



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

**ECONOMICS
NOVEMBER 2012
MEMORANDUM**

MARKS: 300

This memorandum consists of 35 pages.

SECTION A (COMPULSORY)**QUESTION 1 (LO1–LO4)****1.1 MULTIPLE-CHOICE QUESTIONS**

- | | | | |
|--------|---|--------|------|
| 1.1.1 | A – short ✓✓ | | |
| 1.1.2 | C – a flat rate ✓✓ | | |
| 1.1.3 | B – supply ✓✓ | | |
| 1.1.4 | C – negative ✓✓ | | |
| 1.1.5 | A – differentiated ✓✓ | | |
| 1.1.6 | A – decrease ✓✓ | | |
| 1.1.7 | A – Broad-based Black Economic Empowerment ✓✓ | | |
| 1.1.8 | B – technology ✓✓ | | |
| 1.1.9 | B – corridors ✓✓ | | |
| 1.1.10 | C – stagflation ✓✓ | | |
| 1.1.11 | C – cultural ✓✓ | | |
| 1.1.12 | B – global warming ✓✓ | (12x2) | (24) |

1.2 ONE-WORD ITEMS

- | | | | |
|-------|---|-------|------|
| 1.2.1 | Multiplier ✓✓ | | |
| 1.2.2 | Marginal cost ✓✓ | | |
| 1.2.3 | Reconstruction and Development Programme/RDP ✓✓ | | |
| 1.2.4 | Gini-coefficient ✓✓ | | |
| 1.2.5 | Inflation ✓✓ | (5x2) | (10) |

1.3 MATCHING ITEMS

- | | | | | |
|-------|---|--|-------|------|
| 1.3.1 | C | – assists countries with balance of payments problems ✓✓ | | |
| 1.3.2 | A | – believes that markets are inherently stable ✓✓ | | |
| 1.3.3 | G | – evaluating the feasibility of large infrastructure projects ✓✓ | | |
| 1.3.4 | F | – non-rival and non-excludable ✓✓ | | |
| 1.3.5 | I | – measurement of inflation ✓✓ | | |
| 1.3.6 | D | – promotes the expansion of trade through free-trade areas between member countries ✓✓ | | |
| 1.3.7 | B | – reduction of life forms within the ecosystem ✓✓ | | |
| 1.3.8 | H | – restrictions set by government on pollution ✓✓ | (8x2) | (16) |
- [50]**

SECTION B

Answer any THREE of the five questions from this section in the ANSWER BOOK.

QUESTION 2: (LO1 AS1–4) MACROECONOMICS**2.1 Choose the correct word in brackets**

2.1.1 financial ✓✓

2.1.2 deregulation ✓✓

2.1.3 taxation ✓✓

2.1.4 positive ✓✓

(4x2) (8)

2.2 Any THREE services provided by government.

- Protection ✓✓ e.g. police force ✓✓
- Economic ✓✓ e.g. provision of water ✓✓
- General ✓✓ e.g. infrastructure ✓✓
- Social ✓✓ e.g. pension, grants ✓✓
- Public goods ✓✓
- Community goods ✓✓
- Collective goods ✓✓
- Merit goods ✓✓
- Take care of common resources ✓✓
- Manage the economy ✓✓

Allocate 2 marks for any other relevant examples

(Any 3x2) (6)

2.3 Study the cartoon and answer the questions that follow.**2.3.1 What is the message of the cartoon?**

- People in the private sector are enjoying all the benefits of the market system, at the expense of others ✓✓
- The need for government intervention ✓✓
- Shows unequal distribution of income ✓✓
- E.g. the Marikana issue ✓✓

(Any other relevant answer) (2)

2.3.2 **What can the private sector do to improve the living conditions of these workers?**

- Provide subsidies or free housing ✓✓
- bursaries to dependants of employees ✓✓
- subsidised meals in canteens ✓✓
- money that is used to look after the needs of the poor ✓✓
- Increase wages ✓✓
- Job creation ✓✓
- Training (skills development) ✓✓
- Employment equity ✓✓
- Incentives (accept any relevant examples) ✓✓
- CSI (Corporate Social Investment) ✓✓
- PPP (Public Private Partnerships) ✓✓
- EAP (Employee Assistance Programmes) ✓✓

(Any other relevant answer)

(2x2)

(4)

2.3.3 **How can the government alleviate the level of poverty?**

- Social security grants ✓✓ e.g. pensions, disability grants ✓✓
- Benefits in kind ✓✓ e.g. free water ✓✓ electricity ✓✓ feeding schemes ✓✓
- Services ✓✓ sewerage ✓✓ clean water ✓✓ free housing ✓✓
- Primary health care ✓✓ free hospitalisation ✓✓ clinics ✓✓
- Education ✓✓ no school fees ✓✓
- Nationalisation ✓✓
- Progressive tax ✓✓
- Job creation ✓✓
- Skills training ✓✓
- Incentive schemes to start businesses ✓✓
- EPWP (Expanded Public Works Programme) ✓✓
- To implement strategies (AsgiSA, Jipsa) ✓✓

(Any other relevant answer)

(Any 2x2)

(4)

2.4 **Study the extract and answer the questions that follow.**

2.4.1 **What does nationalisation mean?**

The process of government taking over the ownership and management of private enterprises ✓✓ with or without compensation.

(2)

2.4.2 **What effect will the nationalisation of mines and banks have on the man in the street?**

POSITIVE EFFECTS: ✓✓

- More revenue (income) comes into the state coffers ✓✓
- An improved redistribution of income is possible to many ✓✓
- Job creation ✓✓
- Higher income per capita ✓✓
- Increase in the standard of living ✓✓

NEGATIVE EFFECTS: ✓✓

- Negative impact on share value ✓✓
- Negative impact on salaries / conditions of service ✓✓
- Corruption ✓✓
- Nepotism ✓✓
- Disinvestment ✓✓
- Poor quality of service delivery ✓✓
- Job losses ✓✓

(Any other relevant answer)

(Any 2x2)

(4)

2.4.3 **Why, do you think, are mines targeted for nationalisation?**

- Employment opportunities ✓✓
- Revenue generation ✓✓
- Political gain/address inequality of the past/alleviate poverty ✓✓
- Strategic importance ✓✓
- Regarded as a national asset ✓✓

(Any other relevant answer)

(2)

2.4.4 **Why is gold referred to as a sunset industry?**

- It is a natural resource that can become depleted / gold is a dwindling asset ✓✓
- Mines may close down and no longer mine gold ✓✓
- Gold is currently not seen as strategic as platinum and coal ✓✓

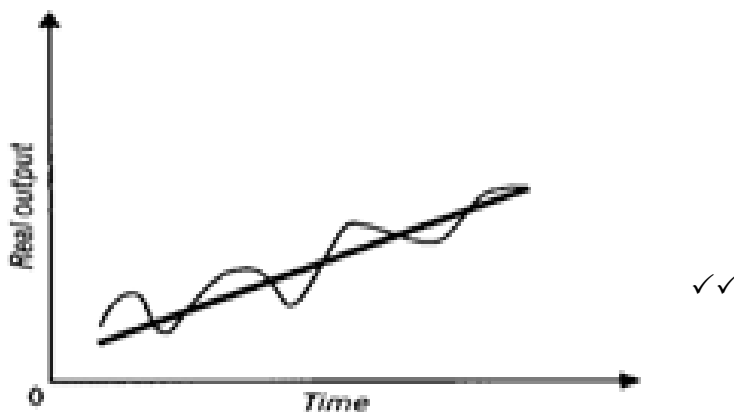
(Any other relevant answer)

