GRADE 12

# Economics

## SELF STUDY GUIDE

BOOKLET 1

# CIRCULAR FLOW & NATIONAL ACCOUNT AGGREGATES


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# 1. Introduction

The declaration of COVID-19 as a global pandemic by the World Health Organisation led to the disruption of effective teaching and learning in many schools in South Africa. The majority of learners in various grades spent less time in class due to the phased-in approach and rotational/ alternate attendance system that was implemented by various provinces. Consequently, the majority of schools were not able to complete all the relevant content designed for specific grades in accordance with the Curriculum and Assessment Policy Statements in most subjects.

As part of mitigating against the impact of COVID-19 on the current Grade 12, the Department of Basic Education (DBE) worked in collaboration with subject specialists from various Provincial Education Departments (PEDs) developed this Self-Study Guide. The Study Guide covers those topics, skills and concepts that are located in Grade 12, that are critical to lay the foundation for Grade 12. The main aim is to close the pre-existing content gaps in order to strengthen the mastery of subject knowledge in Grade 12. More importantly, the Study Guide will engender the attitudes in the learners to learning independently while mastering the core cross-cutting concepts.

## 2. How to use this Self Study Guide?

2.1 This study guide addresses content on the open circular flow model and national account aggregates. Notes, explanations of formula coupled with tables are used to explain in a step by step method how to draw and interpret an open four-sector circular flow diagram as well as how to analyse and derive aggregates from data tables.

2.2 The intention is to help you to understand work you may have done in class or have gained from other textbooks. The main idea is to enhance your knowledge not to replace previous information.

2.3 Activities provided in this guide cover all cognitive levels: in the open economy circular flow model and National Account Aggregates.

2.4 Pay special attention to the following:

- Read the glossary at the beginning of each subtopic covered in this study guide.
- Go through notes provided and check activities provided for each subtopic
- Analyse the tables provided on National Account Aggregates, practice the steps and formula indicated in the study guide.
- Practice how to draw a circular flow clearly indicating the how participants interact in an open economy. Interpret the economic activities involved

2.5 Attempt to answer activities on your own before checking solutions provided.

2.6 Compare your progress on work done to solutions provided. If too many mistakes appear or recurring, refer to your notes and practice again for better insight.

2.7 All activities provided in the study guide may not in any way replace any activities in past examination question papers. Use Economics question papers from 2017 to 2020 to further assist you in strengthening your knowledge and better preparation towards the end of the year examination.

## 3.1 The open economy circular flow model

### Key concepts

These explanations will help you to understand the meaning of key concepts relevant to open circular flow model.

| Concept | Description |
|---|---|
| **Circular flow model** | A representation of the economy showing how the economic participants interact with one another |
| **Closed economy** | An economy that does not take part in international trade. |
| **Open economy** | An economy that imports and exports goods and services to and from other countries. |

### Notes

### The open circular flow model

- The circular flow model shows how the various economic activities flow between different sectors.
- The circular flow model divides the economy into participants and indicate how they engage in economic activities.
- The activities include the movement of income, production and spending between role players in the economy.
- The basic purpose of the circular flow model is to understand how money moves within an economy

**The open circular flow diagram**

- The complete circular flow diagram in an open economy shows how the economic activities are connected between different sectors. It can be represented as follows.

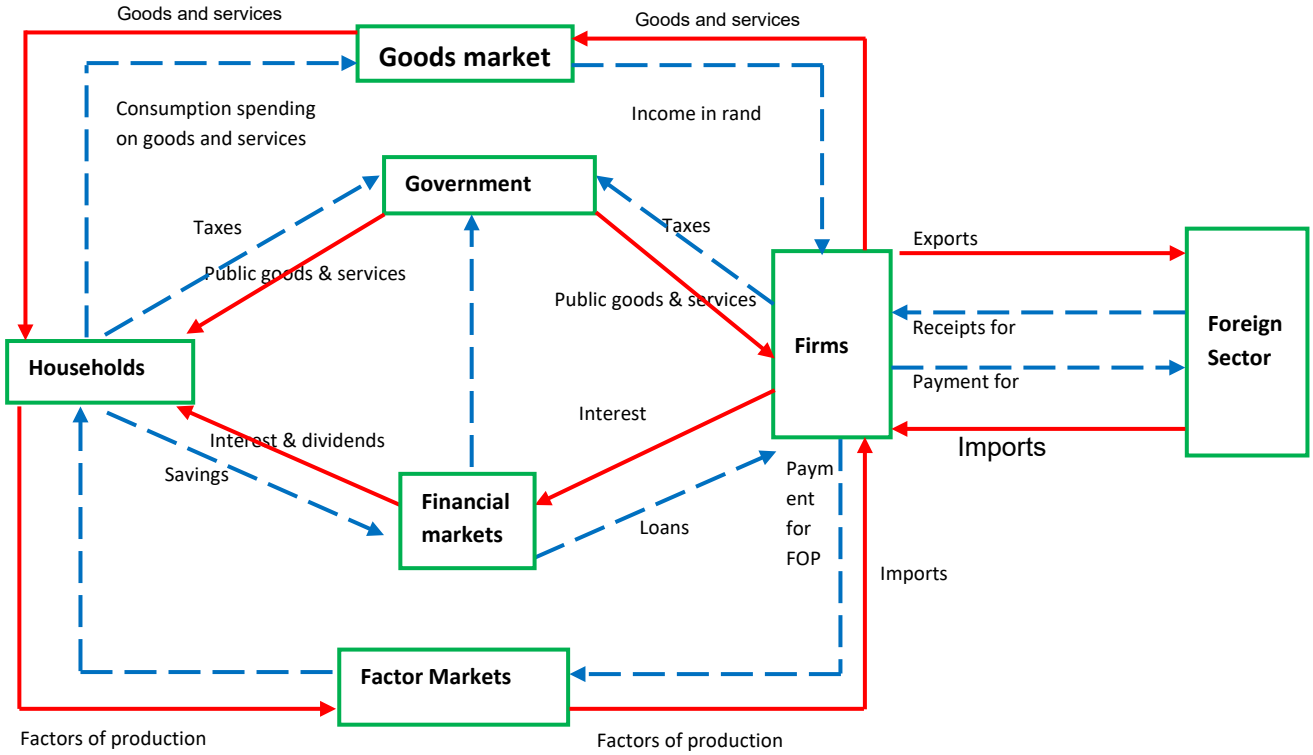



Figure 1.1 above indicates the following:

**The participants and their relationships in the circular flow model**

**Key concepts**

| Concept | Description |
|---|---|
| **Households** | Any unit of people that live together and make joint economic decision |
| **Firms** | Business that produce goods and services |
| **Government (G)** | The term that is used to refer to local, regional and national government |
| **Foreign sector** | It consists of all firms, financial intermediaries, government and households that deal with imports and exports. |
| **Income (Y)** | Remuneration for the use of the factors of production in the form of rent, wages, interest and profits |

**Households interaction with other participants**

- Own the factors of production and sell these factors of production in the factor market to firms.
- receive remuneration for their productive resources from firms in the form of wages and salaries, interest, rent and profit.
- use the income earned to buy goods and services from businesses in the goods market.
- pay tax to the government and save a portion of their income in financial institutions such as banks.
- Buy goods and services from other countries to satisfy their needs/wants
- Are the **major consumers** of economic goods and services in the economy

**Firms/businesses interactions with other participants**

- Buy factors of production from households in the factor market with an aim to produce goods and services.
- Sell goods and services through the goods market to households, government and foreign sector and receive income from them.
- Use the earnings received from selling goods to other participants to invest further by producing more goods.
- Borrow funds through financial markets such as banks to expand their businesses and pay interest on loan
- Pay tax to the government

**Government/state interaction with other participants**

- Receives revenue from the households, firms and foreign sector in the form of taxes
- Uses the taxes received to provide households and firms with public goods and services through the goods market
- Pays subsidies to firms keep the prices of goods low
- Pay grants to households to improve their livelihoods
- Borrows funds from financial institutions through financial markets

**Foreign sector interaction with other participants**

- Imports flow through the goods market to households, firms and government departments
- Exports flow through firms and households to other countries
- Receipts for exports flow through the foreign sector to firms, households and government.
- payments for imports flow through the firms, households and government to the foreign sector.

Take Note of the sectors in the circular flow model

Household sector

Business Sector

## SECTORS IN THE CIRCULAR FLOW

- **Each sector has a dual role to play in the economy.**
- **Each sector receives payment from other**

Government sector

Foreign sector

**Financial sector**: It represents financial institutions who are not directly involved in the production of goods and services

**Activity 1**

**1.1** Give economic term/ concept for each of the following descriptions. Write only the term next to the question number (1.1.1–1.1.6) in the ANSWER BOOK**. Do not use abbreviations**

1.1.1 The owners of the production factors in the economy. (1)

1.1.2 The sector that needs to be included for the economy to be regarded as an open economy. (1)

1.1.3 An economy that does not take part in international trade. (1)

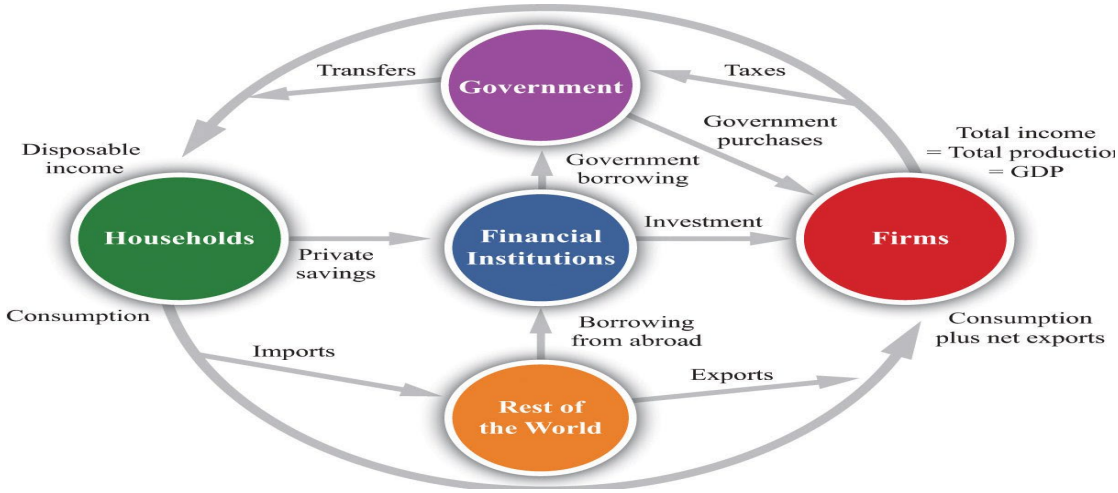
1.1.4 A model which illustrates the flows between participants in the economy. (1)

