads to domestic markets being dominated by a few enterprises who avoid competition among themselves ✓✓
- Competition provides a powerful incentive to innovate ✓✓
- Not only are new goods and services being made available on the market, but enterprises are also competing to find production methods that cut costs and improve the quality and reliability of goods ✓✓ (2 X 4) (8)

6.6 Discuss the changes in the exchange rate as part of Government's policy to restore sustained imbalances (disequilibria) in the Balance of Payments.

FREE-FLOATING EXCHANGE RATES ✓✓

- They work automatically ✓✓
- If imports increase, the demand for foreign exchange increases ✓✓
- The currency depreciates as a result of the working of market forces ✓✓
- Depreciation makes imports more expensive in the depreciating country and exports cheaper in the foreign country ✓✓
- Imports decrease and exports increase and the currency appreciates ✓✓

MANAGED FLOATING EXCHANGE RATES ✓✓

- Central banks use their reserves to effect depreciations and appreciations ✓✓
- Over the long term currencies have to find their equilibrium levels ✓✓

FIXED EXCHANGE RATES ✓✓

- Currencies are devalued and revalued ✓✓ (Any 2 X 4) (8)

TOTAL SECTION B: 150

SECTION C

Essay responses:

- Should include an introduction, body and conclusion.
- Five marks will be allocated for the introduction and conclusion.
- Five marks will be allocated for the interpretation of the topic.
- A maximum of 40 marks will be allocated for the body.

QUESTION 7

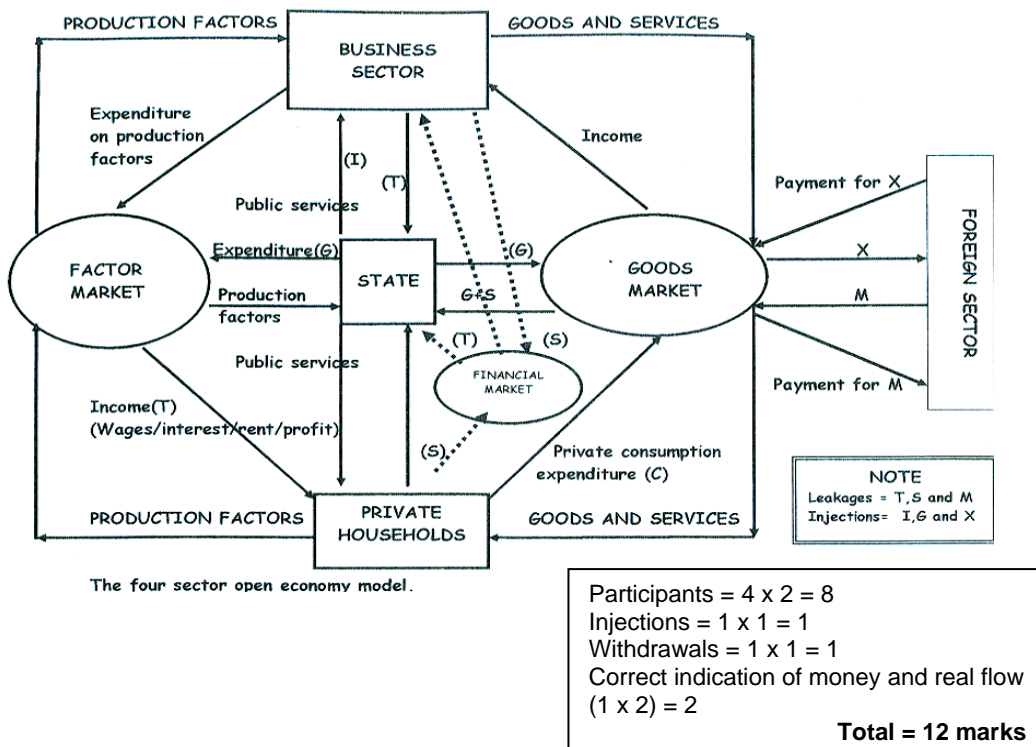
Discuss in detail, with the aid of a clearly labelled diagram, the interaction between the four participants in the open economy circular-flow model.