(Any 1x2)

(2)

2.5 Explain how exogenous factors cause business cycles.

- The monetarist school of thought was started in 1960 by Professor Milton Friedman ✓✓
- The classical economists believed that the markets were inherently (naturally) stable ✓✓
- Also called the sunspot theory ✓✓
- They presented exogenous explanations (conditions that originate outside the market system) for periodic recessions and revivals ✓✓
- They saw these fluctuations in economic activity as temporary due to external factors ✓✓
- These fluctuations can also occur because of ineffective government policy ✓✓
- Supporters say that government should leave the market forces to their own devices ✓✓
- This results in fluctuations in the rate of increase in the money supply, which causes changes in the rate of increase in prices, production and employment ✓✓
- Other external reasons for business cycles are weather conditions, ✓✓ natural disasters: shocks ✓✓ (severe increases in the price of fuel or war ✓✓) or structural changes ✓✓ (development of electronics ✓✓) changes in fashion ✓✓ taste and preferences of consumers ✓✓
- These factors all distort the stability of the markets ✓✓
- If in disequilibrium the market forces kick in to restore equilibrium ✓✓
- Graph:



- Explanation of the graph related to the question ✓✓
(Examples without explanations, maximum 4 marks)
(Any 4x2) (8)

2.6 Distinguish between appreciation and depreciation of the rand against the dollar.**Appreciation**

- **Definition:** **Appreciation of a currency** implies an increase in the value of the domestic currency relative to currencies of other countries ✓ due to market forces ✓
- Appreciation of a currency: exports will decrease and imports will increase ✓✓
- It will have a negative effect on the Balance of Payments ✓✓
- **E.g.** A lower price or exchange rate reflects an appreciation of the local currency against the foreign currency ✓✓
- A fall in the rand/dollar exchange rate from \$1 = R10,51 to \$1 = R6,36 therefore implies an appreciation of the rand against the dollar ✓✓
- Simply because we then need fewer rands to purchase the required amount of dollars ✓✓

Depreciation

- **Definition:** **Depreciation of a currency** implies a decrease in the value of the domestic currency relative to the currencies of other countries ✓ due to market forces ✓
- Depreciation of a currency: exports will increase and imports will decrease ✓✓
- It will have a positive effect on the Balance of Payments ✓✓
- **E.g.** A higher price or exchange rate reflects a depreciation of the local currency against the foreign currency. ✓✓
- An increase in the rand/dollar exchange rate from \$1 = R6,11 to \$1 = R10,51 therefore implies a depreciation of the rand against the dollar, ✓✓
- because we will then need more rands to purchase the required amount of dollars ✓✓

(Any 2x4)

(8)
[50]

QUESTION 3 (LO2 AS1 – 3) MICROECONOMICS**3.1 Choose the correct word in brackets**

3.1.1 producer ✓✓

3.1.2 over- ✓✓

3.1.3 average variable ✓✓

3.1.4 monopolistic ✓✓ (4x2) (8)

3.2 Any THREE causes of market failures.

- Externalities ✓✓
- Public goods ✓✓
- Merit and demerit goods ✓✓
- Imperfect market/competition/price discrimination/price skimming/barriers to entry ✓✓
- Lack of information/uncertainty ✓✓
- Immobility of the factors of production ✓✓
- Unequal distribution of income ✓✓ (Any 3x2) (6)

3.3 Study the graph and answer the questions that follow3.3.1 **Which market structure is represented in the graph above?**
Oligopoly / imperfect market ✓✓ (2)3.3.2 **What type of demand curve is illustrated in the graph?**
Kinked / downward (negative) sloping (from left to right) ✓✓ (2)

3.3.3 **Explain why the producer will NOT decrease the price in order to improve sales.**

- He will lose more revenue from a price decrease ✓✓
- and he will gain less from increased sales ✓✓
- the producer has already incurred certain costs that must be covered ✓✓
- it regards non-price competition ✓✓
- e.g. product differentiation ✓✓ (2x2) (4)

3.3.4 **What illegal behaviour can result among producers in this type of market if they want to increase their profits?**
Collusion/Price fixing/Cartels ✓✓
(Any explained examples related to the concepts)
(Any 1x2) (2)

3.4 **Study the extract and answer the questions that follow.**

3.4.1 **What is the main reason for the workers' opposition to the deal between the two companies?**

- They believe that their jobs will be threatened ✓✓
- Walmart acquiring a controlling stake in SA company Massmart ✓✓

(Any other relevant answer)

(Any 1x2)

(2)

3.4.2 **Why is the Competition Commission concerned about the takeover of this South African company?**

Uncertainty on their real intentions/negative impact of the takeover: ✓✓

- Abuse of their dominant position/Monopolistic behaviour/lack of competition ✓✓
- Cheap imports are detrimental to lower prices and product choices ✓✓
- They might not contribute to the government development objectives ✓✓
- Lack of opportunity in improving ownership equity in the economy ✓✓
- It may decrease the efficiency of the market ✓✓
- It can lead to dumping / closing down of local firms ✓✓

(Any other relevant answer)

(Any 2x2)

(4)

3.4.3 **Besides the Competition Commission and Competition Tribunal, which other institution plays a role in regulating competition in South Africa?**

Competition Appeal Court ✓✓

(2)

3.4.4 **How will the consumer benefit from competition?**

- Lower prices ✓✓
- Improved quality ✓✓
- Improved variety ✓✓
- Improved services ✓✓
- Access to credit ✓✓

(Any 1x2)

(2)

3.5 Explain inefficiencies in the market as a consequence of market failure

Productive/Technical inefficiency ✓✓

- This is when maximum production of goods from a given set of resources is not achieved. In terms of cost the business is not producing at the lowest possible cost / room to reduce costs without producing fewer goods or producing a lower quality good ✓✓
- e.g. productive efficiency can be improved if a frame manufacturer uses frames and accessories that require less labour input ✓✓

(Max 4)

Allocative inefficiency ✓✓

- This is when the market does not provide the optimal mix of goods and services desired by consumers. Although technical efficiency may be achieved the market can still be allocatively inefficient if it does not provide the correct combination of goods ✓✓
- e.g. if the producer produces more leisure bikes instead of racing bikes due to the popularity of leisure bikes ✓✓

(Max 4)

(8)

3.6 Briefly outline the role of non-price competition under conditions of monopolistic competition.

- Products of monopolistic competitors are differentiated and this creates opportunities to increase the demand ✓✓ via advertisements ✓✓ and further product variation ✓✓
- E.g. a producer may decrease the sugar content of a product to attract health-conscious buyers ✓✓
- Brands play a significant role because producers try their best to build a loyal consumer group which will choose his brand over another ✓✓ e.g. Pick 'n Pay has their own brand for some goods ✓✓
- Loyalty rewards for customers ✓✓
- Extended hours of business ✓✓
- Doing business over internet ✓✓
- After sales service ✓✓
- Location ✓✓
- Door to door delivery ✓✓
- Promotion / marketing campaigns ✓✓

(4x2)

(8)

[50]

QUESTION 4: (LO3 AS1–AS4) ECONOMIC PURSUITS**4.1 Choose the correct word in brackets**

