



# education

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Department:  
Education  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS  
NOVEMBER 2008  
MEMORANDUM**

**MARKS: 300**

**This memorandum consists of 26 pages.**

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

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

- 1.1.1 C (demand and supply-side) ✓✓
- 1.1.2 B (three) ✓✓
- 1.1.3 C (exports to the USA increase) ✓✓
- 1.1.4 C (monopoly) ✓✓
- 1.1.5 B (market failure) ✓✓
- 1.1.6 A, B, C ✓✓
- 1.1.7 A (Skills Support Programme)  
B (Black Economic Empowerment ) ✓✓
- 1.1.8 A (liberalise) ✓✓
- 1.1.9 A Consumer Price Index (CPI) ✓✓
- 1.1.10 A (decrease) ✓✓
- 1.1.11 C (peaceful political transformation) ✓✓
- 1.1.12 A (quotas) ✓✓ [24]  
B (taxation) ✓✓ (12 x 2)

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

- 1.2.1 money market / money ✓✓
- 1.2.2 deregulation ✓✓
- 1.2.3 social security grants ✓✓
- 1.2.4 central bank ✓✓
- 1.2.5 foreign exchange market / foreign exchange ✓✓ (5 x 2) [10]

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

- 1.3.1 E ✓✓
- 1.3.2 G / I ✓✓
- 1.3.3 H ✓✓
- 1.3.4 A / G ✓✓
- 1.3.5 C ✓✓
- 1.3.6 F ✓✓
- 1.3.7 D ✓✓
- 1.3.8 B ✓✓ (8 x 2) [16]  
[50]

**SECTION B**

Answer any THREE questions from this section in your ANSWER BOOK.

**QUESTION 2****2.1 Choose the correct word(s) from those given in brackets:**

2.1.1 IMF ✓✓

2.1.2 market ✓✓

2.1.3 judgemental ✓✓

2.1.4 GDI ✓✓

(4 x 2) (8)

**2.2 List THREE types of foreign exchange-rate systems.**

- Fixed ✓✓
- Free floating / flexible ✓✓
- Managed floating / Controlled floating ✓✓

(3 x 2) (6)  
[14]**2.3 Study the diagram and answer the questions that follow:**

2.3.1 Refer to successive periods ✓ of increasing (expansion/upswing) and decreasing (contraction/downswing) ✓ economic activities ✓  
OR  
Successive periods ✓ of economic ✓ fluctuations ✓

(3)

2.3.2 (a) CDE / CE ✓✓✓  
(b) CG / AE ✓✓✓

(2 x 3) (6)

2.3.3 Point C / point G / trough ✓✓

(1 x 2) (2)

- 2.3.4
- inappropriate government policies / interventions ✓✓✓
  - change in money supply ✓✓✓
  - climatical conditions (sunspot theory) ✓✓✓
  - shocks (e.g. war, major increase in fuel price) ✓✓✓
  - structural change to the economy ✓✓✓
  - technology ✓✓✓
  - accept any other relevant factor from an approved resource (1 x 3)

(3)

- 2.3.5
- Using expansionary monetary policies ✓✓✓
  - Reducing interest rates ✓✓✓
  - Expansionary fiscal policies ✓✓✓
  - Reducing tax ✓✓✓
  - Increased government expenditure ✓✓✓
- Any other relevant examples

(max 3) (3)

2.3.6 Extrapolation ✓✓✓

(1 x 3)

(3)  
[20]**2.4 Explain the reasons for public sector failure.**

- Politicians tend to promote policies and spend money on projects as long as they get votes in return. ✓✓  
These policies might involve an inefficient allocation of resources. ✓✓
- Many public sector entities lack capacity because of a shortage of skills / management failure / Bureaucracy ✓✓  
This means that funds are often left unspent and then returned to the treasury. ✓✓
- Lack of accountability / Parastatals (public enterprise) ✓✓  
leads to inefficiency, corruption / crime, and poor service delivery. ✓✓
- Lack of motivation / apathy ✓✓  
Workers rarely receive incentives for successful service delivery. This leads to services being limited, low in quality and high in cost. ✓✓
- Rent seeking / special interest groups / own interest ✓✓  
Individuals and enterprises influence government to act in their interest e.g. profitable contracts, favourable regulations etc ignorance, personal and hidden agendas, questionable motives improve the welfare of someone at the expense of another. ✓✓
- Serious structural weakness in the economy / Privatisation ✓✓  
This can result in social goals not being attained. ✓✓
- Objectives are not attainable / overpopulation ✓✓  
employment, housing and feeding programmes not possible with limited resources ✓✓
- Assessing needs ✓✓  
leads to under and oversupply ✓✓
- Pricing policy ✓✓  
problems in determining the price for public goods and services ✓✓