1.1.5 An economy that includes the foreign sector. (1)

1.1.6 The primary economic participant. (1)

**Activity 2**

2.1 Study the diagram below and answer the questions that follow:




*Source: https:www.google.com*

2.1.1 Identify the foreign sector in the above diagram (1)

2.1.2 Name ONE sector in the above diagram (1)

2.1.3 Briefly describe the term circular flow model. (2)

2.1.4 Differentiate between the closed and open circular flow model (2)

2.1.5 How does an increase in the household spending influence the economy (4)

2.2 Briefly discuss the interaction between the government and the foreign sector. (8)

**Activity 3**

3.1 Briefly discuss the role of households and the business sector in the circular flow model.

(2x4) (8)

**Real flows and Money flows**

**Key concepts**

| Concept | Description |
|---|---|
| Real flow | The flow of goods and services between the participants in the economy |
| Money flow | The flow of income and expenditure between the participants in the economy |

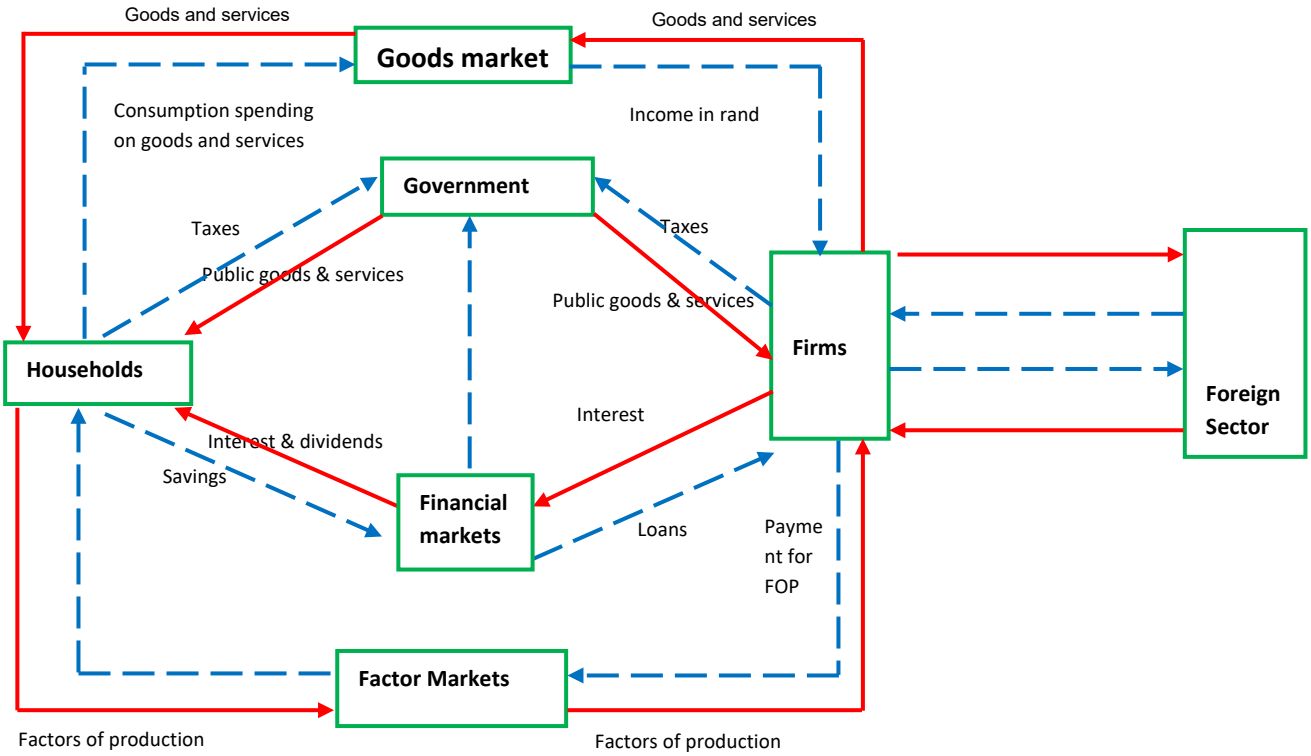
**Notes**

**Differentiate between real flows and money flows**

| Real flows | Money flows |
|---|---|
| **Flow of the actual goods or services.** | Payments for the services for example salaries and wages |
| **Include the factors of production, such as land or labour, that flow from individuals to firms** | occur when firms pay wages and salaries in return for productive services provided by individuals, |
| **Also include the flow of goods and services from firms to individuals** | Also include flows when individuals spend money to acquire goods or services produced by firms |

- **Real flows** indicate the way that **goods and services** are **produced and consumed** in the economy.
- **Money flows** indicate the way that **money and credit circulate** in the economy as **income turns** into **savings and investment** and back again.

In Figure 1.1, the real flows are represented by solid lines, whilst the money flows are represented by dotted lines.




**Real flows from the circular diagram** (solid lines):

- Households sell factors of production through factor markets to firms
- Firms sell goods and services through the goods market to households
- Government provides public goods and services to firms
- Government provides public goods and services to households
- Foreign sector provides goods and services to firms and households

**Money flows from the circular diagram** (dotted lines):

- Payment for factors of production by firms to households
- Consumption spending on goods and services by households to firms
- Payment of taxes by firms and households to government
- Payment for spending on goods and services to foreign sector

**Activity 4**

4.1 The movement of money in the form of income and expenditure (1)

4.2 Differentiate between *real flows* and *money flows* in the circular model (8)

**Injections and leakages**

**Key concepts**

| Concept | Description |
|---|---|
| **Injections (J)** | The introduction of additional money into the economy by investment, government and payment for exports |
| **Leakages (L)** | Money withdrawn from the circular flow through savings, taxes and import expenditure |
| **Investment (I)** | Spending by firms on capital goods |
| **Taxes (T)** | Compulsory payments made by private individuals or firms to the government with no direct benefit |
| **Imports (M)** | Goods and services produced in other countries and bought by local firms or households |
| **Exports (X)** | Goods and services produced locally and then sold to foreign countries |

**Notes**

**Injections (J)**

Injections happen when money enters the circular flow which leads to an increase in the quantity of money in circulation. This means that there is more money available to boost economic activities in the economy.

**Types of injections**

There are three types of injections in the circular flow, namely investment (I) government spending (G) and exports (X).

- **Government Spending**: Government as a participant in the economy provide public goods and services to public. An increase in government spending leads to an increase in the spending on goods and services because the government will buy more when improving infrastructure. This economic activity will boost economic activities.
- **Investment:** Businesses and government acquire loans from financial institutions to buy capital goods. Businesses use these capital goods to expand their businesses. Investments lead to an increase in production, spending and income.

- **Exports**: Money flows into the circular flow through foreign investors. When businesses sell goods to foreign countries, they earn foreign exchange. This injection increases economic activities in the country.

You can calculate the value of injections in the economy by adding the value of government spending, exports and investments. The equation that is used to calculate the value of injections is: **J= G+X+I**

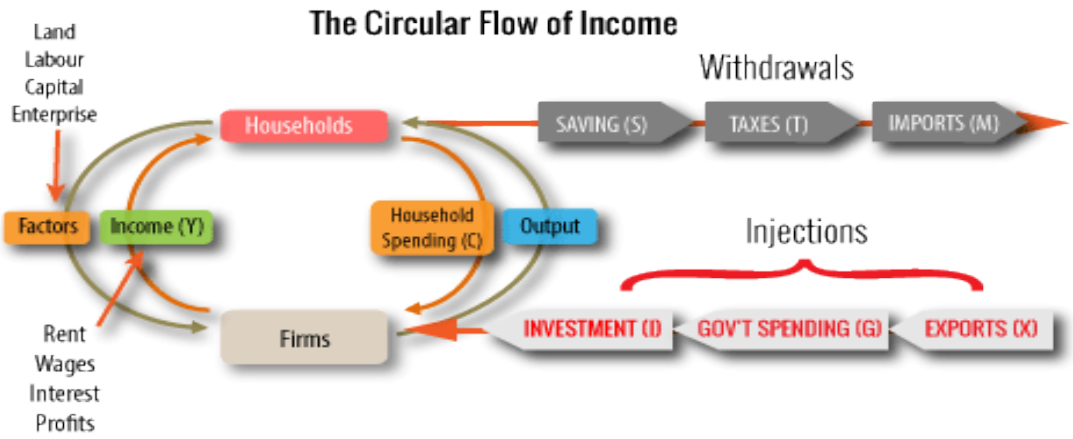
**Leakages ((L)**

Leakages take place when money leaves the circular flow and decreases the quantity of money in circulation in the economy. Leakages also refer to the outflow of money from the economy

**Types of leakages**

- **Savings (S):** When households do not spend some of their income, they save it. This money is withdrawn from the circular flow to the financial markets, banks.
- **Expenditure Imports (I)**: When participants spend money on foreign goods and services, money is withdrawn from the circulation to foreign markets, paying for the imports.
- **Taxes (T):** Households and firms have to pay taxes to the government. Taxes decrease the amount of money that is spent on goods and services.