4.1.1 people ✓✓

4.1.2 exports ✓✓

4.1.3 social ✓✓

4.1.4 Department of Trade and Industry ✓✓ (4x2) (8)

4.2 Any THREE incentive schemes which involve cash grants to promote regional industrial development

- Small and Medium Enterprises Development Programme / (SMEDP) ✓✓
- Skills Support Programme / (SSP) ✓✓
- Black Business Supplier Development Programme / (BBSDP) ✓✓
- Critical Infrastructure Programme / (CIP) ✓✓
- Foreign Investment Grant / (FIG) ✓✓
- Strategic Investment Projects / (SIP) ✓✓ (Any 3x2) (6)

4.3 Study the extract and answer the questions that follow.**4.3.1 Define the term economic growth.**

Economic growth consists of growth of the real GDP ✓✓/and implies an increase in the capacity of the economy to produce more goods and services. ✓✓/It requires policies that empower the economy. ✓✓ (2)

4.3.2 What are the reasons for the low growth rate in the economy?

- Consumer spending has decreased ✓✓
 - Cash-flow problems ✓✓
 - Low employment ✓✓
 - High input costs ✓✓
 - Low productivity ✓✓
 - Consumer debt ✓✓
 - Inappropriate technology ✓✓
 - International slow-down / worldwide recession ✓✓
 - Lack of skills ✓✓
 - Industrial strikes / protest actions ✓✓
 - Poor governance/corruption/nepotism/mismanagement ✓✓
- (Accept any other relevant answer – maximum 2 marks for examples). (Any 2x2) (4)

4.3.3 What is the accepted international benchmark for the budget deficit as a percentage of the gross domestic product?

3% or less ✓✓ (2)

- 4.3.4 **How have businesses managed to limit the impact of non-payment by debtors?**
They extended the payment terms for debtors ✓✓ (2)

4.4 **Study the table and answer the questions that follow.**

- 4.4.1 **Identify an indicator that forms part of the Human Development Index.**
- Life expectancy ✓✓
 - Real GDP per capita/Income ✓✓
 - Adult literacy / Education / school enrolment ✓✓
- (Any 1x2) (2)

- 4.4.2 **Why is the real GDP per capita (PPP\$) higher in Gauteng than in Limpopo?**
- In Gauteng people generally earn more money than those in Limpopo ✓✓
 - Big industries in Gauteng ✓✓
 - Living standards in Gauteng is higher ✓✓
 - Adult literacy rates are higher in Gauteng ✓✓
 - Job creation ✓✓
- (Any 1x2)
(Any other relevant answer) (2)

- 4.4.3 **Suggest how living standards can be improved in your local community.**
- Job creation ✓✓
 - Education programmes ✓✓
 - Adult literacy classes (ABET) ✓✓
 - Skills development ✓✓
 - Improved service delivery by the government ✓✓
 - Community development programmes ✓✓
- (Accept any other relevant answer)
(Any 2x2) (4)

- 4.4.4 **Why is there generally a low life expectancy at birth in South Africa?**
- There are many uneducated people/Low adult literacy levels ✓✓
 - Low levels of motivation ✓✓
 - Lack of income ✓✓
 - Low per capita GDP ✓✓
 - Poverty ✓✓
 - Undeveloped areas ✓✓
 - Poor medical care ✓✓
 - Malnutrition ✓✓
 - HIV/TB/foetal alcohol syndrome ✓✓
- (Any 1x2) (2)
(Any other relevant reason)

4.5 Discuss dumping as an argument in favour of protectionism

- Dumping occurs when a firm sells its goods in a foreign country at a lower price than in the market of origin ✓✓
- Firm gains market share and pushes local producers out of the market ✓✓
- Firms can do this when they receive government subsidies ✓✓
- They can also ask a higher price in the domestic market and subsidise export prices with increased profits – this leads to unfair competition ✓✓
- Countries are allowed by a WTO agreement to take protective measures to counter dumping ✓✓

(Any 4x2) (8)

4.6 Discuss employment as an economic indicator

- The number of employed persons expressed as a percentage of the EAP gives the employment rate. This can be converted to an index ✓✓
- Definition of EAP: people between 15 and 60/65 ✓✓
- SA employment rate was ± 75% in 2005 – low compared to rates in developed and some developing countries (unemployment rate currently 26%) ✓✓
- Figures obtained are: as part of the population census, usually every ten years ✓✓
- From registrations with Department of Labour ✓✓
- By surveys, such as the Labour Force Survey of StatsSA ✓✓
- Growth in the economy is not accompanied by similar growth in employment numbers ✓✓
- Full employment refers to the aim of providing everyone who is willing to work at current wage rates with a job ✓✓
- Employment indicators are used for three purposes:
 - To calculate trends in employment in different sectors or industries; to disclose structural changes in economy ✓✓
 - To calculate productivity ✓✓
 - To show success of economy in utilising its full potential ✓✓
- Relatively slow real economic growth ✓✓
- Drop in the ratio of capital formation to GDP ✓✓
- An increasing demand for highly skilled labour while there is an oversupply of low skilled labour ✓✓
- Net emigration of highly skilled labour ✓✓
- Average wage increases that are higher than the inflation rate ✓✓
- The strong presence and influence of trade unions in the economy ✓✓
- Labour unrest, strikes and work stoppages which cause a loss in number of days work ✓✓
- Restructuring of the economy and introduction of new international competitiveness of domestic producers, which has led to layoffs of low skilled workers ✓✓

(Any 4x2)

(8)
[50]

QUESTION 5: (LO4 AS1–4) CONTEMPORARY ECONOMIC ISSUES**5.1 Choose the correct word in brackets**

5.1.1 producer ✓✓

5.1.2 conservation ✓✓

5.1.3 demand-pull ✓✓

5.1.4 positive ✓✓

(4x2) (8)

5.2 THREE world heritage sites in South Africa

- Mapungubwe ✓✓
- Vredefort Dome ✓✓
- Sterkfontein Caves/Cradle of Humankind ✓✓
- Robben Island ✓✓
- Cape Fynbos/Table Mountain and Agulhas National Park ✓✓
- Isimangaliso (St Lucia Wetlands) ✓✓
- uKhahlamba Drakensberg Park ✓✓
- Richtersveld ✓✓

(Any 3x2) (6)

5.3 Study the extract and answer the questions that follow.**5.3.1 Why are low-income households negatively affected by the weighting of items in the consumer price index basket?**

- They experience a greater pressure from inflation than other income groups as a higher percentage of their income is spent on food and beverages ✓✓✓
- More than double the weighting these items enjoy in the official CPI basket ✓✓✓
- 45% of the income spent on food and beverages ✓✓✓
- The goods they consume the most, are the ones hard hit by inflation ✓✓✓
- The workers' consumer price index averaged 10,1% in 2009 compared to wage settlements of 8.6% ✓✓✓

(Any 1x3) (3)

5.3.2 Explain the concept administered prices.

- Prices of goods and services that are set by government or controlled by government-appointed authorities (national, provincial and local) ✓✓
- E.g. electricity, fuel, paraffin, medicines, public hospitals, telephone rates, telephone line rental, installation, postage, TV licences, train fares, licences, water registration, school boarding fees ✓✓

(2x2) (4)

5.3.3 **Why, do you think, should wages be settled at the same or a higher figure than the average consumer price index?**

- For workers to enjoy a better or the same standard of living ✓✓✓
- workers should be able to afford basic goods ✓✓✓
- they should have enough money to satisfy their basic wants ✓✓✓
- cushions the effect of inflation ✓✓✓
- the real wage increases to keep track with the cost of living increases ✓✓✓