(Any 4 x 4)

[16]

**QUESTION 3****3.1 Choose the correct word(s) from those given in brackets:**

3.1.1 Commission ✓✓

3.1.2 cost-benefit analysis ✓✓

3.1.3 imperfect ✓✓

3.1.4 economic ✓✓

(4 X 2)

(8)

**3.2** With the reference to oligopolies, list any THREE forms of non-price competition.

- Product recognition and differentiation ✓✓
- Extended shopping and business hours ✓✓
- Doing business over the internet ✓✓
- After-sales service ✓✓
- Offering additional services (free travel insurance by banks) ✓✓
- Loyalty rewards for customers ✓✓
- Door-to-door deliveries ✓✓
- Building brand loyalty ✓✓
- Advertisements ✓✓
- **Accept any other relevant forms from an approved source**

(Any 3 x 2)

(6)

[14]

**3.3 Study the graphs below and answer the questions that follow:**

3.3.1 Externalities are benefits or costs resulting from the production of a good that is not reflected in the price.

**Accept any other definition from an approved source** ✓✓✓

(3)

3.3.2 Graph A ✓✓✓

(3)

3.3.3

- Pollination of fruit trees by bees ✓✓✓
- Public enjoyment of views of private buildings ✓✓✓
- Flu injections affect those who do not pay for inoculation. ✓✓✓

(6)

• **Accept any other relevant example**

(any 2 x 3)

3.3.4  $D_1 D_1 / D_1$  ✓✓

(2)

3.3.5 DD represent the demand from individuals, i.e. the **private benefits** gained from purchasing a particular good or service, and SS represents the **direct cost** of providing that good or service. The **market equilibrium** is given where  $S_0$  and  $D_0$  intersects ✓✓✓ /

If it were possible to quantify the **external benefit** associated with the provision of this good or service the social benefit accruing to society could be represented by  $D_1D_1 / D_1$  ✓✓✓ /

If the external benefit were to be taken into account, the **equilibrium** would be with output  $Q_1$  selling at  $P_1$  ✓✓✓

Accept any relevant example ✓✓✓

(3 x 2)

(6)  
[20]



## 4.3.6 Real GDP ✓✓✓ / GDP ✓✓

- used to describe business cycles ✓✓
- used in forecasting ✓✓
- indicate the importance of different sectors ✓✓
- to compare economic growth with different countries ✓✓

Any (2 x 2 = 4) + 3

(7)  
[20]

## 4.4 Compare the South African growth policies with those of international benchmarks.

**Economic growth ✓✓**

- South Africa is a developing country where a 3% growth rate is acceptable for a developing country; in terms of the World Bank a lower-middle income country. ✓✓
- Government abandoned anti-cyclical demand management in favour of structural reform in 1996 as guiding principle in fiscal policy. ✓✓
- After the implementation of GEAR (1996), the budget deficit reduced to less than 3% of the GDP - accepted as benchmark, in line with international best practice. ✓✓
- Government reduced deficit; limiting public debt – internationally acknowledged for exceptional fiscal discipline. ✓✓ (max 4)

**Inflation ✓✓**

- Inflation decreased continuously from 9% in 1994 to 3,4% in 2005. The SARB dropped monetary targets and adopted inflation targets, initially in a 3% - 6% range. ✓✓
- Interest rates, based on the repo rate, are the main instruments used in the stabilisation policy. ✓✓
- The consistently stable budget deficit also had a stabilising effect on the inflation rate. ✓✓ (max 4)