You can calculate the value of leakages in the economy by adding value of taxes, expenditure on imports and savings. The equation to calculate the value of Leakages is: **L= T+M+S**




*Source: https://www.economicsonline.co.uk/Definitions/Injections.html*

The above diagram shows how the leakages (withdrawals) reduce the flow of money in the circular flow and how injections lead to an increase in the flow of money in circular flow. This can be summarised as follows:

- Leakages withdraw money from the circular flow of income through savings, taxes and imports
- injections increase money in the circular flow of income through investments, government expenditure and exports.
- The **foreign sector** has an important role to play in the economy.
- When local firms export goods and services to the foreign markets, injections are made to the circular flow model.
- Injections increase the money in the circular flow because firms receive foreign exchange for goods sold to other countries.
- On the other hand, when a domestic firm or government imports machinery from Germany a leakage occurs.
- This transaction reduces money in circulation because money will move out of the circular flow to pay for goods imported(machinery) from a foreign country (Germany).

**Economic equilibrium**

Having discussed leakages and injections and explained the equations for calculating their values, it is important to know whether the economy is in equilibrium or not. The economy will be in **equilibrium** when injections are equal to leakages. This is when **J=L**. The economy will be in **disequilibrium** when injections are not equal to leakages. If leakages are greater than the injections it means there are more withdrawals from the circular flow, which leads to national income decreasing. If injections are greater than the leakages, it means more money is injected in the economy, which means an increase in national income in the economy.

**Autonomous spending**

- The consumption spending which is independent of income, it occurs even when income levels are zero
- Amount of money that households need to spend in order to stay alive irrespective of how much they earn
- Occurs only when expenditure on the consumables does not vary with changes in income
- Spending required to fund necessities and debt obligations

**Activity 5**

5.1 Give economic term/ concept for each of the following descriptions

5.1.1 The adding of more money to the circular flow, which will increase quantity of money in the economy (1)

5.1.2 Income that the participants prefer not to spend (1)

5.2. Give any TWO examples of leakages. (2x1) (2)

5.3 How will injections influence the national income? (2)

**Markets within an open circular flow model**

**Key concepts**

| Factor market | Market where factors of production are traded |
|---|---|
| **Goods market** | Market where goods and services are traded for example sugar |
| **Financial market** | The market where both short and long term financial assets are traded |
| **Capital market** | Market where producers and consumers make long-term deposits and borrow |
| **Money market** | The market for short-term savings and loans |
| **Foreign exchange market** | The market in which one currency can be traded for another, for example, Rands for dollars |

Markets have an important role to play in the open circular flow model. In Figure 1.1, the circular flow model indicates that there are various markets that are operating within the open circular flow diagram. These markets facilitate trade among the various participants in the economy. These markets include:

- factor market,
- product market,
- financial market, and
- foreign exchange market.

**The factor markets**

These are markets where factors of production are traded. These include all markets where labour, resource and capital are bought and sold. Households sell factors of production on these markets. The factor market includes labour, property and financial markets. These markets are also known as resources or input markets.

**The product markets**

These are markets where goods and services are traded. This market is also known as goods market or output market. These goods and services are bought by households, the foreign sector, the government and other business. These markets provide the following categories of goods and services:

| Type | Explanation |
|---|---|
| **Consumer goods** | Goods bought by households for consumption |
| **Capital goods** | Goods bought by firms for use in the production process. They are also known as producer or physical capital goods, for example machinery, buildings, vehicles etc. |
| **Durable goods** | Goods that can be used over a long period without wearing out easily. Examples include; furniture, vehicles, computers. Etc. |
| **Semi-durable goods** | Goods that can last for a short period and can be used more than once. Examples include; pen, printer cartridge etc. |
| **Non-durable goods** | Goods that can be used up when they are consumed and cannot be reused. Examples include, petrol, cool drinks, food etc. |

**The financial markets**

These markets are engaged in the lending and borrowing of funds. The transactions will involve buying and selling of financial securities. The financial institutions such as banks facilitate the lending and borrowing of funds in the financial sector. Examples include; insurance companies, pension funds and JSE. The financial market is divided into two markets; money market and capital market.

- The **money market** is the market for short-term savings and loans. These are savings that are kept for the period that is less than a year. Money markets will specialise in short-term government bonds.
- **The capital market** is the market for long-term deposits and borrowings. For example, mortgage bonds taken for an extended period, for example five years. The JSE is an example of an institution operating in the capital market.

**The foreign exchange market**

This is a market that buys and sells foreign currencies. Foreign currencies include Rand, Dollar, Pound, Yen, etc. These currencies are traded in the foreign exchange markets. The foreign exchange markets is made up of financial institutions such as commercial banks. In their activities they have departments that deal with the buying and selling of currencies.

**The relationship between the financial market and other participants in the circular flow**

In Figure 1.1, the circular flow model shows the financial market performing the following activities:

- provide savings facility to households to save the income that is not spent on consumption
- pay interest and dividends to households for their savings
- firms borrow funds from the financial markets to expand their businesses
- firms pay interest on loan to financial institutions
- Government borrow funds from financial institutions to carry out its economic activities

**Activity 6**

6.1 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-I) next to the question number (6.1.1 – 6.1.6) in the ANSWER BOOK.

| **COLUMN A** | **COLUMN B** |
|---|---|
| 6.1.1 Money flow | A. Long-term financial instruments such as bonds |
| 6.1.2 Real flow | B. Movement of income and expenditure between participants in the economy |
| 6.1.3 Capital markets | C. The flow of spending |
| 6.1.4 Leakage | D. The flow of money |
| 6.1.5 Factors of production | E. The portion of an increase in income that is not consumed. |
| 6.1.6 Factor market | F. The flow of goods and services. |
| | G. Savings |
| | H. Inputs into the production of goods and services |
| | I. Where labour, entrepreneurship, land and capital are traded |
| | |

**Activity 7**

7.1 Name TWO markets that form part of the financial system (2)

7.2 Why is the financial sector important in the circular flow? (2)

7.3 Differentiate between goods market and factor markets (8)

**Solutions**

**Activity 1**

1.1.1 Households✓

1.1.2 Foreign sector✓

1.1.3 Closed economy✓

1.1.4 Circular flow model✓

1.1.5 Open economy✓

1.1.6 Households✓

**Activity 2**

2.1.1 Rest of the world✓ (1)

2.1.2 Name ONE sector in the above diagram (1)

- Household sector✓
- Business sector✓
- Government sector
- Foreign sector✓
- Financial sector✓

2.1.3 Briefly describe the term circular flow model. (2)

A circular flow model is a continuous flow of spending, production and income between different sectors in the economy. ✓✓

2.1.4 Differentiate between the closed and open economy (2)

A closed economy deals with trade within the country, the three participants within the economy; government, firm and household and does not include the foreign sector, whereas the open economy includes trade outside the borders of a country. ✓✓

2.1.5 How does an increase in the household spending influence the economy (4)

If households increase their spending it will lead to more money flowing to businesses, who will use it to reinvest in their businesses. ✓✓

More jobs will be created as businesses expand their businesses✓✓

2.2 Briefly discuss the interaction between the government and the foreign sector. (8)

- Imports flow through the goods market to government departments✓✓
- Receipts for exports flow through the foreign sector to government. ✓✓

- payments for imports flow through government to the foreign sector. ✓✓
- Importers and exporters pays the government. ✓✓
- Government provide subsidies to exporters encouraging them to sell more goods to other countries. ✓✓

**Activity 3**

Briefly discuss the role of *households* and the *business sector* in the circular flow model.

(2x4) (8)

**Households:**

- Own the factors of production and sell these factors of production in the factor market to firms. ✓✓
- receive remuneration for their productive resources from firms in the form of wages and salaries, interest, rent and profit. ✓✓
- use the income earned to buy goods and services from businesses in the goods market. ✓✓
- pay tax to the government and save a portion of their income in financial institutions such as banks. ✓✓
- Buy goods and services from other countries to satisfy their needs/wants✓✓

**Firms/businesses:**

- Buy factors of production from households in the factor market with an aim to produce goods and services. ✓✓
- Sell goods and services through the goods market to households, government and foreign sector and receive income from them. ✓✓
- Use the earnings received from selling goods to other participants to invest further by producing more goods. ✓✓
- Borrow funds from financial markets such as banks to expand their businesses and pay interest on loan✓✓
- Pay tax to the government✓✓

(2x4) (8)

**Activity 4**

4.1 money flows✓

4.2 Differentiate between real flows and money flows in the circular model (8)

| **Real flows** | **Money flows** |
|---|---|
| Flow of the actual goods or services. ✓✓ | Payments for the services for example salaries and wages✓✓ |
| Include the factors of production, such as land or labour, that flow from individuals to firms✓✓ | occur when firms pay wages and salaries in return for productive services provided by individuals, ✓✓ |
| Also include the flow of goods and services from firms to individuals✓✓ | Also include flows when individuals spend money to acquire goods or services produced by firms✓✓ |

Any (2x4) (8)

**Activity 5**

5.1 Give economic term/ concept for each of the following descriptions

5.1.1 Injections✓

5.1.2 Savings✓

5.2. Give any TWO examples of leakages. (2x1) (2)

- Savings✓
- Taxes ✓
- import expenditure✓✓

5.3 How will injections influence the national income? (2)

- Injections will increase the quantity of money in circulation✓
- This will lead to an increase in economic activities taking place in the economy✓. This will further increase the national income. ✓

**Activity 6**

6.1.1 D✓

6.1.2 F✓

6.1.3 A✓

6.1.4 G✓

6.1.5 H✓

6.1.6 I✓

**Activity 7**

7.1 Name TWO markets that form part of the financial system (2)

- Capital market✓
- Money market✓
- Foreign exchange market✓

7.2 Why is the financial sector important in the circular flow? (2)

- It facilitates the flow of funds between the participants in the economy, this leads to making available funds for stimulating economic activities as businesses get an opportunity to expand their businesses. ✓✓

7.3 Differentiate between goods market and factor markets (8)

- Factor markets are where factors of production are traded ✓✓
- whereas product markets are markets where goods and services are traded ✓✓
- Example of factor markets include all markets where labour, resource and capital are bought and sold, ✓✓
- whereas examples of product markets include durable and non-durable goods✓✓

Any (2x4) = (8)

**Summative Assessment: Circular flow**

**SECTION A**

**QUESTION 1**

1.1 Various options are provided as possible answers to the following questions. Write down the question number (1.1.1–1.1.6), choose the answer and write the letter (A–D) of your choice in the ANSWER BOOK.