(Any other relevant answer)

(1x3) (3)

5.4 **Study the graph and answer the questions that follow.**

5.4.1 **Define tourism**

Tourism can be defined as the activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes (such as studying) not related to an activity remunerated from within the place visited. ✓✓

(2)

5.4.2 **Use the data given in the graph above to calculate the percentage of foreign tourists in 2010. Show all calculations.**

22 mil ✓/32(32.5/33) mil ✓ x 100

= 68,75% (67,70%/66,7%) ✓✓

(4)

5.4.3 **Which tourists form the biggest part of the tourist industry in South Africa?**

Foreign tourists/international/inbound ✓✓

(2)

5.4.4 **What led to the steady increase in the number of foreign tourists visiting South Africa?**

- Peaceful transition to a democratic state ✓✓
- A world in one country ✓✓
- Depreciation of the rand/Favourable exchange rates ✓✓
- Ease of obtaining foreign currencies and make payments ✓✓
- Large number of tourist attractions (e.g. fauna and flora) ✓✓
- Special events (e.g. Soccer World Cup / sport, cultural) ✓✓
- Improved marketing strategies by Department of Tourism ✓✓
- Increased income/affordability ✓✓
- Improved transport and telecommunication ✓✓
- Reduction in working hours / more leisure time ✓✓
- Hospitality of the SA people (friendly attitude) ✓✓

(Any other suitable answer)

(Any 1x2) (2)

5.5 Explain any TWO causes of cost-push inflation

- Wages ✓✓ as remuneration for labour costs is 60% of cost of production ✓✓
- Key inputs ✓✓ When imported, e.g. oil, domestic cost of production increases ✓✓
- Exchange rate depreciation ✓✓ Imported goods become more expensive ✓✓
- Profit margins ✓✓ When pushed up, cost of production increases – recover higher profits by increasing prices. ✓✓
- Productivity ✓✓ If factors of production become less productive and receive the same remuneration, cost of producing each unit increases ✓✓
- Natural disasters ✓✓ e.g. droughts and floods have a negative effect on cost of producers ✓✓
- Causes vicious circle ✓✓ higher wages, higher prices, higher cost of living ✓✓
- Strikes and stay away reduce production output ✓✓ supply drops and the prices rise ✓✓
- Direct and indirect taxation increased ✓✓ producers and employees adjust incomes and products become more expensive (shifting taxes) ✓✓
- Administered goods' prices increase (controlled by state) ✓✓ trade unions negotiate higher wages and producers add increase to price of final product e.g. petrol, postage, electricity, water ✓✓
- Shoplifting and losses caused by employees of business ✓✓ estimated beforehand and added to prices of all products ✓✓
- High prices of agricultural goods ✓✓ due to high cost of inputs e.g. diesel and fertilizers – higher food prices ✓✓
- High interest rates justified to encourage savings ✓✓ is cost item for businesses – included in prices ✓✓

(Any other relevant fact)

(Any 2 x 4)

(8)

5.6 Discuss the effect of tourism on the Gross Domestic Product of South Africa

- Tourism impacts more on the services industry than on agriculture or manufacturing ✓✓
- It's a fast growing industry in South Africa and contributes 25 billion to the economy (about 4.9% of GDP in 2005) ✓✓
- Tourism is the 4th largest industry in South Africa ✓✓
- Direct contribution: ✓✓ WTTC estimation: 6,8% (7%) in SA compared to 11,6% (12%) worldwide ✓✓ This is the money that the hotel owner earns when a tourist pays for services ✓✓
- Indirect contribution: ✓✓ tourism is service-based and is mainly responsible for the service sector's growth in South Africa ✓✓ 40 % of GDP in developing countries compared to 65% in developed countries ✓✓ This is caused by what the hotel owner and the taxi driver do with the money they have earned (injection into the circular flow – stimulates economic growth) ✓✓ **DO NOT ACCEPT ANY OTHER EFFECTS ON TOURISM: employment/poverty/externalities/infrastructure/environment**

(4x2)

(8)

[50]

QUESTION 6: (LO1 & LO3 AS1–4) MACROECONOMICS AND ECONOMIC PURSUITS**6.1 Choose the correct word in brackets**

6.1.1 real ✓✓

6.1.2 tax rate ✓✓

6.1.3 Accelerated and Shared Growth Initiative for South Africa/
AsgiSA ✓✓

6.1.4 Northern ✓✓ (4x2) (8)

6.2 List any THREE problems of public sector provisioning.

- Accountability ✓✓
- Efficiency ✓✓
- The problem of assessing needs ✓✓
- Pricing policy ✓✓
- Parastatals ✓✓
- Privatisation ✓✓

(Any 3x2) (6)

6.3 Study the table and answer the questions that follow.**6.3.1 Define the concept gross domestic product.**

GDP is defined as the total value of all final goods and services ✓
produced within the geographical boundaries of a country ✓ in a
particular period (usually one year) ✓

(3)

6.3.2 Why is the gross domestic product of South Africa always greater than the gross national product?

Foreigners' contributions to our economy are more ✓✓ than our
contribution to theirs ✓✓
Only a few SA companies operate globally ✓✓

(Accept any other relevant response) (4)

6.3.3 Calculate the primary income to the rest of the world.

R87 593 m ✓✓✓ OR (3)
2 354 171 – ✓ (2 407 689 + 34 075) ✓ OR
2 407 689 + 34 075 ✓ – 2 354 171 ✓

6.4 Study the map and answer the questions that follow.**6.4.1 What is an industrial development zone?**

IDZ's are purpose-built industrial estates ✓ which are physically
enclosed ✓ and linked to an international port or airport ✓ (3x1) (3)

6.4.2 **Which industrial development zone is found at A? Name ONE advantage of an industrial development zone.**

- A – Coega/Ngqura ✓✓
 - Advantages:
 - Raw materials are imported duty-free
 - Exempt from VAT
 - World-class infrastructure
 - Government incentive schemes
 - Access to latest information technology
 - Dedicated customs support services
- } ✓✓ (1x2) (4)

6.4.3 **Why would government encourage new industries to establish themselves in an industrial development zone?**

- Economic growth ✓✓✓
 - Job creation ✓✓✓
 - Foreign currency/ exports ✓✓✓
 - Infrastructural development ✓✓✓
 - Regional development ✓✓✓
- (Any 1x3) (3)
(Any other relevant answer)

6.5 **Discuss any TWO monetary policy instruments used by the South African Reserve Bank**

- Interest rates ✓✓ banks go to SARB if they experience a general shortage in funds to make use of its repurchase tender system – repo rate. ✓✓
 - Cash reserve requirements ✓✓ SARB can change balances the banks are required to maintain to manipulate the money-creation activities of banks. ✓✓
 - Open-market transactions ✓✓ SARB directly reduces or increases the supply of money in circulation by buying and selling government securities in the open market ✓✓
 - Moral persuasion ✓✓ SARB makes use of consultation and persuasion to convince banks to act in a way that is desirable in the current economic climate. ✓✓
 - Exchange rate policy ✓✓ can be either free-floating (if price of currency is determined by demand and supply) or controlled floating (when central bank interferes in foreign exchange markets by buying and selling currency). ✓✓
- (Any 2x4) (8)

6.6 Explain climate and natural resources as reasons for international trade**CLIMATE:**

- Climates vary from country to country ✓✓
- production of products such as timber, coffee, fruit, meat, maize depends on climatic conditions ✓✓
- in a water-scarce country like South Africa it is sometimes necessary to import food ✓✓