[50]

INTRODUCTION

The circular-flow model of the economy is a simplification showing how the economy works and the relationship between income, production and spending in the economy as a whole. The circular-flow model of an open economy shows the workings of an economy that is open to foreign trade. It is different to a closed economy because it includes the foreign sector. ✓✓✓ (max 3)
Accept any other appropriate introduction.

BODY



Accept any other clearly labelled diagram

(max 12)

- There is a flow of money and goods and services between the **household sector and business sector** ✓✓ Households earn income in the form of wages by selling their factors of production to business. ✓✓ Business uses factors of production to produce goods and services on which the household sector spends ✓✓ Thus the business will receive income. ✓✓
- There is a flow of money and goods and services between the **household sector and State**. ✓✓ Household sector provides the state with labour and receive income. ✓✓ The state provides the household with public goods and services ✓✓ (e.g.) parks, hospitals ✓✓ for which they pay taxes. ✓✓ This is income for the state. ✓✓
- There is a flow of money and goods and services between the **business sector and State**. ✓✓ The business sector provides the state with goods and services for which the state pays. ✓✓ The state provides the business sector with public goods and services for which they pay taxes. ✓✓
- There is a flow of goods (imports) to the business from the **foreign sector** ✓✓ which the business pays for ✓✓. This will be regarded as expenditure for the business ✓✓ There is also a flow of goods from the business to the foreign sector. ✓✓ This will be income for the business. ✓✓
- The **financial sector** consists of banks, insurance companies and pension funds. ✓✓ They act as a link between households and firms who have surplus money and others in the economy who require funds. ✓✓ The money which households and firms provide to the financial sector is known as savings. ✓✓ The spending on capital equipment by firms is regarded as investment. ✓✓ (Any 14 x 2)

CONCLUSION

Any appropriate conclusion. ✓✓

(Max 2)

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

(Max 5 marks)

[50]

QUESTION 8

Discuss monopoly as a market structure. In your discussion compare this market with conditions of perfect competition.

[50]**INTRODUCTION**

A monopoly is the **sole provider** of a product or service. ✓✓✓

(Max 3)

Accept any other relevant introduction

BODY**1. Definition of a monopoly:**

- The word monopoly is derived from the Greek words **monos** meaning single and **polein** meaning sell. ✓✓
- In its pure form, monopoly is a **market structure** in which there is only one seller of a good or service that has no close substitutes. ✓✓
- It is the **opposite extreme to perfect competition** in the spectrum of market structures. ✓✓
- Consumers cannot purchase the product from any other producer but the monopolist. ✓✓
- A further requirement is that **entry to the market** should be completely blocked. ✓✓

2. Features/Characteristics of a monopoly:

- **They are faced with demand curves** ✓✓
Monopolists are also confronted with a demand curve for their product, but because they are the only supplier of the product they can decide at what point on the demand curve they wish to be. ✓✓
Because the monopolist is the only supplier of the product in the market, the demand curve that confronts the monopolist is that of the market as a whole ✓✓ that is, the market demand curve ✓✓ which slope downwards from left to right. ✓✓

Demand curve

Graph correctly drawn: 2 marks

- **They decide on their production levels ✓✓**
Once a monopolist has decided on a price, the quantity sold is determined by markets demand. ✓✓
By reducing the price, monopolists can sell more units of the product, and vice versa. ✓✓
To a significant extent, monopolists can influence the price-quantity combination of the product they sell. ✓✓
Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is totally blocked. ✓✓
- **They are exposed to market forces ✓✓**
Although the monopolist is the only supplier of a product, the product is still influenced by market forces in the economy. ✓✓
e.g. Consumers have limited budgets and therefore monopolies cannot demand excessive prices for their products. ✓✓
The monopolist's product has to compete for customers' favour with all the other products available in the economy. ✓✓
- **They face substitutes ✓✓**
There are **few products** that have no close substitutes whatsoever. ✓✓
For example, for many years, even though there was no competition for telephone services in South Africa, consumers could still consider using **alternative** forms of communication such as letters and messengers. ✓✓
- **They may exploit consumers ✓✓**
Because a monopolist is the only supplier of a product there is always the possibility of consumer exploitation. ✓✓
Government continually taking steps to guard against such practices.
Example: the Competition Act 89 of 1998 ✓✓
- **They are protected by barriers of entry ✓✓**
 - **High development cost ✓✓**
Example: Eskom/Railways ✓✓
It is normally regulated by government. ✓✓
 - **May enjoy favourable circumstances/limited size of markets ✓✓**
Sometimes an entrepreneur may enjoy favourable circumstances in certain geographical area. ✓✓
Example: there may only be one supplier of milk in a particular town, or hardware store, or hotel may be the only one of its kind in the vicinity. ✓✓
 - **The exclusive ownership of raw material. ✓✓**
Example: De Beers Consolidated Mines. ✓✓
 - **Patent**, which is the legal right whereby a patent holder obtains the exclusive right to manufacture a product. ✓✓
Example: Kreepy Krauly ✓✓
 - **Licensing**, is another way in which artificial monopoly comes to existence. ✓✓
Example: SABC/Cell C/Vodacom/MTN ✓✓