1.1.1 An open economy is best described as a …..sector economy.

A one
B two
C three
D four

1.1.2 Investment is an example of a/an ….. in the circular flow model.

A leakage
B injection
C withdrawal
D loss

1.1.3 The total remuneration that the owners of the production factors receive is called….

A production
B expenditure
C exports
D income

1.1.4 Households in South Africa spend most of their income on……

A durable goods
B semi-durable goods
C non-durable goods
D services

1.1.5 Savings flow back into the circular flow as …

A. Government spending
B. Leakage
C. investment
D. Exports

1.1.6 The flow of money from the financial sector into the economy is called a/an …

A. Injection
B. Expense
C. Revenue
D. Leakage

1.1.7 When I+G+X>S+T+M, the level of National Income will

A. rise
B. fall
C. remain the same
D drop

(2x6) (12)

1.2 Choose a description from COLUMN B that matches an item in COLUMN A.
Write only the letter (A–J) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK.

| | **COLUMN A** | | **COLUMN B** |
|---|---|---|---|
| 1.2.1 | Real flow | A. | Factors of production are sold here |
| 1.2.2 | Autonomous consumption | B. | The major participant in the circular flow |
| 1.2.3 | Investment | C. | The movement of income and expenditure |
| 1.2.4 | Closed economy | D. | The publisher of national accounts |
| 1.2.5 | Resources market | E. | Represents the movement of goods and services |
| 1.2.6 | Money flow | F. | Spending that is independent of income |
| 1.2.7 | SARB | G. | Excludes foreign sector |
| 1.2.8 | households | H. | Good example of injection |
| | | I. | Currencies of the countries are traded in this market |

(1x8) (8)

**1.3 Give economic term/ concept for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.5) in the ANSWER BOOK.**

1.3.1 A market for short-term savings and loans. (1)
1.3.2 The sector that needs to be included for the economy to be regarded as an open economy. (1)
1.3.3 An economy that includes the foreign sector. (1)
1.3.4 The market for long-term savings and loans. (1)
1.3.5 A model which illustrates the flows between participants in the economy. (1)

**SECTION B**

**QUESTION 1 MACROECONOMICS: CIRCULAR FLOW**

2.1 Answer the questions that follow:

2.1.1 Give TWO examples of injections. (2)

2.1.2 Why is household regarded as a major participant in the circular flow? (2)

2.2 Study the information below and answer the questions that follow

| | |
|---|---|
| Consumer spending | R 140m |
| Government spending | R90m |
| Marginal propensity to save | 0.4 |
| Investment spending | R120m |
| Imports | R40m |
| Exports | R30m |

2.2.1 How much was spent on foreign goods? (1)

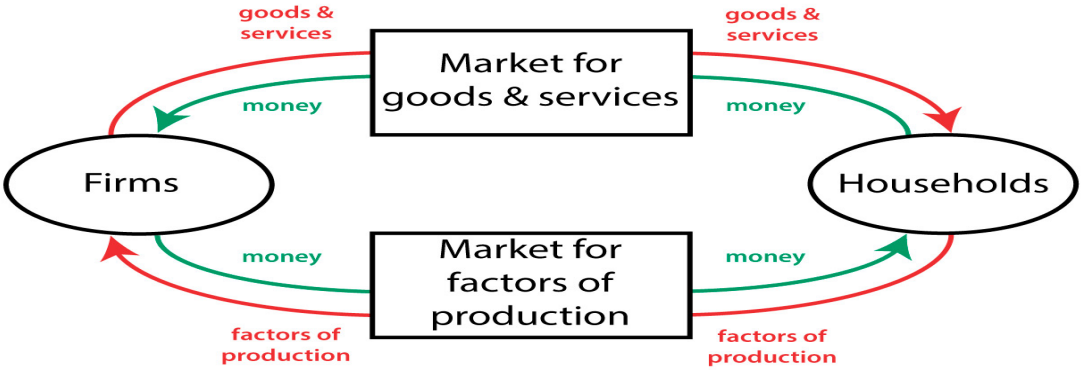
2.2.2 Which element constitutes the biggest expenditure in the economy? (1)

2.2.3 Briefly describe the term *injection* (2)

2.2.4 What would be the effect of an increase in leakages on national income? (2)

2.2.5 How would a change in consumer confidence influence the money flow in the circular flow (4)

2.3 Study the diagram below and answer the questions that follow




2.3.1 Indicate what is depicted in the above diagram (1)

2.3.2 Identify ONE example of a real flow. (1)

2.3.3 Briefly describe the term *product market*. (2)

2.3.4 What is the benefit of operating in an open economy? (2)

2.3.5 How does the financial sector impact the economy? (2x2) (4)

2.4 Briefly discuss the role of households and the business sector in the circular flow model. (2x4) (8)

2.5 How does the financial sector contribute to the South African economy? (8)

**SECTION C**

**ESSAY**

The following structure must be used when answering an essay question in the examination. Use the following headings for your essay:

| **STRUCTURE OF ESSAY** | **MARK ALLOCATION** |
|---|---|
| **Introduction**<br>The introduction is a lower order response<br>1. A good starting point would be to define the main concept related to the question<br>2. Do not include any part of the question in the introduction<br>3. Do not repeat any part of the introduction in the body<br>4. Avoid mentioning what you are going to discuss in the body | Max. 2 |
| **Body**<br>1. **Main part:** Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Explain<br>2. **Additional part:** Give own opinion / Critically discuss / Evaluate / Critically evaluate / Draw a graph and explain / Use the graph given and explain / Complete the given graph / Calculate / Deduce / Compare / Explain / Distinguish / Interpret / Briefly debate / How / Suggest | Max. 26<br><br>Max. 10 |
| **Conclusion**<br>Any relevant higher order conclusion that should include:<br>1. A brief summary of what has been discussed / analysed without repeating facts already mentioned<br>2. An opinion or valued judgement on the facts discussed<br>3. Additional support information to strengthen the discussion / analysis<br>4. A contradictory viewpoint with motivation, if required<br>5. Recommendations | Max. 2 |
| **TOTAL** | **40** |

The possible essay question in the circular flow can be asked in various ways

Main Part

Discuss in detail the markets within the four-sector model (26)

OR

Discuss the role of markets in the circular flow (26)

**ADDITIONAL PART**

How can the business sector contribute more positively to the economy (10)

**Solution: Summative assessment**

SECTION A

**Multiple choice**

1.1.1 D✓✓

1.1.2 B✓✓

1.1.3 D✓✓

1.1.4 C✓✓

1.1.5 C✓✓

1.1.6 A✓✓

1.1.7 A✓✓

**Matching**

1.2.1 E✓
1.2.2 F✓
1.2.3 H✓
1.2.4 G✓
1.2.5 A✓
1.2.6 C✓
1.2.7 D✓
1.2.8 B✓

**Concepts**

1.3.1 Money market✓
1.3.2 Foreign sector✓
1.3.3 open economy✓
1.3.4 Capital market✓
1.3.5 Circular flow mode✓l

**SECTION B**

**QUESTION 2 MACROECONOMICS: CIRCULAR FLOW**

2.1.1 Give TWO examples of injections. (2)

- Government spending✓
- Investment✓
- Exports✓

2.1.2 Why is household regarded as a major participant in the circular flow? (2)

- Households consume the goods produced by firms✓✓
- Households provide factors of production that are used by firms in the production process✓✓
- Households make available their savings to banks which is borrowed by firms to invest in the production of goods and services✓✓

**DATA RESPONSE**

2.2.1 R40m✓ (1)

2.2.2 Which element constitutes the biggest expenditure in the economy? (1)

- Consumer spending✓

2.2.3 Briefly describe the term *injection* (2)

- The introduction of additional money into the economy through investment, government spending and exports. ✓✓

2.2.4 What would be the effect of an increase in leakages on national income? (2)

- Leakages reduce the flow of income, which will lead to a drop in the demand for goods and services. ✓✓
- Leakages lead to a decrease in the economic activities, which may lead to for example a decrease in the demand for labour✓✓

2.2.5 How would a change in consumer confidence influence the money flow. in the circular flow (4)

- A decline in consumer confidence leads to consumers spending less money on goods and services. This affects businesses negatively because there will be less sales. ✓✓
- An increase in consumer confidence leads to consumers spending more money on economic activities. This will affect businesses positively because there will be more sales. ✓✓

**DATA RESPONSE**

2.3.1 . Circular flow✓ (1)

2.3.2 Identify ONE example of a real flow. (1)

- Households sell factors of production through factor markets to businesses✓
- Businesses sell goods and services through the goods market to households✓

2.3.3 Briefly describe the term *product market*. (2)

- A market where goods and services are traded. This market is also known as goods market or output market.