**Employment ✓✓**

- Employment in the non-agricultural sector of the economy decreased. ✓✓
- The GEAR strategy suggested that a climate was needed that was conducive to employment creation by private sector. ✓✓
- Private sector need to be more efficient to compete internationally ✓✓
- Labour productivity in the formal economy increased by 4,2% per year over the 10 year period until 2005. ✓✓ (max 4)



**Exchange rate stability ✓✓**

- The South African currency depreciated considerably between 1994 and 2002 - from 2005 it appreciated. ✓✓
- International reserves increased from 3% of GDP in 1994 to 18.7% in 2005. The SARB switched from managed floating to a free-floating exchange rate system. ✓✓
- International benchmark: whether market forces determine rates – SA complies. ✓✓ (max 4)

**Accept applicable current economic examples or statistics.****[16]  
[50]**

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- 5.3.5 Households
- Increased income ✓✓
  - Improved infrastructure ✓✓
  - Improved skills ✓✓
  - Create job opportunities ✓✓
- Any other suitable answer (Any 1 x 2)

- Businesses
- Make a profit ✓✓
  - Employment ✓✓
  - Entrepreneurial development ✓✓
  - BEE ✓✓
  - SMME ✓✓
  - PPP ✓✓
- Any other suitable answer (Any 1 x 2) (4)  
[20]

**5.4 Discuss pollution in terms of environmental sustainability.**

- When people introduce waste matter into the environment, both directly and indirectly ✓✓
- Air pollution ✓✓  
is the accumulation in the atmosphere of substances in sufficient quantities that damage human health ✓✓  
(e.g.) power and heat generation, ozone layer depletion ✓✓  
climate changes ✓✓  
Fund and Stock pollutants ✓✓
- Land pollution ✓✓  
is the degeneration of the earth's land surface through misuse of soil ✓✓  
e.g. poor agricultural practices, mineral exploitation ✓✓  
will have a negative effect on food production and eco tourism ✓✓  
Pollution has a detrimental effect on the ecosystem. ✓✓  
One of the greatest causes of pollution is the high rate of energy used by modern, growing populations. ✓✓
- Water pollution ✓✓  
is the introduction into fresh or ocean waters of chemical, physical or biological materials that degrade the quality of the water and affects the organisms that live there ✓✓  
e.g. industrial effluents, mining wastages ✓✓
- Noise pollution ✓✓  
Excessive amounts of noise pollution will lead to detrimental effects on all participants in the economy ✓✓
- Listing of facts – maximum 8 marks. (8 X 2) [16]  
[50]



6.3.5	Inflows: 398 532 m ✓ + 35 470 m ✓ + 81 353 m ✓ + 40 234 m ✓ = 555 589 m	(max 4)	
	Outflows: 476 545 m ✓ + 96 950 m ✓ + 75 990 m ✓ + 18 494 m = 667 979 m	(max 3)	
	555 589 m - 667 979 m = -112 390 m ✓ <b>or</b>		
	398 532 m ✓ + 35 470 m ✓ + 81 353 m ✓ + 40 234 m ✓ - 476 545 m ✓ - 96 950 m ✓ - 75 990 m ✓ - 18 494 m = -112 390 m ✓	(8 X 1)	
	(Maximum 4 marks, if all amounts have been added)		(8)

**6.4 Use appropriate examples and explain how indigenous knowledge systems will promote tourism in South Africa.**

- Tourists want to have an understanding of indigenous cultures, history, environment and how people live ✓✓ explanation ✓✓
  - Indigenous knowledge systems (IKS) are crucial to the development of a common consciousness and pride among the people of Africa ✓✓
  - An awareness of the life, customs and beliefs, religion, ceremonies and rituals of the people ✓✓
  - The arts, music, dance, writing, songs that people create ✓✓
  - Values- the qualities we consider to be important, such as honesty and respect for other people ✓✓
  - Ways in which we behave, as groups or individuals ✓✓
  - What we wear, what we eat, where and how we live, the language we speak, the things that make us happy ✓✓
  - Objects that are associated with ceremonies and rituals ✓✓
- (Any suitable examples) (8 x 2)
- (Listing maximum 4 X 2)

[16]  
[50]

**TOTAL SECTION B: 150**

**SECTION C**

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

- I. **Essay** responses must include an introduction, body and conclusion:
  - For the introduction and conclusion 5 marks will be allocated.
  - In addition, 5 marks will be allocated for the interpretation of the topic.
  - A maximum of 40 marks will be allocated for the body.
  