- **Legal restrictions**, where **laws** protecting them. ✓✓
Example: the Post Office in South Africa. ✓✓
- **Technical superiority**, A business whose technological expertise vastly exceeds that of any potential competitor. ✓✓
Example: Microsoft ✓✓
- **Deliberately created entry barriers** ✓✓
Example: To start costly lawsuits against new rivals. ✓✓ (Max 32)

Comparison between a monopoly and perfect competition:

FEATURE/ CRITERION	MONOPOLY	PERFECT COMPETITION
Number of firms ✓	<ul style="list-style-type: none"> • Only one seller and many buyers 	<ul style="list-style-type: none"> • Large number of buyers and sellers ✓ • No firm can influence the market price
Nature of product ✓	<ul style="list-style-type: none"> • A unique product with no close substitutes 	<ul style="list-style-type: none"> • Products are homogeneous ✓
Entry ✓	<ul style="list-style-type: none"> • Completely blocked 	<ul style="list-style-type: none"> • Completely free ✓
Information ✓	<ul style="list-style-type: none"> • Both buyers and sellers have full knowledge of all the prevailing market conditions 	<ul style="list-style-type: none"> • Both buyers and sellers have full knowledge of all the prevailing market conditions ✓
Collusion ✓	<ul style="list-style-type: none"> • Irrelevant 	<ul style="list-style-type: none"> • Impossible ✓
Firms control over the price of product ✓	<ul style="list-style-type: none"> • Considerable, but limited by market demand and the goal of profit maximisation 	<ul style="list-style-type: none"> • None ✓
Demand curve for the firm's product ✓	<ul style="list-style-type: none"> • Equals market demand curve 	<ul style="list-style-type: none"> • Horizontal ✓ (Perfectly elastic)
Long-run economic profit ✓	<ul style="list-style-type: none"> • Can be positive 	<ul style="list-style-type: none"> • Zero (normal profit only) ✓

(Max 8)

CONCLUSION

From the above discussion it is clear that perfect competition thus meets the criteria for allocative and productive efficiency. In contrast the monopoly does not. ✓✓ (Max 2)

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[50]

QUESTION 9

Discuss Spatial Development Initiatives (SDIs) and Industrial Development Zones (IDZs) as part of South Africa's regional industrial development. In your discussion highlight the financial incentives of the state.

[50]**INTRODUCTION**

South Africa's overall objective of Industrial Development Policy is to ensure international competitiveness in its nine provinces in order to overcome the problems of unemployment, poverty and underdevelopment. ✓✓✓

Accept any other relevant introduction.