2.3.4 What is the benefit of operating in an open economy? (2)

- Consumers can choose from a large variety of goods✓✓
- Increases the opportunity of direct foreign investment. ✓✓

2.3.5 How does the financial sector impact the economy? (2x2) (4)

- It facilitates the flow of funds between the participants in the economy✓✓
- It leads to making available funds for stimulating economic activities as businesses get an opportunity to expand their businesses. ✓✓
- The financial sector helps to direct the flow of savings from the household sector to the business and government sector in the economy. ✓✓
- It also helps to channel the savings to be available to investors, ✓✓
- For example, businesses use these funds to expand their businesses whilst the government will borrow money from the financial sector to provide public goods and services to the economy. ✓✓
- The financial sector facilitates the accumulation of capital and the production of goods and services. ✓✓

2.4 Briefly discuss the role of households and the business sector in the circular flow model.

(2x4) (8)

**Households:**

- Own the factors of production and sell these factors of production in the factor market to firms. ✓✓
- receive remuneration for their productive resources from firms in the form of wages and salaries, interest, rent and profit. ✓✓
- use the income earned to buy goods and services from businesses in the goods market. ✓✓
- Pay taxes to the government

**Businesses:**

- Buy factors of production from households in the factor market with an aim to produce goods and services. ✓✓
- Sell goods and services through the goods market to households, government and foreign sector and receive income from them. ✓✓
- Use the earnings received from selling goods to other participants to invest further by producing more goods✓✓
- Pay taxes to government✓✓

2.5 How does the financial sector contribute to the South African economy? (8)

- The financial sector mobilises savings and credit across the various sectors in the economy. ✓✓ These funds are injected into the economy through businesses and the government sector. Through loans from financial sector.✓✓ The government sector increases its spending by performing economic activities that boost the economy. For example, improving infrastructure. ✓✓ These economic activities will create employment. ✓✓
- The financial sector helps to direct the flow of savings from the household sector to the business and government sector in the economy. ✓✓
- It also helps to channel the savings to be available to investors, ✓✓
- For example, businesses use these funds to expand their businesses whilst the government will borrow money from the financial sector to provide public goods and services to the economy. ✓✓
- The financial sector facilitates the accumulation of capital and the production of goods and services. ✓✓

(2x4) (8)

**SECTION C**

Discuss the role of markets in the circular flow (26)

How can the business sector contribute positively to the economy (10)

(40)

**INTRODUCTION**

- Markets coordinate economic activities and determine prices for goods and services ✓✓ /
- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓

Max (2)

**MAIN PART**

**Goods/Product/Output markets** ✓

- These are markets for consumer goods and services ✓✓

In economics a distinction is made between goods and services:

- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
- Buying and selling of goods that are produced in markets that include:
  - Capital goods market for trading of buildings and machinery ✓✓
  - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods ✓✓
- Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets ✓✓
- Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditures and taxes on the product market ✓✓

**Factors/Resources/Input markets** ✓

- Households sell factors of production on the markets like rent for natural resources, wages for labour, interest for capital and profit for entrepreneurship ✓✓
- The factor market includes the labour, property and financial markets ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

**Financial markets ✓**

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓
- E.g. banks, insurance companies and pension funds ✓

**Money markets ✓**

- In the money market, short-term loans and very short-term funds are saved and borrowed by consumers and business enterprises ✓✓
- Examples of products sold in this market are bank debentures, treasury bills and government bonds ✓
- The SARB is the key institution in the money market ✓✓

**Capital markets ✓**

- In the capital market long-term funds are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Examples of products sold in this market are mortgage bonds and shares ✓

**Foreign exchange markets ✓**

- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The SA rand is traded freely in these markets when a person buys travellers' cheques to travel abroad ✓✓
- Imports and exports are real flows and they are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓

(Max 26)

**ADDITIONAL PART**

**How can the business sector contribute more positively to the economy?**

The business sector can contribute more positively by:

- investing more in labour intensive projects with the focus on in service-training and skills development of workers ✓✓
- re-investing their profits in gross capital formation programmes ✓✓ equipment, tools, transportation assets and electricity ✓
- expanding their business operations and investing in the latest technology to ensure an upliftment of the quality of factors of production needed for production ✓✓
- diversifying their business operations by bringing in a differentiated product offering within or outside the range they produce ✓✓
- supporting South African businesses in terms of procuring raw materials and increase the market share for South African produced goods and services locally and abroad ✓✓
- ensuring the existence of sound business principles towards a long-term involvement in the economy leading to a positive economic growth rate ✓✓
- using loans to invest in capital goods like machinery, to ensure mass production at a lower cost thus improving their competitiveness ✓✓

(Max.10)

**CONCLUSION**

Markets are critically important institutions in our economic system, because they regulate supply and demand and safeguard price stability and general business confidence ✓✓

Max (2)

## 3.2 National Account Aggregates

**Key concepts**

| CONCEPTS | DESCRIPTION |
|---|---|
| **Base year** | A year with very small price changes or price fluctuations. The current base year used by the Reserve Bank is 2010. |
| **Domestic figures (GDP)** | Value of all final goods and services produced within the borders of a country for a specific period. |
| **Expenditure method** | When the national accountants add together the spending of the four major sectors of the economy: C+G+I+T+ (X - M) |
| **Factor cost/ Factor prices** | These items can be used interchangeably and refer to the cost of or price paid for the factors of production (land, labour, capital and entrepreneurship) used by firms. |
| **Income method** | Gross Domestic Income is derived by adding all income earned by the owners of the factors of production – GDP (I) |
| **National figures (GNP)** | Value of all final goods and services produced by the permanent citizens of the country for a specific period. |
| **Net figures** | Net indicates that some amount has been taken away, e.g net exports reflects the value of exports less imports. |
| **Production method** | The adding of final values of all goods and services calculated as gross value added – GDP (P). |
| **Subsidies on production** | Refers to subsidies that are not linked to specific goods and services, e.g subsidy made on employment. |
| **Subsidies on products** | Financial incentives to help struggling industries produce, as well as direct subsidies payable per unit exported to encourage exports (e.g government subsidy on bread) |
| **Taxes on production** | Refer to taxes on production not linked to a specific good or service (e.g tax on land and buildings) |
| **Taxes on products** | Taxes that are payable per unit of some good or service (e.g VAT, import duties) |

**The main aggregates/ quantitative elements**

Final consumption expenditure

- Consumption is the final goal of the production process.
- Economic goods and services are used by households, businesses and the government sector and they are prepared to pay a price for them.

**Final consumer goods and services**

- Include manufactured goods and services that are able to satisfy the consumer needs and wants.
- Reached final stage in the production process and have the characteristic of form utility.
- Are ready to be consumed.

Final goods and services can be divided into:

- Durable goods: houses, furniture and cars.
- Semi-durable goods: clothes and domestic appliances.
- Non-durable goods: food, petrol and gas.
- Services: medical services.

Capital goods and services

- Include all goods and services that are not directly consumed.
- Help to manufacture other goods to provide other services.

**Final consumption expenditure by households**

**Definition**

- is the spending by households on final goods and services.

**Classification of final consumption expenditure**

- Durable goods: houses, furniture and cars.
- Semi-durable goods: clothes and domestic appliances.
- Non-durable goods: food, petrol and gas.
- Services: medical services.

**The importance of final consumption expenditure by households**

- Households are the most basic units in the economy.
- There is a very strong correlation between total income in the country and total consumption by households.
- Consumption spending by households' accounts for about 64% of total spending in the economy.

**Activity 1**

Study the table below and answer the questions that follow:

| **FINAL CONSUMPTION EXPENDITURE BY HOUSEHOLDS** | | | |
|---|---|---|---|
| AT CURRENT PRICES (R millions) | 2017 | 2018 | 2019 |
| Durable goods | 136 049 | 199 971 | 209 997 |
| Semi-durable goods | 133 323 | 203 082 | 231 668 |
| Non-durable goods | 625 989 | 962 467 | 1 124 170 |
| Services | 726 746 | 1 051 760 | 1 199 221 |
| **TOTAL** | **1 621 836** | **2 417 271** | **2 764 397** |

*[Adapted from: Quarterly Bulletin, South African Reserve Bank – March 2020]*

1.1 Give ONE example of a non-durable good. (1)

1.2 Name any ONE other participant responsible for spending. (1)

1.3 Briefly describe the term *durable goods*. (2)

1.4 Discuss the importance of capital goods in the production of goods and services? (2)

1.5 Calculate the percentage contribution of services in final consumption expenditure by households in 2019. Show ALL calculations. (4)

[10]

**FINAL CONSUMPTION EXPENDITURE BY GOVERNMENT (G)**

Governments spend money on many goods and services in their public expenditure programmes, e.g healthcare, welfare benefits, roads, education, housing, ect.

**Description**

- Indicates how government uses its income to finance goods and services needed by the public sector.
- Includes spending by all the departments of central, provincial and local authorities.

**Classification of final consumption expenditure by government**

Classified into 3 divisions: Functional, Administrative and Financial

**Functional division:**

-Is based on the nature of the service that is performed.

- Social services: education, health, housing and the elimination of social inequalities.
- Economic services: research and where government operates as an entrepreneur in the production process.
- Government debt expenses: general administration of the different government departments.
- Protective services: the defense and police forces.

**Administrative division:**

- Deals with departmental expenditure which has to be controlled and organized.
- A specific cabinet minister heads up such a department, e.g the department of health, the department of education, etc.
- The minister is in control of the spending of funds within the departmental budget.

**Financial division**

- It records the states expenditure in according to accounting terms in the country's budget.
- The country's budget gives a detailed breakdown of the expenses that the government foresees and the income that must be generated to finance these expenses.

**Importance of final consumption expenditure by government (G)**

- The government provides a legal framework for the economy to operate efficiently.
- The government is responsible for important injections into the circular flow of income.