NATURAL RESOURCES:

- Natural resources are unevenly distributed ✓✓
- This makes it impossible for some countries to produce certain goods ✓✓
- e.g. South Africa's wide variety of minerals leads to exporting of minerals ✓✓

(Accept any other relevant response)

(2x4)

(8)
[50]**TOTAL SECTION B: 150**

SECTION C**MARK ALLOCATION FOR ESSAY RESPONSES**

STRUCTURE OF ESSAY:	MARK ALLOCATION:
Introduction	Max 3
Body:	
• <u>Main part:</u> For example discuss/distinguish/differentiate/ explain/analyse/evaluate/assess	Max 30
• <u>Additional part:</u> For example draw a graph or diagram/deduce/ outline/briefly explain/expand on/your own opinion/support	Max 10
Conclusion	Max 2
Interpretation	Max 5
TOTAL	50

QUESTION 7: (LO1 AS2) MACROECONOMICS

Analyse the different business cycle indicators and features used in forecasting. Draw a fully labelled diagram of a typical business cycle to support your analysis.

- **Link your analysis to the phases of the business cycle.**

INTRODUCTION

Accurate prediction is not possible in Economics. The best the economists can do is to try and forecast what might happen. There are a number of techniques available to help economists to forecast business cycles, e.g. economic indicators ✓✓✓ OR Successive periods of contraction and expansion of economic activities ✓✓✓

(Accept any other relevant introduction)

Max 3

BODY**Business cycle indicators****1. Leading economic indicators ✓✓**

- These are indicators that change before the economy changes / coincide with the reference turning point ✓✓
- They give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading / peak before a peak in aggregate economic activity is reached / most important type of indicator in helping economists to predict what the economy will be like in the future ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time/an upswing ✓✓

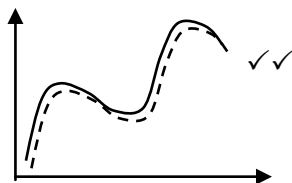
- E.g. job advertising space/inventory/sales ratio ✓✓

- Graph:



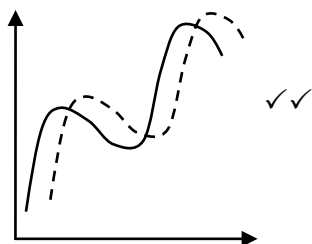
2. Coincident economic indicators ✓✓

- They move at the same time as the economy / if the turning point of a specific time series variable coincides with the reference turning point ✓✓
- It indicates the actual state of the economy ✓✓
- E.g. value of retail sales. If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at same time ✓✓
- Graph:



3. Lagging economic indicators ✓✓

- They do not change direction until after the business cycle has changed its direction ✓✓
- They serve to confirm the behaviour of co-incident indicators ✓✓
- E.g. the value of wholesalers' sales of machinery ✓✓ If the business cycle reaches a peak and begins to decline, we are able to predict the value of new machinery sold ✓✓
- Graph:



LEADING INDICATORS	CO-INCIDENT INDICATORS	LAGGING INDICATORS
<ul style="list-style-type: none"> • Nett new companies registered • Number of new vehicles sold • Nett gold and other foreign reserves • Number of residential building plans passed • Share prices • Real export of goods (gold excluded) • Gross operating surplus as % of GDP • Labour productivity in manufacturing • Job advertisements in newspapers • Commodity prices in US \$ for a basket of SA export commodities • Opinion survey of the average hours of work per factory worker in the manufacturing sector • Opinion survey on stocks in relation to demand: manufacturing and trade • Opinion of business confidence of manufacturing, construction and trade • Opinion survey of volume of orders in manufacturing 	<ul style="list-style-type: none"> • Registered unemployed • Physical volume of manufacturing production • Real retail sales • Real merchandise imports • Utilisation of capacity in manufacturing • Gross value added at constant prices excluding agriculture, forestry and fishing • Industrial production index • Value of wholesale, retail and new vehicle sales at constant prices • Total formal non-agricultural employment 	<ul style="list-style-type: none"> • Employment in non-agricultural sectors. • Hours worked in construction • Cement sales in tons • Number of commercial vehicles sold • Real investment in machinery and equipment • Unit labour cost in manufacturing • Wholesale sales of metals, machinery and equipment • Prime overdraft rate of banks • Value of non-residential buildings completed at constant price

4. Length ✓✓

- This is the time that it takes for a business cycle to move through one complete cycle (measured from peak to peak) ✓✓
- E.g. Useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy. ✓✓
- Longer cycles show strength. ✓✓
- Cycles can overshoot. ✓✓
- Ways to measure lengths:
 - Crisis to crisis ✓✓
 - Historical records ✓✓
 - Consensus on businesses experience ✓✓

5. **Amplitude** ✓✓

- It is the difference between the total output between a peak and a trough. ✓✓ / It measures the distance of the oscillation of a variable from the trend line / It is the intensity (height) of the upswing and downswing (contraction and expansion) in economic activity ✓✓
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles ✓✓
- The larger the amplitude the more extreme the changes that may occur / extent of change ✓✓
- E.g. During the upswing inflation may increase from 5% to 10%. (100% increase) ✓✓

6. **Trend** ✓✓

- A trend is the movement of the economy in a general direction ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time ✓✓
- Also known as the long term growth potential of the economy ✓✓
- E.g. The diagram above illustrates an economy which is growing – thus an upward trend (positive slope) ✓✓
- Trends are useful because they indicate the general direction in which the economy is moving – it indicates the rate of increase or decrease in the level of output ✓✓
- Forces to overcome: resistance points ✓✓ channels ✓✓

7. **Extrapolation** ✓✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓
- Means to estimate something unknown from facts or information that are known ✓✓
- E.g. if it becomes clear that the business cycle has passed through a trough and has entered a boom phase, forecasters might predict that the economy will grow in the months that follow ✓✓
- It is also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓
- Can apply: trend line ✓✓ use a ruler and lengthen the trend line ✓✓
Shape of the curve ✓✓ continue with the curve to complement the completed section ✓✓