(Max 3)**BODY****1. SPATIAL DEVELOPMENT INITIATIVES**

- SDI Programme attracts infrastructure and business investments to underdeveloped areas with the primary aim of creating employment. ✓✓
- Department of Trade and Industry is driving force behind industrial and spatial development. ✓✓
- DTI plans together with central, provincial and local government, IDC, parastatals and research institutions. ✓✓
- Industrial Development Policy Programme (Spatial Development) has 2 focus points:
 - spatial development initiative (SDI) and
 - financial incentives. ✓✓
- SDI refers to national government initiative programme aimed at unlocking inherent and underutilised economic development potential of certain specific spatial locations in SA. ✓✓
- Key objectives
 - stimulate economic activity in selected strategic locations. ✓✓
 - generate economic growth and foster sustainable industrial development; ✓✓
 - develop projects of infrastructure in certain areas and finance them through lending and private sector investment ✓✓
 - establish private-public partnerships (PPP's) ✓✓
- In areas with high poverty and unemployment, SDI focuses on:
 - high-level support in areas where socio-economic conditions require concentrated government assistance ✓✓
 - where inherent economic potential exists. ✓✓
- The approach is towards international competitiveness, regional cooperation and a more diversified ownership base. ✓✓
- Some of the main focus points of the SDI Programme are:
 - Lubombo Corridor (agro-tourism, education, craft, commercial and agricultural sectors); ✓✓
 - KwaZulu-Natal (ports of Durban and Richards Bay); ✓✓
 - West Coast SDI (fishing and industrial ports); ✓✓
 - Coast-2-Coast Corridor with agro-tourism. ✓✓

Corridors: a track of land that forms a passageway allowing access from one area to another and particular advantages to mining, manufacturing and other businesses ✓✓

- Two types: Domestic corridor ✓✓ e.g. Lubombo, West Coast, Fish River ✓✓
- **Corridors** beyond the South African borders (SADC) ✓✓ e.g. Maputo Development Corridor, Mozambique. ✓✓
- Reasons in support of South Africa's regional integration in Southern Africa:
 - have political and stable neighbours ✓✓
 - have important export markets and a future source of water and energy supplies ✓✓
 - integration may be a precondition for support from foreign investors, donors and multilateral institutions ✓✓
 - a robust regional transport system and a solid infrastructure base hold the key to attracting investment into the SADC region – improving competitiveness and promoting trade. ✓✓
- Advantages from corridor development:
 - greater levels of economic efficiency and productivity ✓✓
 - compact urban form ✓✓
 - corridor developments will often occur due to private investment ✓✓
 - integration of land use and transport planning will lead to generally efficient integration ✓✓
 - efficient urbanization leads to efficient use of land and promotion of efficient transport system. ✓✓

2. INDUSTRIAL DEVELOPMENT ZONES (IDZs)

- Geographically designed, purpose-built industrial sites providing services tailored for export-orientated industries. ✓✓
- Physically enclosed and linked to an international port or airport. ✓✓
- Specifically designed to attract new investment in export-driven industries. ✓✓
- Falls outside domestic customs zones and able to import items free of customs and trade restrictions, add value, and then export their goods. ✓✓
- Development and management done by private sector. ✓✓
- Government IDZ policy designed to boost exports and jobs. ✓✓
- IDZs aim to encourage economic growth – attract foreign investment in industrial development – facilitate international competitiveness regarding manufacturing. ✓✓

(Max 30)

FINANCIAL INCENTIVES:

- Small and Medium Enterprise Development Programme (SMEDP) ✓✓ an incentive that provides a tax-free cash grant for investment in industries in South Africa ✓✓ E.g. manufacturing, agricultural, processing, aquaculture and tourism. ✓✓
- Critical Infrastructure Fund Programme (CIF) ✓✓ a tax-free cash grant incentive for projects that are designed to improve critical infrastructure in South Africa ✓✓ e.g. for installation, construction of infrastructure, payment of employees, materials directly consumed during installation. ✓✓
- Duty-free Incentives (for businesses operating in the IDZs) ✓✓ Aimed at export-orientated manufacturing to enhance competitiveness ✓✓ and promote foreign and local direct investment. ✓✓

- Foreign Investment Grant (FIG) ✓✓ a cash grant to assist foreign investors who invest in new manufacturing businesses in SA ✓✓ Qualifying cost of relocating new machinery and equipment from abroad. ✓✓
- Strategic Investment Projects (SIP) ✓✓ attract investment from local and foreign entrepreneurs with the following industry sectors: manufacturing, computer, research and engineering. ✓✓
- Skills Support Programme (SSP) ✓✓ cash grant for skills development encourage greater investment in training in general and stimulate development of new advanced skills. ✓✓
- Black Businesses Supplier Development Programme (BBSDP) ✓✓ incentive consist of 80% cash grant ✓✓ provides black-owned enterprises with access to training to improve management effectiveness of their enterprises. ✓✓ (Max 10)

CONCLUSION

From the above discussion it is clear that different initiatives form part of South Africa's Regional Industrial Development Programme. ✓✓ (Max 2)

Use the following assessment grid together with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1 – 15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16 – 30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31 – 45)

[50]

QUESTION 10**Discuss the measures to ensure environmental sustainability.****[50]****INTRODUCTION**

- Sustained development means meeting the needs of the present generation without compromising the needs of future generations. ✓✓✓ **OR**
- When pollution levels and environmental degradation are too high and the free market system has failed to bring about an optimal utilization of the environment, government intervenes or takes control. ✓✓✓

Accept any other relevant introduction.