- II. **Other** long responses:
  - 5 marks will be allocated for the interpretation of the topic.
  - A maximum of 45 marks will be allocated for the body / discussion.
  
- III. Long responses where a **letter** is required:
  - 5 marks will be allocated for the format of the letter, as follows:
    - 3 marks for the salutation
    - 2 marks for the closing
  - 5 marks will be allocated for the interpretation of the topic.
  - A maximum of 40 marks will be allocated for the body.

**QUESTION 7**

An open economy circular flow model illustrates the economic interaction between the four participants. Describe this interaction in detail with the aid of a diagram, which includes injections and withdrawals.

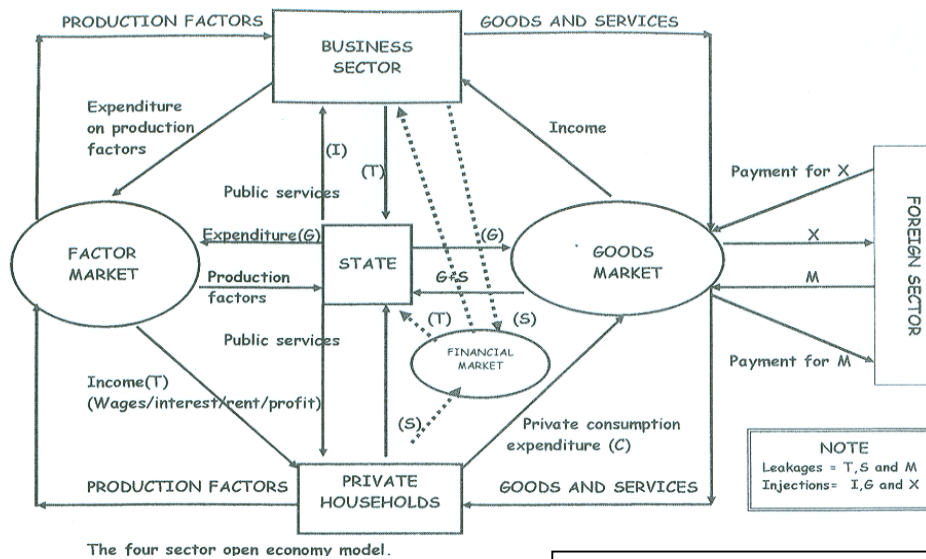
Conclude your answer by explaining how one individual's spending becomes another person's income (the multiplier). **(max 10)**

**[50]**

**CONCEPT**

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 explanation of the concept.

**BODY**



Participants = 4 X 1 = 4  
 Injections = 1 X 1 = 1  
 Withdrawals = 1 X 1 = 1  
 Correct indication of money and real flow  
 (1 X 2) = 2  
 Total = 8 marks

(Accept any other well-labeled diagram max 8)

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 use 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 provide 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** consist 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. ✓✓ (max 24)

### **MULTIPLIER EFFECT**

The multiplier relates to how much national income changes as a result of an injection or withdrawal such as an investment. ✓✓

Initially there is an increase in injections into the economy (investment, government spending or export), which would lead to a proportionate increase in national income. ✓✓

The extra spending would have knock-on effect and create even more spending ✓✓

The size of the multiplier will depend on the level of leakages. ✓✓

- (E.g.) assume firms increase investment spending by R1000. This is done by ordering capital goods from domestic firms to the value of R1000. ✓✓
- Total spending has increased by R1000. Total production has increased by R1000, which also leads to an increase in R1000 in income. The increase in spending = the increase in production which = an increase in income. ✓✓
- When households earn income (R1000) leakages can occur, through income tax, savings and spending on imports. ✓✓ If this amounts to R300, then spending on domestic goods will increase by R700. At this stage the multiplier starts to kick in. ✓✓ (max 10)

(45)

**Application of the formulas, the graph and correct explanation to a maximum of 10 marks**



**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)
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5	Candidate has interpreted topic correctly and has linked facts to topic. (31 - 45)

**QUESTION 8**

'Markets are at the centre of economic activities and provide the dynamics for the performance of economies.'