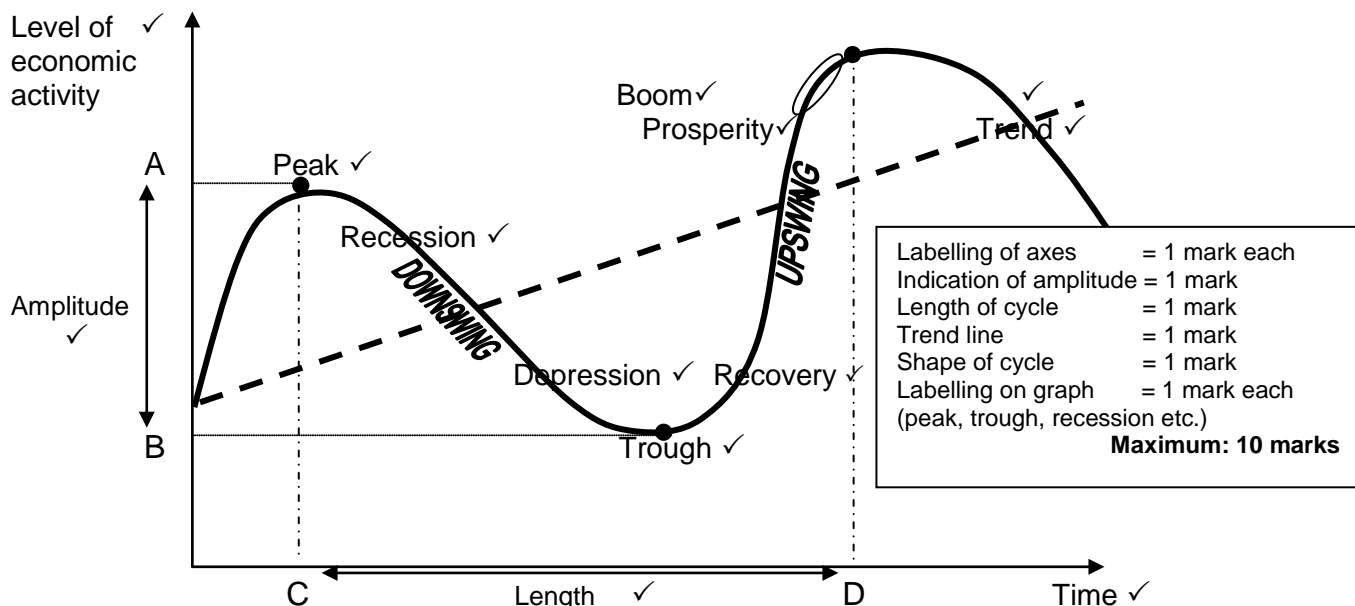
8. **Moving average** ✓✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time / repeatedly calculating a series of different average values along a time series to produce a smooth curve ✓✓
- E.g. the moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- It is calculated to iron out (minimize) small fluctuations and reveal long-term trends in the business cycle ✓✓

PLEASE NOTE:

- * If the different phases of the business cycle are mentioned, allocate a maximum of 8 marks (max 2 marks per phase) plus 22 marks for forecasting.
- * If a candidate analyses the different business cycle indicators and features used in forecasting he/she can obtain 15 X 2 = 30 marks.
- * Diagram maximum 10 marks.

DIAGRAM



Max 10

CONCLUSION

Business cycles will continue to have an effect on the economic well-being of South Africa in future. Although we may understand the causes of business cycles and how the economy may respond to certain policies, accurate prediction of business cycles is beyond us. ✓✓

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 the topic but has missed important aspects of the topic. (1–15)
3	Candidate has interpreted the topic correctly but has not linked facts to topic. (16–30)
5	Candidate has interpreted the topic correctly and has linked facts to topic. (31–45)

Max 5

[50]

QUESTION 8: (LO2 AS1 & 3) MICROECONOMICS

Distinguish between the market structure of a monopoly and a perfect competitor in detail. In addition, draw a fully labelled graph to show the long-term equilibrium position of any ONE of the above markets.

- Your response can either be in tabular form or in paragraphs.
- Full sentences are required.

INTRODUCTION

The major organisational features of perfect and imperfect markets are called the market structure. ✓✓✓

(Accept any relevant introduction/definition)

Max 3

BODY

	PERFECT MARKET	MONOPOLY
Shape of demand curve	The market demand curve <u>slopes downwards</u> from left to right (negative). ✓✓ The <u>individual business</u> demand curve is the actual market price taken – <u>horizontal</u> to the quantity axis. ✓✓	It <u>equals the market demand</u> curve. ✓✓ It is <u>downward-sloping</u> from left to right. ✓✓
Number of businesses	The <u>number of sellers</u> in the market is <u>very large</u> ✓✓ such that the individual seller cannot influence the market price (<u>price takers</u>). ✓✓ <u>Example: Central grain exchange</u> ✓✓	The monopoly consists of <u>one</u> single firm. ✓✓ The monopoly is also the industry and influences price (<u>price maker</u>) ✓✓ <u>Example: Eskom</u> ✓✓
Nature of product	All the <u>products</u> sold in the specific market are <u>homogenous</u> , ✓✓ meaning they are exactly the same regarding quality, appearance, etc. ✓✓ It makes <u>no difference to a buyer</u> where or from whom he/she buys the product. ✓✓	The <u>product is unique</u> with no close substitute. ✓✓ <u>Example: Diamonds are unique.</u> ✓✓
Market information	Both buyers and sellers have <u>full knowledge</u> of all the prevailing market conditions. ✓✓ If <u>one business decides to raise its price above the market price</u> , buyers would immediately become aware of it and would switch their purchases to businesses who still charge the lower price. ✓✓	<u>All information</u> on market conditions should be <u>available</u> to both buyers and sellers. ✓✓ This means that there are <u>no uncertainties</u> . ✓✓

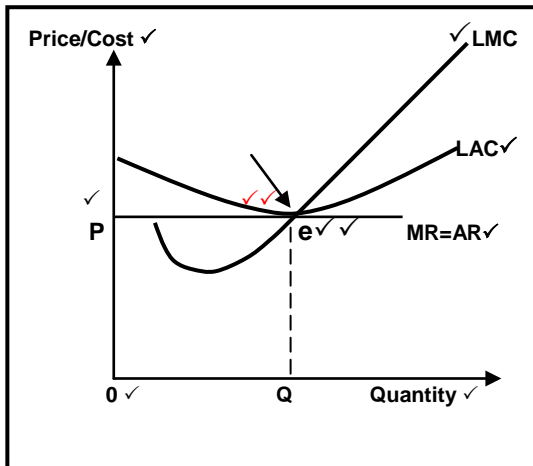
	PERFECT MARKET	MONOPOLY
Entry/Exit	There is complete <u>freedom of entry and exit</u> , i.e. the market is fully accessible. ✓✓ Entry should not be subject to any <u>restrictions</u> in the form of legal, financial, technological or other barriers. ✓✓ More likely for sellers to <u>leave the market when making a loss</u> . ✓✓	Entirely/completely <u>blocked</u> . ✓✓ A number of <u>barriers</u> to entry that may give rise to monopoly: <ul style="list-style-type: none"> • Economies of scale • Limited size of the market • Patents • Licensing • Sole rights • Import restrictions • Exclusive ownership of raw materials (Any ONE example) } ✓✓ <u>Not likely for sellers to leave the market</u> . ✓✓
Control over price	The number of buyers in the market is so large that <u>individual market participants are insignificant in relation to the market as a whole</u> . ✓✓ This has the important implication that <u>no individual buyer is able to influence the market price</u> . ✓✓	In the case of a monopoly there is <u>considerable price control</u> (price setters). ✓✓ It is <u>limited by market demand and the goal of profit maximisation</u> . ✓✓
Profits and loss	In the <u>short term</u> the firm can make an <u>economic profit</u> or economic loss. ✓✓ In the <u>long term</u> it makes <u>normal profit</u> . ✓✓	In the <u>short term</u> the firm can make an <u>economic profit</u> or economic loss ✓✓ In the <u>long term</u> it makes <u>economic profit</u> ✓✓ as long as the demand for its product remains intact. ✓✓
Seller market power	None (price taker) ✓✓	Many (price-maker) ✓✓
Technical efficiency	Yes ✓✓	Possible ✓✓
Allocative efficiency	Yes ✓✓	No ✓✓
Collusion	Impossible ✓✓	Irrelevant (not applicable) ✓✓