(Max 3)

BODY**1. Market allocations** ✓✓• **Market failure** ✓✓

- Environment is a common resource ✓✓
- Many parts of the environment are not privately owned and have the characteristics of non-excludability. ✓✓
- Environmental resources are scarce and there is rivalry in their use. ✓✓
- At a zero price these resources will be overused. ✓✓

• **Externalities** ✓✓

- Costs are often borne by others ✓✓
- The greater these external costs, the lower the socially efficient level of output will be. ✓✓
- There is no one to enforce property rights over the environment. ✓✓

• **Lack of knowledge** ✓✓

- People cause environmental damage without realizing it. ✓✓
- These effects build up over a period of time causing excessive damage to the environment. ✓✓

• **Carelessness** ✓✓

- Consumers and businesses are frequently prepared to continue with various harmful practices ✓✓
- These environmental consequences are often left to future generations to worry about. ✓✓

2. Public sector involvement ✓✓

• Granting property rights ✓✓

- It ensures that people care for the things that belong to them. ✓✓
- (e.g.) Kyoto Protocol ✓✓
- where developed countries agreed to provide financial assistance to developing countries because they cause less pollution. ✓✓
- The developed countries therefore pay for the right to pollute. ✓✓

• Charging for the use of the environment. ✓✓

- The pricing of the environment is one method used by government to impose environmental charges. ✓✓
- Government levies a fee on consumers and producers for the waste (solid, liquid, gas) they dump in the environment. ✓✓
- Best results are obtained when these charges are proportional to the waste they produce. ✓✓

• Environmental taxes ✓✓

- A tax could be imposed on the output or consumption of a good, wherever external environmental costs are generated. ✓✓
- These are known as green taxes ✓✓ (e.g.) tyres ✓✓
- The rate of tax should be equal to the marginal external cost. ✓✓

• Environmental subsidies ✓✓

- These subsidies reduce activities that cause environmental damage. ✓✓
- These costs are recovered from taxation. ✓✓
- Subsidies could be for the development of new technology or equipment. ✓✓
- Encourage production of environmental friendly subsidies. ✓✓
- Encourage recycling of waste such as bottles or cardboards. ✓✓

• Marketable permits ✓✓

- Governments may wish to charge for the pollution (externality) and it could raise a levy or a tax to pay for it. ✓✓
- A licence (credits) or permit is offered and businesses are allowed to sell their licences to other businesses. ✓✓
- Licences or permits or credits are traded in a permit market. ✓✓

3. Public sector control ✓✓

- At times government must take direct control ✓✓
- This occurs through **command and control (CAC)** ✓✓ or **voluntary agreements** ✓✓ or **education** ✓✓

4. International measures ✓✓

- The world's biggest concerns are the loss of biodiversity, toxic and hazardous wastes and climate warming. ✓✓
- South Africa is a signatory to a variety of international agreements that deal with environmental issues and environmental sustainability. ✓✓
- The World bank, IMF, United Nation strive to achieve the support and cooperation of all countries for their fight against environmental decay. ✓✓
- (E.g.) of International cooperation are the RIO summit of 1992✓✓ and Johannesburg Summit 2002 ✓✓ and the Kyoto Protocol on climate change (1997 and 2005) ✓✓
(Max 40)

CONCLUSION

Pressure groups such as the Green party and Friends of the Earth have forced industries to encourage managers to integrate environmental responsibility into all their business decision making. ✓✓ (Max 2)

Accept any other relevant conclusion.

Use the following assessment grid in conjunction with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
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[50]

TOTAL SECTION C: 100
GRAND TOTAL: 300