Discuss perfect competition as a market structure with special reference to the definition and characteristics.

Conclude your discussion with reasons why you would not participate in the market under conditions of monopolistic competition. (max 10)

**[50]****Definition:**

It is a market structure with a large number of participants who are price-takers, there are no entry or exit barriers in the long run, all information is available to both buyers and sellers and a homogeneous product is sold OR

A market in which the conditions for perfect competition are satisfied OR

Perfect competition occurs when none of the individual market participants can influence the price of the product ✓✓✓

**Max (3)**

Accept any other definition.

**Characteristics:**

- **Many buyers:** ✓✓ The number of buyers in the market is so large that individual market participants are insignificant in relation to the market as a whole. ✓✓ This has the important implication that no individual buyer is able to influence the market price. ✓✓
- **Many sellers:** ✓✓ The number of sellers in the market is so large that the individual seller cannot influence the market price (price takers). ✓✓
- **Homogenous product:** ✓✓ All the products sold in the specific market are homogenous, ✓✓ that is they are exactly the same regarding quality, appearance, ect. It makes no difference to a buyer where or from whom he/she buys the product. ✓✓
- **Freedom of entry / exit:** ✓✓ There is complete freedom of entry and exit, that is to say the market is fully accessible. ✓✓ Buyers and sellers are completely free to enter or to leave the market. Entry should not be subject to any restrictions in the form of legal, financial, technological or other barriers that curtail the freedom of movement of buyers and sellers. ✓✓
- **Mobility of factors of production:** ✓✓ All factors of production are completely mobile, ✓✓ in other words labour, capital and all other factors of production can move freely from one market to another. ✓✓
- **Perfect information:** ✓✓ Both buyers and sellers have full knowledge of all the prevailing market conditions. ✓✓ For example if one business ventured to raise its price above the market price, buyers would immediately become aware of it and would switch their purchases to businesses who still charge the lower price. ✓✓

- **No collusion:**✓✓ Collusion between sellers does not occur. ✓✓ In a perfectly competitive market, each buyer and seller acts independently from one another. Collusive practices are illegal in South Africa, according to the Competition Act 1998. ✓✓ (28)
- **Unregulated market:** ✓✓ There is no government intervention that could affect buyers or sellers.✓✓ Decisions are left to individual sellers or producers and buyers. ✓✓
- **No preferential treatment (no discrimination)** ✓✓ nobody is advantaged above the others ✓✓
- **Efficient transport and communication:** ✓✓ Makes access to and from markets possible. ✓✓ **Max 8 x 4 (32)**

<b>Monopolistic Competition Disadvantages for the firm and consumer</b>
Consumers pay a higher price under monopolistic competition ✓✓
Output of monopolistic competition is less than that of the perfect competitor. ✓✓
Monopolistic competitor is unable to produce at the ideal production levels ✓✓
Monopolistic competition is therefore neither allocatively nor productively efficient
Inefficient use of resources in the case of monopolistic competition – perfect competitor produces more at lower prices – therefore more efficient in the use of resources ✓✓
Market information on monopolistic competition is incomplete ✓✓

**Max (5 x 2)**

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5	Candidate has interpreted topic correctly and has linked facts to topic. (31 - 45)

(10)  
[50]

**QUESTION 9**

'The opening up of foreign trade ... sometimes works a sort of industrial revolution in a country whose resources were preciously underdeveloped.'

Discuss the arguments in favour of a policy of protection and critically evaluate the South African international trade policies and major protocols regarding free trade.