**ACTIVITY 2**

Study the table below and answer the questions that follow:

| **GENERAL GOVERNMENT EXPENDITURE REDUCTIONS BY MAIN ECONOMIC CLASSIFICATION** | | | |
|---|---|---|---|
| R million | 2019/2020 | 2020/2021 | 2021/2022 |
| Compensation of employees | -106 | -93 | -98 |
| Transfers and subsidies | -2 468 | -4 211 | -8 909 |
| Goods and services | -5 | -5 | -6 |
| Total | **-2 579** | **-4 309** | **-9 013** |

*[Source: www.treasury.gov.za]*

2.1 Name any division of consumption expenditure by government. (1)

2.2 What does compensation of employees consist of? (1)

2.3 Briefly describe the term *final consumption expenditure by government*. (2)

2.4 Explain the importance of final consumption expenditure by households. (2)

2.5 How can the South African government address the challenge of compensation of employees in the economy? (4)

**Gross fixed capital formation (I)**

The capital stock of a country increases when money is not spent on consumer products, but is used to build more capital.

**Description**

- Happens when there is an increase in the country's capital stock.
- When more money is contributed towards the economy's ability to manufacture consumer goods and services.

**Classification of gross fixed capital formation**

- In private households, family savings in banks are borrowed by firms for investment purposes.
- In the business sector, businesses invest their profits in the production process.
- By the state, government purchases of goods and services are intended to create future benefits, such as infrastructure investment or research spending.

**Importance of fixed capital formation (I)**

- Capital formation is important for economic growth. An increase in capital formation will expand production. Investment in the capital infrastructure of the manufacturing sector is the key to economic growth and job creation.
- South Africa is rich in natural resources, thus we export high volumes of raw natural resources and import many final products from other countries.
- The increase of capital formation through investments in the private sector will reduce the unemployment rate in the country.
- Improved infrastructure like roads, transport and electricity, will ensure that the distribution of goods and services through the existing markets will be easier.

**ACTIVITY 3**

Study the table below and answer the questions that follow:

| | **R m** |
|---|---|
| Consumption expenditure by households | 10 500 |
| Government spending | 3 000 |
| Exports | 1 200 |
| Imports | 1 000 |
| Gross Capital Formation (I) | 2 200 |

*[Source: SARB September 2020 Quarterly Bulletin]*

3.1 What is the government's main source of income to finance spending? (1)

3.2 Which method was used to calculate national aggregates in the table above? (1)

3.3 Briefly describe the term *gross fixed capital formation*. (2)

3.4 Why should exports be added to calculate GDP? (2)

3.5 If Gross Domestic Product at basic prices is R 15 700 million. Use the information in the table above to calculate the Gross Domestic Product at market prices. (4)

[10]

## National account aggregates

The word 'aggregate' in Economics means total. The national accounts are an important source of information regarding the health of the economy. National accounts are identified as follows:

- Expenditure method – GDP(E)
- Income method – GDP(I)
- Production method – GDP(P)

The preparation of national accounts in South Africa is undertaken by the South African Reserve Bank. The official estimates are published in the Bank's Quarterly Bulletin. The estimates are generally presented in line with the classifications and definitions recommended by the United Nations Systems of National Accounts.

These measures of economic activity are useful not only as an indicator of economic activity within a country, but also:

- to determine the standard of living in a country
- to compare prosperity levels between countries
- to measure economic growth from one year to the next

**Analysing the national account conversions:**

**A. Production Method/Output value added method**

- Production takes place in the primary, secondary and tertiary sectors.
- However, we cannot merely add up all the market values of all outputs of all participants, because such a calculation would amount to double counting.
- By subtracting intermediate goods from the final goods, we find the value that was added by each sector.

Below are the steps which are used to calculate GDP using the production method:

| | |
|---|---|
| | Primary Sector |
| **Plus** | Secondary Sector |
| **Plus** | Tertiary sector |
| **=** | **GROSS VALUE ADDED AT BASIC PRICES** |
| **Plus** | Taxes on products |
| **Less** | Subsidies on products |
| **=** | **GROSS DOMESTIC PRODUCT AT MARKET PRICE** |

**Activity 4**

Study the table below and answer the questions that follow:

| **Gross value added by kind of economic activity 2019-2020** | | |
|---|---|---|
| | 2019 | 2020 |
| Agriculture and forestry | 74 157 | 69 049 |
| Mining and quarrying | 230 514 | 226 154 |
| Wholesale and retail trade, catering and accommodation | 431 669 | 431 720 |
| Manufacturing | 386 884 | 383 831 |
| Transport ,storage and communication | 273 193 | 272 179 |
| Fishing | 125 410 | 140 130 |

[Source : SARB bulletin]

4.1 Which method was used in the calculation of the gross domestic product above? (1)

4.2 List any reason for measuring measure economic activity. (1)

4.3 Briefly describe the term *gross domestic product*. (2)

4.4 Explain the purpose of the system of national accounts. (2)

4.5 Calculate the contribution of the primary sector to gross domestic product at basic prices for the year 2020. (4)

[10]

**B. Income method**

- GDI adds together the income earned by the owners of the factors of production.
- Below are the steps which are used to calculate GDP using the production method:

| | |
|---|---|
| | Compensation of employees |
| **Plus** | net operating surplus |
| **Plus** | Consumption of fixed capital |
| **=** | **GROSS VALUE-ADDED AT FACTOR COST** |
| **Plus** | Other taxes on production |
| **Less** | Other subsidies on production |
| **=** | **GROSS VALUE ADDED AT BASIC PRICES** |
| **Plus** | Taxes on products |
| **Less** | Subsidies on products |
| **=** | **GROSS DOMESTIC PRODUCT AT MARKET PRICES (GDI)** |

- Compensation of employees (1) consists mainly of gross salaries and wages.
- Net operating surplus (2) includes mainly the total value of goods and services that are produced, less cost. Cost has 3 elements:
    - cost of intermediate goods and services
    - cost of remuneration of employees
    - cost of the consumption of fixed capital
- The net operating surpluses show profits and surpluses before taxation
- Consumption of fixed capital
    - Represents the expenditure on tangible or intangible assets which have been produced and are used continuously in the production processes for more than a year.
    - Reflects the decline in the value of the fixed assets of enterprises, governments and owners of dwellings in the household sector
    - includes buildings, roads, bridges, reservoirs, dams, machinery, construction, tools equipment etc (Tangible)
    - mineral exploration, computer software etc (intangible)

**ACTIVITY 5**

Study the table below and answer the questions that follow:

| | R million |
|---|---|
| Compensation of employees | 1 892 721 |
| Net operating surplus | 1 065 200 |
| Consumption of fixed capital | 560 397 |
| **Gross value added at factor cost** | **3 518 318** |
| Other taxes on production | 81 307 |
| Other subsidies on production | 9 813 |
| **Gross value added at basic prices** | **3 589 812** |
| Taxation on products | 438 785 |
| Subsidies on products | 15 005 |
| **Gross domestic product at market prices** | **4 013 592** |

*[Source: SARB September 2020 Quarterly Bulletin]*

5.1 Identify the method used to calculate GDP in the table above. (1)

5.2 Name any other method that can be used to calculate GDP? (1)

5.3 Briefly describe the term *gross domestic product*. (2)

5.4 What is this main purpose of subsidies on production? (2)

5.5 Calculate consumption of fixed capital as a percentage of the GVA at factor costs. Show ALL calculations. (4)

[10]

**C. Expenditure method**

- GDP (E) measures total expenditure of final goods and services produced within the borders of a country. GDP(E) = C + I + G + (X – Z)

Below are the steps which are used to calculate GDP using the production method:

| | |
|---|---|
| **Plus** | Final consumption expenditure by households (C) |
| **Plus** | Final consumption expenditure by government (G) |
| **Plus** | Gross capital formation (I) |
| **Plus** | Residual item |
| **=** | **GROSS DOMESTIC EXPENDITURE** |
| **Plus** | Exports of goods and services (X) |
| **Less** | imports of goods and services (M) |
| **=** | **EXPENDITURE ON GDP at MARKET PRICES** |

**ACTIVITY 6**

Study the table below and answer the questions that follow:

| | R BILLION |
|---|---|
| Consumption expenditure by households | 1 674 |
| Consumption expenditure by general government | 607 |
| Gross capital formation | 576 |
| Gross fixed capital formation | 630 |
| Change in inventories | 54 |
| GDE | 2 857 |

*[Source: SARB bulletin]*

6.1 What method was used to calculate the figures in the table above? (1)

6.2 Mention ONE good that households spend their income on. (1)

6.3 Briefly describe the term *change in inventories*. (2)

6.4 Discuss the importance of government expenditure in the economy. (2)

6.5 Calculate the consumption expenditure by households as a percentage of total GDE. Show ALL correct calculations. (4)

[10]

## D. Conversion of domestic figures to national figures

| | |
|---|---|
| | GDP at market prices |
| **Plus** | Factor income earned abroad by South Africans |
| **Less** | Factor income earned in South Africa |
| **=** | GNI at market prices |

**ACTIVITY 7**

Study the table below and answer the question that follow:

**EXTRACT FROM NATIONAL ACCOUNTS OF SOUTH AFRICA AT CURRENT PRICES**

| R million (Income Method) | 2020 |
|---|---|
| GDP at basic prices | 2 850 000 |
| Taxes on products | 210 000 |
| Subsidies on products | 95 000 |
| **Gross domestic product (GDP) at market prices** | **2 964 805** |
| Primary income from the rest of the world | 48 501 |
| Primary income to the rest of the world | **A** |
| **Gross national product (GNP) at market prices** | **2 978 806** |

*[Source: SARB Quarterly Bulletin, March 2020]*

7.1 Give an example of a primary income from the rest of the world. (1)

7.2 Name an example of a subsidy on products? (1)

7.3 Briefly describe the term *Gross Domestic Product*. (2)

7.4 Explain the difference between current prices and constant prices. (2)

7.5 Calculate the value of **A** in the table above. Show ALL correct calculations (4)

[10]

**Practice Questions**

**SECTION A**

**QUESTION 1**

**MULTIPLE CHOICE QUESTIONS**

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A – D) next to the question number (1.1.1 – 1.1.12) in the ANSWER BOOK.