**Allocate a maximum of 20 marks per market structure
with a combined maximum of 30 marks.**

Max 30

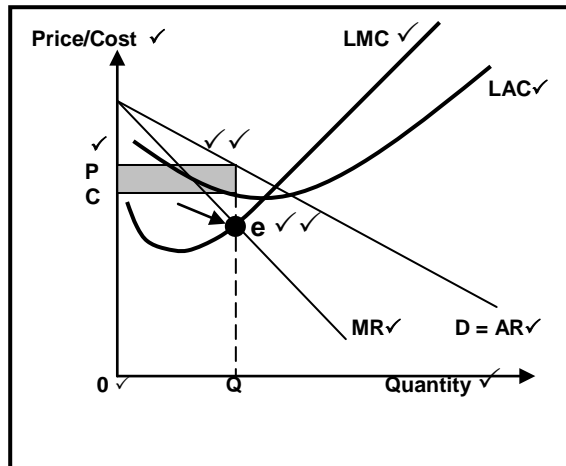
LONG-TERM EQUILIBRIUM

PERFECT COMPETITION ✓



Heading = 1 mark
 Labelling of axis = 2 marks
 Labelling on axis = 1 mark
 Indicate origin = 1 mark
 Equilibrium (point e) = 2 marks
 Correct shape and labelling of curve = 1 mark each = 3 marks (LMC, LAC, MR/AR)
 Indication of normal profit = 2 marks
MAX 10 MARKS

MONOPOLY ✓



Heading = 1 mark
 Labelling of axis = 2 marks
 Labelling on axis = 1 mark
 Indicate origin = 1 mark
 Equilibrium (point e) = 2 marks
 Correct shape and labelling of curve = 1 mark each = 4 marks (LMC, LAC, MR, AR)
 Shading of economic profit = 2 marks
MAX 10 MARKS

OR

Max 10

CONCLUSION

Any relevant conclusion is acceptable. ✓✓

Max 2

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

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Max 5

[50]

QUESTION 9: (LU3 AS3) ECONOMIC PURSUITS

Discuss import substitution and export promotion as part of South Africa's international trade policy and explain how successful South Africa has been in substituting imports with locally manufactured goods.

- **Use well-structured arguments to substantiate your response.**

INTRODUCTION

Industrial development depends on two main strategies: one is the inward-looking policy of import substitution and the other is the outward-looking, known as export promotion ✓✓✓ (Accept any other relevant answer)

Max 3**BODY****1. Import substitution****Concept:**

When countries introduce policies to local encourage the production of goods that are usually imported ✓✓

Reasons:

- Diversification ✓✓ Expansion of manufacturing makes economies less dependent on foreign countries ✓✓
- Trade ✓✓ Developing countries rely on their natural resources as a basis for economic growth and development. ✓✓ Exports consist of primary goods such as minerals and agricultural produce ✓✓
- Increase employment opportunities ✓✓
- To establish domestic industries ✓✓
- To replace imports by encouraging local economic growth ✓✓
- Correct BOP problems ✓✓
- Create national independence ✓✓

Methods:

- Tariffs ✓✓ customs duties or import duties are taxes on imported goods. ✓✓ They can be ad valorem or specific ✓✓
- Quotas ✓✓ limit the supply of goods or services ✓✓
- Subsidies ✓✓ to domestic enterprises that export goods may be used as an indirect way of protecting them ✓✓
- Exchange control ✓✓ A government or free trade area may seek to reduce imports by limiting the amount of foreign exchange made available to those wishing to import goods and services ✓✓
- Physical control ✓✓ takes the form of a complete ban or embargo on the import of certain goods ✓✓
- Diverting trade ✓✓ Import deposits ✓✓ Time-consuming customs procedures. ✓✓ Quality standards. ✓✓

- Voluntary import substitution ✓✓ Where a country decides of its own free will to replace goods that are imported ✓✓
- Forced import substitution ✓✓ When a country is forced to produce certain goods because they are excluded from taking part in international trade / boycotts ✓✓ sanctions ✓✓ disinvestment ✓✓

Advantages:

- Increased employment ✓✓ stimulates the economy and GDP increases ✓✓
- Bigger variety of products produced/Diversification/Broader industrial base ✓✓
- Decrease in imports ✓✓ will have a positive effect on BOP ✓✓
- Industrial development encouraged ✓✓ Contributes revenue to the treasury ✓✓
- Easy to implement through the imposition of tariffs and quotas ✓✓ /Method of restricting imports ✓✓
- More choice ✓✓ because goods are locally produced. The foreign exchange that becomes available can be used for other imports, thereby increasing the choices made available to consumers ✓✓

Disadvantages:

- Capital and entrepreneurial talent are drawn away from the areas of comparative advantage ✓✓
- Technology is often borrowed from abroad where capital is relatively abundant ✓✓
- It lowers the competitiveness of sectors where a comparative advantage exists ✓✓
- It often leads to demands for protection to industries that provide inputs ✓✓
- Policy often causes exchange rates to be overvalued – discourage exports ✓✓
- Does not necessarily lead to an overall reduction in imports – SA imports capital and intermediate goods ✓✓
- Local production can be inefficient ✓✓
- Domestic consumers are forced to buy goods at prices that are higher than prices of goods on international market ✓✓
- Costly and uneconomical projects – e.g. Mossgas ✓✓

Max 20

2. Export Promotion

Concept:

When government pays incentives to encourage the production of goods that can be exported ✓✓

Reasons:

- Achieve export-led economic growth ✓✓
- Enlarge the production capacity of a country ✓✓

- Export-markets are much bigger than domestic markets ✓✓
- Leads to reduced prices due to large volumes ✓✓
- Improving international competitiveness of South African producers ✓✓
- Improving performance of manufacturing, service industries ✓✓
- Ensuring optimal use of resources ✓✓
- Job creation ✓✓
- Improves Balance of Payments ✓✓

Methods:

- Incentives ✓✓ Export incentives include information on export markets, research with regard to new markets, concessions on transport charges, export credit / grants ✓✓
- Subsidies ✓✓ Direct and indirect subsidies: Direct subsidies result in government expenditure, to reduce the cost of production, establish overseas markets ✓✓ Indirect subsidies help companies by not allowing them to pay certain taxes that may result in government having not do without some of revenue e.g. tax rebates ✓✓ Cash payments for exporters, refund of import tariffs, general tax rebates / tax exemptions, tax concessions on profits ✓✓
- Trade neutrality ✓✓ export processing zones ✓✓

Advantages:

- No limitations on size and scale ✓✓ since world market is very large. ✓✓
- Cost and efficiency of production ✓✓ based on this and organised along lines of comparative advantage. ✓✓
- Increased domestic production ✓✓ will expand exports to permit more imports and may result in backward linkage effects that stimulate domestic production in related industries. ✓✓
- Exchange rates are realistic ✓✓ and there is no need for exchange control and quantitative restrictions. ✓✓
- Value can be added to natural resources of the country. ✓✓
- Creates employment opportunities. ✓✓
- Increase in exports has positive effect on balance of payments. ✓✓
- Increase in production leads to lower domestic prices, which benefit local consumers. ✓✓

Disadvantages:

- The real cost of production ✓✓ is concealed by the subsidies. ✓✓ Product may thus never compete in an open market. ✓✓
- Lack of competition ✓✓ Total potential trade is less with subsidies than without subsidies. ✓✓
- Increased tariffs and quotas ✓✓ Powerful overseas businesses can afford similar products at much lower prices. ✓✓

- Protection of labour-intensive industries ✓✓ Developed countries often maintain high levels of effective protection for their industries that produce labour intensive goods in which developing countries already have or can achieve comparative advantage. ✓✓
- Withdrawal of incentives may lead to the closure of effected companies ✓✓
- Can be seen as dumping ✓✓
- Can be against the spirit of the provision of WTO ✓✓