**[50]**

**DEFINITION:** Protection is the application of a trade policy whereby the state discourages importing of certain goods and services with a view to protecting home industries against unequal competition from abroad. ✓✓✓

**ARGUMENTS IN FAVOUR OF PROTECTION****1. Raising revenue for the government:** ✓✓

- In developing countries the tax base is more often limited because of low incomes of individuals and businesses ✓✓
- Low incomes do not provide much in form of income taxes ✓✓
- Customs duties on imports – significant source of revenue ✓✓

**2. Protecting the whole industrial base:** ✓✓

FOUR considerations relevant for protecting industrial base of country:

- Maintaining domestic employment / reduce unemployment and provide more job opportunities ✓✓
  - countries with high levels of unemployment – pressurized to stimulate employment creation ✓✓
  - protectionist policies used to stimulate industrialisation ✓✓
  - domestic employment encouraged through imposing import restrictions ✓✓
- Protecting workers ✓✓
  - countries with low wages represent unfair competition and threaten the standard of living of more highly paid workers ✓✓
  - protection necessary to prevent local wage levels from falling ✓✓
  - helps protect local businesses from closing down or becoming unprofitable ✓✓
- Diversifying the industrial base ✓✓
  - protectionism helps countries not to over-specialise ✓✓
  - import restrictions may be imposed on range of products in order to ensure that number of domestic industries develop ✓✓

- Developing strategic industries ✓✓

- certain industries of strategic importance eg agriculture and energy ✓✓
- developing countries need to develop these industries to become self-sufficient ✓✓

### 3. Protecting particular industries: ✓✓

- Dumping ✓✓

- due to government subsidies enterprises are permitted to sell at very low prices – leads to price discrimination ✓✓
- products can be exported to dispose of accumulated stocks – importing country will benefit ✓✓
- objective can also be to drive out domestic producers and gain strong market position – consumers will lose out due to reduction in choice ✓✓

- Infant industries / Industrial development ✓✓

- newly established industries suffer to survive due to higher average costs
- competition in the early days makes growth possible, they can take advantage of economies of scale, lower average costs and become competitive – protection can now be removed ✓✓

- Declining industries ✓✓

- structural changes in demand and supply may influence industry negatively ✓✓
- these businesses must leave business gradually – possible if protection is granted – gives factors of production time to move to other industries ✓✓
- they lost their comparative advantage – may lead to large scale unemployment ✓✓

### 4. Protecting domestic standards ✓✓

- Trade restrictions like food safety, human rights and environmental standards ✓✓
- Stabilising exchange rate and balance of payments ✓✓
- Protecting natural resources from being exploited ✓✓
- Economic self-sufficiency ✓✓
- Greater economic stability ✓✓
- Natural resources not depleted ✓✓

(Max 35)

**CRITICAL EVALUATION OF SA FREE TRADE:**

- SA part of **customs union** since 1910 – various protocols now replaced by SADC protocol – progress made towards strengthening bilateral ties with main trading partners – has taken form of free trade area (FTA) protocols. ✓✓
- South African Customs Union – members currently jointly negotiate FTAs with the rest of the world like European Free Trade Association. ✓✓
- South African Development Community (SADC) presently has status of FTA – 97 % qualifies for duty-free access to SA – should be fully liberalized by 2010. ✓✓
- African Union is developing continent into **economic and monetary union** – adopted Nepad as strategy – first phase to develop 5 regional FTAs – SADC is one of the FTAs. ✓✓
- European Union-SA FTA entails freeing of tariffs – 95 % of EU imports from SA by 2010 and 86 % free of tariffs on imports from EU over 12 year period. Trade, Development and Cooperation Agreement implemented in 2000 established free trade between SA and EU. ✓✓
- Mercusor – SA signed a Framework Agreement with Mercusor in 2000, to expand trade and create free trade area between parties (Latin America) – eventually FTA will include all SACU members ✓✓
- WTO promotes free trade – persuades countries to abolish import tariffs ✓✓
- Trade with Indian Ocean Rim Association for Regional Cooperation (trade with India, Malaysia and Japan increased) ✓✓
- SA signing Marrakesh Agreement to liberalise international trade by lowering import tariffs and barriers ✓✓
- Cotonou Agreement – SA member of ACP (Africa, Caribbean and Pacific) Group ✓✓
- International Trade and Economic Development Division of Department of Trade and Industry increase SA access to markets worldwide – on preferential terms ✓✓  
(Any 5 X 2)

(10)  
[50]

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**QUESTION 10**

'South Africans are getting stronger. Thirty years ago it took five people to carry fifty rands worth of groceries. Today a child can do it.'