1.1.1 The national … of a country is determined by the sum of the remuneration of the factors of production.

A. Income

B. Expenditure

C. Consumption

D. Demand

1.1.2 The value of the total annual output of finished goods and services by the permanent residents of a country for any year …

A. Gross Domestic Product
B. Net National Product
C. Gross National Product
D. Gross National Assets

1.1.3 The three ways of calculating GDP are …

A. production, prices and income methods.
B. income, product and service methods.
C. expenditure, spending and production methods.
D. income, expenditure and production methods.

1.1.4 What was the value of nominal GDP in 2019?

| Year | Prices of potatoes | Quantity of potatoes | Prices of cabbages | Quantity of cabbages |
|---|---|---|---|---|
| 2018 | R3 | 100 | R10 | 50 |
| 2019 | R3 | 120 | R12 | 70 |
| 2020 | R4 | 120 | R14 | 70 |

A. R 800
B. R1 460
C. R1 060
D. R1 200

1.1.5 The method used to derive total remuneration on factors of production is called method.

A. Production
B. Income
C. Circular
D. Expenditure

1.1.6 If we say that GDP = C+I+G+(X-M) then GDP has been measured using the …

A. expenditure method
B. production method
C. income method
D. value – added method

1.1.7 If the GNI of a country is R100 million per annum and it has a population of 50 million, the GNI per capita is …

A. R2 000
B. R3 000
C. R 2
D. R5 000

1.1.8 The expression “GDP minus net primary income payment to the rest of the world” defines …

A. consumer price index
B. gross national product
C. gross domestic expenditure
D. net national income

1.1.9 Given that GDP at market prices is 350 million, subsidies on products are 16 million and taxes on products are 50 million. The value of GDP at basic prices will be … million.

A. R 300
B. R384
C. R316
D. R 56

1.1.10 If base year prices are used during the measurement of GDP, then … is obtained.

A. current GDP
B. gross national product
C. real GDP
D. nominal GDP

1.1.11 South Africa uses a system of national accounts recommended by the …

A. South African Reserve Bank
B. World Bank
C. United Nations
D. International Monetary Fund

1.1.12 National income will fall when …

A. I+G+X>S+T+M
B. T+S+M>G+I+X
C. Y=C+I+G+(X-M)
D. I+G+X>C+M+S (12X2) (24)

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK.

| COLUMN A | COLUMN B |
|---|---|
| 1.2.1 Factor cost | A. Is GDP at market prices by adding the spending of the four main sectors of the economy |
| 1.2.2 Real figures | B. The institution responsible for publishing national account aggregates. |
| 1.2.3 Expenditure method | C. Records the states expenditure according to accounting terms in the country's budget |
| 1.2.4 Subsidies on production | D. Are also known as constant prices |
| 1.2.5 South African Reserve Bank | E. Is used with the income method in measuring economic activity |
| 1.2.6 Semi-durable goods | F. Linked to a specific good or service, e.g employment |
| 1.2.7 Financial division | G. Goods such as clothing, footwear and textiles that have to be replaced regularly |
| 1.2.8 Double counting | H. Constitute payments made for the use of foreign owned factors of production |
| | I. Occurs when values of all outputs of all the enterprises in the economy are merely added together |

(8X1) (8)

1.3 Write the concept described in each of the following statements. Write only the term next to the question number (1.3.1 – 1.3.5) in the ANSWER BOOK. Examples, acronyms and abbreviations WILL NOT BE accepted.

1.3.1 An amount to be paid for the various factors of production used to produce goods and services.

1.3.2 Market value of all final goods and services produced in the economy in a given year.

1.3.3 Goods used as inputs to produce other goods and services.

1.3.4 This is paid to producers to reduce the costs of production and encourage the production of goods and services.

1.3.5 Compensation of employees, plus net operating surplus plus consumption on fixed capital. (5X1) (5)

**SECTION B**

QUESTION 2

2.1 Answer the following questions

2.1.1. Name any TWO methods of calculating national account aggregates. (2X1) (2)

2.1.2 Mention any TWO economic sectors in calculating Gross Domestic Product. (2X1) (2)

2.2 Answer the following questions

2.2.1 How is GNI calculated? (1X2) (2)

2.2.2 How will the scenario, I+G+X>S+T+M, affect the national income? (1X2) (2)

2.2.3 What effect does taxes and subsidies have on the calculation of basic prices? (1X2) (2)

2.2.4 How will national income be influenced by leakages in the economy? (1X2) (2)

2.2.5 What is the role of the residual item? ( 1X2) (2)

QUESTION 3 PARAGRAPH QUESTIONS

3.1 MIDDLE ORDER QUESTIONS (EASY TO MODERATE)

3.1.1 Differentiate between *taxes on production* and *taxes on products*. (8)

3.1.2 Differentiate between subsidies on production and subsidies on products. (8)

3.2 HIGHER ORDER QUESTIONS (MODERATE TO DIFFICULT)

3.2.1 How is expenditure related to income and production? (8)

3.2.2 How is Gross Domestic Product (GDP) at market prices derived by using the expenditure method – GDP (E)? (8)

QUESTION 4 DATA RESPONSE QUESTIONS

4.1 Study the table below and answer the questions that follow.

| **NATIONAL AGGREGATE** | R million |
|---|---|
| 1. Compensation of employees | 1 088 631 |
| 2. Net operating surplus | 728 748 |
| 3. Consumption of fixed capital | 332 824 |
| Gross Value Added at Factor Cost | 2 150 203 |
| 4. Taxes on production | 39 863 |
| 5. Subsidies on production | 8 012 |
| Gross Value Added at Basic Prices | 2 182 054 |
| 6. Taxes on products | 232 117 |
| 7. Subsidies on products | 6 482 |
| Gross Domestic Product at Market Prices (GDP) | A |

*[Source: Quarterly Bulletin, SARB, September 2019]*

4.1.1 Which method of calculation is depicted in the above table? (1)

4.1.2 Give an example of tax on products. (1)

4.1.3 Briefly explain the term *basic prices*. (2)

4.1.4 Discuss the impact of subsidies on products in the market economy. (2)

4.1.5 Calculate the GDP at market prices (A). Show ALL calculations. (4)

[10]

4.2 Study the table below and answer the questions that follow.

NATIONAL ACCOUNT AGGREGATES

SOUTH AFRICA'S GROSS DOMESTIC PRODUCT R million

| | |
|---|---|
| Compensation of employees | 2 320 179 |
| Net operating surplus | 1 249 182 |
| Consumption of fixed capital | 676 486 |
| Gross value added at factor cost | 4 245 848 |
| Other taxes on production | 101 936 |
| Other subsidies on production | 6 492 |
| Gross value added at basic prices | 4 341 292 |
| Taxation on products | 545 558 |
| Subsidies on products | 12 961 |
| Gross domestic product at market prices | 4 873 899 |

*[Adapted from: South African Reserve Bank Quarterly Bulletin, March 2019]*

4.2.1 Which method was used in the calculation of the Gross Domestic Product (GDP) above? (1)

4.2.2 Give ONE example of compensation of employees (1)

4.2.3 Briefly describe the term *consumption of fixed capital*. (2)

4.2.4 Why are taxes added when calculating Gross Domestic Product at market prices? (2)

4.2.5 Why does government provide subsidies on products? (4)

4.3 Study the table below and answer the questions that follow.

| GROSS VALUE ADDED ACCORDING TO TYPE OF ECONOMIC ACTIVITY | | | |
|---|---|---|---|
| **At current prices (R millions)** | **2017** | **2018** | **2019** |
| Primary sector | 369 683 | 368 300 | 398 770 |
| Secondary sector | 723 562 | 772 875 | 815 816 |
| Tertiary sector | 2 324 815 | 2 484 291 | 2 654 870 |
| **Gross value added at basic prices** | **3 418 060** | **3 625 466** | **A** |
| **At constant 2014 prices (R millions)** | **2017** | **2018** | **2019** |
| Primary sector | 303 563 | 307 875 | 291 143 |
| Secondary sector | 556 028 | 555 915 | 556 935 |
| Tertiary sector | 1 888 785 | 1 919 390 | 1 945 596 |
| **Gross value added at basic prices** | **2 748 376** | **2 783 180** | **2 793 674** |

*[Adapted: SARB Quarterly Bulletin, December 2019]*

4.3.1 Name an example of a production activity found in the primary sector. (1)

4.3.2 Which year is currently used as the base year by the South African Reserve Bank (SARB)? (1)

4.3.3 Briefly describe the term *current prices*. (2)

4.3.4 What happened to the value added by the primary sector between 2018 and 2019?

4.3.5 Calculate Gross Value Added at basic prices "A". Show ALL correct calculations (4)

[10]

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

**National account figures 2019 and 2020 at constant prices**

| Item | 2019 R million | 2020 R million |
|---|---|---|
| Final consumption expenditure by households | 1902 851 | 1 937 396 |
| Final consumption expenditure by general government | 629 712 | **A** |
| Gross fixed capital formation | 618 712 | 609 614 |
| **B** | 3 189 | -5 440 |
| **C** | -2 442 | 316 |
| **Gross domestic expenditure** | **3 151 826** | **3 183 398** |
| Exports of goods and services | 905 898 | 929 792 |
| Imports of goods and services | **D** | 968 651 |
| **Gross domestic product** | **3 119 984** | **3 144 539** |