Max 20

**Allocate a maximum of 20 marks per topic
with a combined maximum of 30 marks.**

3. Explain how successful South Africa has been in substituting imports with locally manufactured goods

- Proudly South African campaign ✓✓
- Denel ✓✓
- Can be negative: e.g. textile industry ✓✓
- Motor and spare parts manufacturing ✓✓ e.g. Ford, Toyota ✓✓
- Agricultural products ✓✓ e.g. nuts, olive oil and cosmetics ✓✓
- Mining equipment, especially in the iron ore, diamonds and gold mining industry ✓✓
- Household appliances ✓✓ e.g. TVs, computers ✓✓
- Pharmaceutical products ✓✓ e.g. medicine, skincare products (Annie) (Any other relevant fact)

Max 10

CONCLUSION

South Africa's international trade policy facilitates globalisation. ✓✓

(Accept any other relevant conclusion)

Max 2

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

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Max 5**[50]**

QUESTION 10: (LO4 AS3) CONTEMPORARY ECONOMIC ISSUES

Discuss the measures used to ensure environmental sustainability under the following headings:

- **Market-related policies**
- **Public-sector intervention**
- **Public-sector control**

In your opinion, to what extent were the relevant international protocols and agreements successful?

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 utilisation of the environment, government intervenes or takes control. ✓✓✓

(Accept any other relevant introduction)

Max 3

BODY**1. PUBLIC SECTOR INVOLVEMENT**

Aims to achieve social efficiency with regard to environmental sustainability:

- **Granting property rights** ✓✓
 - The conservationist effect: ensure people care for things belonging to them ✓✓ use it profitably as long as possible ✓✓
 - To prevent fauna + flora species to become extinct allow people property rights ✓✓ little cost to tax payers
 - Can be expanded to common goods e.g. clean air ✓✓ where polluters pay victims to reduce pollution
 - E.g. Kyoto Protocol, where developed countries pay developing countries for their right to pollute ✓✓
- **Charging for use of environment** ✓✓
 - Pricing the environment – government levies fee on consumers and producers for waste produced and dumped in environment ✓✓
 - E.g. in SA local authorities levy charges on rubbish collection and sewage disposal. ✓✓
 - In other countries emission charges are levied on industries and vehicle owners for discharging gas waste ✓✓
 - The best results are when charges are proportional to waste produced ✓✓

- **Environmental taxes** ✓✓
 - A tax could be imposed on the output or consumption of goods, 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 taxes ✓✓
 - Subsidies could be used for the development of new technology or equipment ✓✓
 - Encourage production of environmentally friendly subsidies ✓✓
 - Encourage recycling of waste such as bottles and/or cardboards ✓✓
- **Marketable permits** ✓✓
 - When government wants to reduce pollution, each business is given a license to pollute to a certain degree ✓✓
 - Business can sell their licenses to other business who needs to expand production. It is done on a permit market ✓✓
 - In SA done by Dept. of Mineral Resources to reduce permitted amount of pollution over time ✓✓

2 PUBLIC SECTOR CONTROL

- When government intervention has no result – government takes direct control ✓✓
- **Command and control (CAC)** ✓✓
 - Set maximum permitted levels of emission or resource use ✓✓ inspectors monitor activities and impose fines ✓✓
 - Developed countries have environmental regulations e.g. air and water pollution, noise, waste management, recycling ✓✓
 - 3 approaches to devising CAC systems:
 - Quantity standards focus on amounts of pollution caused ✓✓
 - Quality standards focus on environmental impact ✓✓
 - Social impact standards focus on the effect on the people ✓✓

Voluntary agreements ✓✓

- Between government and businesses on voluntary basis to cut pollution – formal contract and legally binding or informal commitments ✓✓
- Businesses prefer these agreements – can negotiate – build into planning ✓✓

Education ✓✓

- Manage the environment through education ✓✓ people's attitude change towards environmental consequences of their actions ✓✓
- Innovative approaches in developing world to educate people to manage environment is: ✓✓ community wildlife reserves transformed into areas managed for conservation, households more conscious of waste-recycling, co-operatives established to produce organic foods, groups like Green Party + Friends of the Earth encourage environmental responsibility ✓✓

- Department of Agriculture – Conservation of Agricultural Resource Act – prevent soil erosion ✓✓
- South Africa signed Convention to Combat Desertification ✓✓
- South Africa coordinates Valdivia group of Desertification ✓✓
- Aim: to foster scientific and technological cooperation ✓✓

Waste management ✓✓

- Government published the White Paper on Integrated Pollution and Waste Management ✓✓
- Pollution prevention eliminates costly waste and promotes sustainable development ✓✓
- Aims to reduce risks to human health and the environment by trying to eliminate the causes of pollution, instead of treating the symptoms ✓✓
- Radioactive Waste Management Policy and Strategy – aims to establish a comprehensive radioactive waste governance framework ✓✓
- September 2002 – agreement signed on regulations governing plastic shopping bags ✓✓
- February 2004 – tyre industry agreed to certain targets with respect to the collection and recycling of waste tyres ✓✓
- DEAT implemented the National Waste Management Strategy Projects ✓✓
- Main components: waste information, health care waste recycling and capacity building ✓✓
- Examples: fuel and vehicle taxes, effluent charges, congestion charges, emission permits and recycling ✓✓

3. MARKETS

- Driven by self-interest – implies that environment is for individuals to use for own benefit – weigh marginal cost to benefits ✓✓
- Sustainability achieved in free market to extent of price of resources that rise as they become scarce and to extent of environment-friendly technology ✓✓
- Social interest (cost and benefit) in using environment – not only to direct producer/ consumer, but also to people in general (now and in future) ✓✓

Market failure: reasons ✓✓

- Environment is common resource (air and sea) ✓✓ global commons are non-excludable – becomes scarce (game and fish) and overused ✓✓
- Externalities ✓✓ a polluted environment where costs are borne mainly by others – the larger the costs, the lower the socially efficient level of output – air polluted by business cannot be stopped by you because the air does not belong to you ✓✓
- Lack of knowledge ✓✓ environmental damage without realizing it (aerosols' effect on ozone depletion) ✓✓
- Carelessness ✓✓ continue with harmful practices + leave future generations to worry about the consequences ✓✓

Optimum market decisions ✓✓

- Market mechanism has failed when market forces failed to produce desired result of environmental sustainability ✓✓
- All costs and benefits are not captured in the market price – quantities produced and consumed inappropriate ✓✓

Private sector involvement ✓✓

- Numerous bodies are involved in conservation activities to ensure sustainability – concentrating on conservation, wildlife and the general environment ✓✓
- Examples: Bird Life South Africa, Wildlife and Environment Society, Worldwide Wildlife Fund South Africa, Green Trust ✓✓

Recycling ✓✓

- Examples: recycled waste paper, Collect-a-Can ✓✓

Market related solutions refers to a set of measures designed to incorporate the price mechanism to better the effect ✓✓
Can be based on incentives which tax or charge polluters according to the amount or damage they do ✓✓

Max 30

International agreements ✓✓

Identification and explanation of agreements/protocols (Max 6)
Motivation for success or failure (Max 4)

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. ✓✓ (Accept any other relevant conclusion) **Max 2**

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

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Max 5 [50]

TOTAL SECTION C: 100
GRAND TOTAL: 300