Anonymous

Write a business letter to the Governor of the Reserve Bank, explaining the causes in general and the impact of inflation especially on the poorest of poor. Conclude your letter with possible measures to combat it.

Address:

SA Reserve Bank, PO Box 427, Pretoria, 0001.

[50]

**Address of Sender**

3 Lane Road

**EXAM FOUNTAIN** ✓

0002

**Date** 12 November 2008 ✓

**Address of Recipient**

The Governor

SA Reserve Bank ✓

PO Box 427

PRETORIA

0001

*(Structure of formal letter: max 5 marks*

*Salutation: 3 marks Closing: 2 marks)*

Sir/Madam

**RE: INFLATION** ✓✓✓ /

Accept any relevant introduction.

**CAUSES**

1. Increase in the money supply ✓✓

- A **higher increase in the supply of money** in circulation in the market than in supply of goods and services. ✓✓
- There is more money available to buy the same goods. ✓✓
- If the supply of goods does not increase (increase in productivity) sellers will want more money for their goods because buyers are willing to pay more. ✓✓

2. Demand-pull / demand inflation ✓✓

- Certain causes of demand pull inflation include an **increase in the disposable income of households**. ✓✓
- Availability of **credit** from banks, credit cards and personal overdrafts, increasing demand. ✓✓
- An increase in the **economically active population increasing** the demand for more consumer goods. ✓✓



3. Cost-push / cost inflation ✓✓

- Certain causes of cost-push inflation are supply shocks, such as a **sudden increase in the price of oil.** ✓✓
- A sudden rise in **interest rates.** ✓✓
- An increase in factor prices, such as the cost of labour or land. ✓✓ (max 12)

**IMPACT ON THE POOREST OF POOR**1. Purchasing power of money ✓✓

- Increase in prices e.g. basic foodstuffs, will decrease the purchasing power of money ✓✓
- Poor people depend on pensions and social grants which does not increase at the same rate as normal wages ✓✓

2. Income and wealth ✓✓

- The poor suffer most from inflation because their meager incomes buy continuously less ✓✓
- Price increases affect people whose incomes are relatively fixed (remains constant). ✓✓

3. Social impact ✓✓

- Violence and crime will affect society at large ✓✓
- Health issues like malnutrition, HIV/Aids ✓✓
- Low standard of living (like lack of housing and basic services) ✓✓
- Family imbalances ✓✓
- Accept any other relevant facts (max 16)

**CONCLUSION: MEASURES**1. Monetary policy ✓✓

- The monetary authorities can raise interest rates and reduce the money supply. ✓✓
- This raises the cost of credit and also reduces the availability of credit to the various sectors of the economy. ✓✓
- Various instruments can be used to accomplish this, namely, increasing the bank rate (repo rate) and encouraging savings. ✓✓
- The monetary authorities can apply moral pressure on financial institutions to be more careful when granting credit. ✓✓
- The monetary authorities can relax exchange controls as a measure to combat inflation. ✓✓

2. Fiscal policy ✓✓

- The minister of finance uses policies of taxation and expenditure to control inflation ✓✓
- This reduces the demand for goods but also has a negative effect on employment and production ✓✓
- Indirect taxation such as VAT, or customs and excise duties can be increased ✓✓
- Imposing a surcharge (increases imported goods prices) on imported goods can help to control inflation ✓✓
- Protection measures may also be taken to protect local industries against unfair foreign competition ✓✓

3. Structural (supply-side / general / other / non-monetary / non-fiscal) measures ✓✓

- An effective combination of both fiscal and monetary measures is used to combat inflation ✓✓
- Increase in productivity by increasing better teaching and training ✓✓
- Encouraging personal savings, which could increase the supply-side of the economy and reduce demand ✓✓
- Implementing wage restraint policy ✓✓
- Stricter conditions for consumer credit ✓✓
- When the market system (demand side or supply side) does not function properly, inflation is often the "price" we pay. ✓✓
- Curtail borrowings ✓✓
- Selling of retail savings bonds ✓✓
- Loan levies by SARS ✓✓

**Closing e.g.**

Yours faithfully ✓

**Signature** ✓**Name**

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)

(5)  
[50]**TOTAL SECTION C: 100****GRAND TOTAL: 300**