*[Adapted: SARB Quarterly Bulletin, December 2020]*

4.4.1 Which method of calculating national account was used in the above table? (1)

4.4.2 Name one item used to convert GDP to GNP. (1)

4.4.3 Briefly describe the term *gross fixed capital formation*. (2)

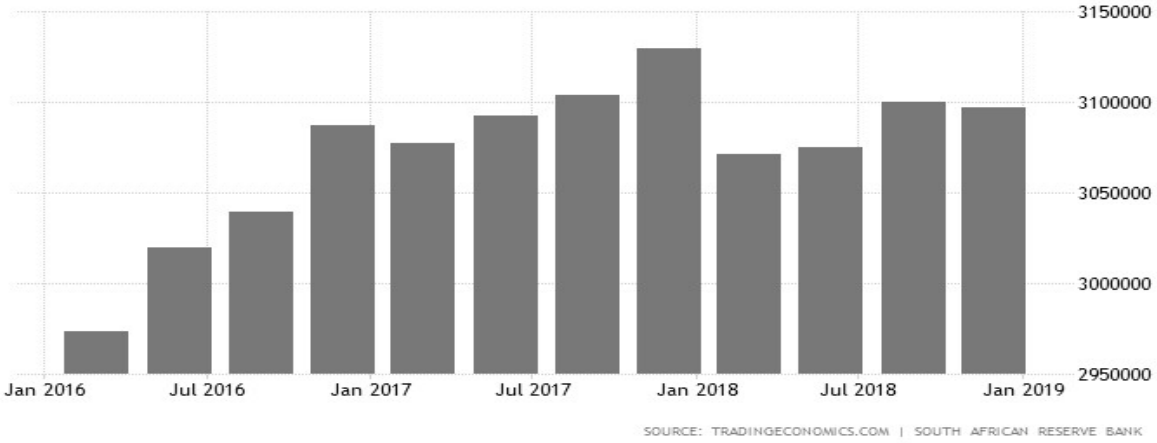
4.4.4 How do imports on goods and services affect the multiplier? (2)

4.4.5 Use the table above and calculate the economic growth rate for 2020. Show ALL calculations. (4)

[10]

4.5 Study the diagram below and answer the questions that follow.

Gross national income 2016 to 2019




4.5.1 When did South Africa reach its highest Gross National Income according to the graph? (1)

4.5.2 Name ONE method that can be used to calculate GDP. (1)

4.5.3 Briefly describe the term *gross national income.* (2)

4.5.4 How would the GNI at market prices be calculated? (2)

4.5.5 Evaluate the importance of calculating national account aggregates. (4)

[10]

4.6 Study the information below and answer the questions that follow.

| **YEAR** | **Nominal GDP (R billion)** | **Real GDP (R billion)** |
|---|---|---|
| 2019 | 4 049 759 | 3 008 436 |
| 2020 | 4 336 988 | 3 009 860 |

*[Source: Quarterly Bulletin, March 2021]*

4.6.1 What source was used to compile the data above? (1)

4.6.2 Indicate in which year real GDP was at its highest. (1)

4.6.3 Briefly describe the term *real Gross Domestic Product* (2)

4.6.4 Provide an equation for Gross National Expenditure. (2)

4.6.5 Differentiate between *Gross Domestic Product* and *Gross National Product*

. (4)

[10]

**Solution**

**Activity 1**

1.1 Give ONE example of a non-durable good. (1)

- Food/ petrol/ gas ✓

1.2 Name any ONE other participant responsible for spending. (1)

- Government ✓

- Business ✓

1.3 Briefly describe the term *durable goods*. (2)

- They provide a steady stream of satisfaction and their value diminishes relatively slowly through age and use. ✓✓

- Life span of more than two years. ✓✓

1.4 Discuss the importance of capital goods in the production of goods and services? (2)

- Help to create goods and provides services. ✓✓

- They include machines or tools that a manufacturer uses in the production process. ✓✓

1.5 Calculate the percentage contribution of services in the final consumption expenditure by households in 2019. Show ALL calculations. (4)

$$\frac{1\ 199\ 221}{2\ 764\ 397} \checkmark \times \frac{100}{1} \checkmark = 43{,}3 \checkmark$$

[10]

**ACTIVITY 2**

2.1 Name any division of consumption expenditure by government. (1)

Functional division/ Administrative division/ financial division ✓

2.2 What does compensation of employees consist of? (1)

Salaries and or wages ✓

2.3 Briefly describe the term *final consumption expenditure by government*. (2)

- Indicates how government uses its income, mainly obtained from taxes to finance services. ✓✓

2.4 Explain the importance of final consumption expenditure by households. (2)

- Households are the most basic units in the economy. ✓✓

- There is a very strong correlation between total income in the country and total consumption by households. ✓✓

2.5 How can the South African government address the challenge of compensation of employees in the economy? (4)

- Create more job opportunities through EPWP, CWP, infrastructure development which will include all types of workers, eg skilled, semi-skilled and unskilled workers. ✓✓

- Make sure that workers are paid a living wage, eg farm workers, domestic workers and workers that work in factories. ✓✓

- Support SMMEs with sufficient funds so that they are able to create for jobs in the informal sector. ✓✓

- Help to address the energy crisis so as to attract more investors who will in turn create more job opportunities. ✓✓

**ACTIVITY 3**

3.1 What is the government's main source of income to finance spending? (1)

- Taxes ✓/ direct or indirect taxes ✓

3.2 Which method was used to calculate national aggregates in the table above? (1)

- Gross Domestic Expenditure/ GDE ✓

3.3 Briefly describe the term *gross fixed capital formation*. (2)

- Includes all of the investment spending by businesses on capital goods. ✓✓

- Expenditure on assets used repeatedly in the process of production. ✓✓

- Increase in the stock of capital. ✓✓

3.4 Why should exports be added to calculate GDP? (2)

- Exports are an injection into the economy, since its money flowing into the country that was used to produce goods and services and creating more employment opportunities. ✓✓

3.5 If the Gross Domestic Product at basic prices is R15 700 million. Use the information in the above table to calculate Gross Domestic Product at market. (4)

✓ ✓ ✓ ✓

15 700+1 200-1 000 = R15 900 million

[10]

**Activity 4**

4.1 Which method was used in the calculation of the gross domestic product (GDP) above? (1)

- GDP (P) ✓/ Production method ✓

4.2 List any reason for measuring economic activity. (1)

- To determine standard of living. ✓
- Compare prosperity levels between countries. ✓
- Measure economic growth on a year to year basis. ✓

4.3 Briefly describe the term *gross domestic product*. (2)

- Value of all final goods and services produced within the borders of a country for a specific period. ✓✓

4.4 Explain the purpose of the system of national accounts. (2)

- Provide integrated complete system of accounts enabling international comparisons of all significant economic activity. ✓✓

4.5 Calculate the contribution of the primary sector to gross domestic product at basic prices for the year 2020. (4)

69 049 ✓
+ 226 154 ✓
+ 140 130 ✓
= 435 333 ✓ [10]

**ACTIVITY 5**

5.1 Identify the method used to calculate GDP in the table above. (1)

- Income method ✓

5.2 Name any other method that can be used to calculate GDP? (1)

- Expenditure method ✓

- Production method ✓

5.3 Briefly describe the term *gross domestic product*. (2)

- Value of final goods and services produced within the borders of a country in a specific year. ✓✓

5.4 What is this main purpose of subsidies on production? (2)

- To reduce cost of production. ✓✓

- To encourage the production for exports. ✓✓

- Subsidies will benefit the consumer (pay lower prices). ✓✓

- Increase production of certain goods. ✓✓

5.5 Calculate consumption of fixed capital as a percentage of the GVA at factor costs. Show ALL calculations. (4)

$$\frac{\text{Consumption of fixed capital}}{\text{GVA at factor cost}} \times \frac{100}{1}$$

$$\frac{560\ 397}{3\ 518\ 318} \checkmark \times \frac{100}{1} \checkmark$$

= 15,9%/ 16% ✓ [10]

**ACTIVITY 6**

6.1 What method was used to calculate the figures in the table above? (1)

- Expenditure method ✓

6.2 Mention ONE good that households spend their income on. (1)

- Durable goods/ houses/ motorcars/ bicycles/ furniture/ jewellery/ etc ✓

- semi- durable goods/ clothing/ glassware/ motorcar tyres/ accessories and parts/ etc ✓

- non- durable goods/ food/ petrol/ gas/ beverages/ electricity/ cleaning material/ etc - services/ medical services/ pharmaceutical services/ entertainment and educational services ✓

6.3 Briefly describe the term *change in inventories*. (2)

- How many companies contributed in the production of goods and services that they plan to sell to consumers. ✓✓

- Increase in stock will increase GDP, decrease in stock will reduce demand in goods and services. ✓✓

6.4 Discuss the importance of government expenditure in the economy. (2)

- contribute productive capacity of an economy.✓✓

- determines the changes in the level of national income. ✓✓

- provide the right needs for potential output and sustaining the economy. ✓✓

6.5 Calculate the consumption expenditure by households as a percentage of total GDE. Show ALL calculations. (4)

$$\frac{\text{Consumption expenditure}}{\text{Gross Domestic expenditure}} \times \frac{100}{1}$$

$$\frac{1\ 674 \text{ Billion } ✓}{2\ 857 \text{ Billion } ✓} \times \frac{100 ✓}{1}$$

= 58,6%/ 59% ✓

[10]

**ACTIVITY 7**

7.1 Give an example of a primary income from the rest of the world. (1)

- South African citizen working and earning an income abroad. ✓

7.2 Name an example of a subsidy on products? (1)

- Subsidy on bread✓

7.3 Briefly describe the term *gross domestic product*. (2)

- Value of final goods and services produced within the borders of a country in a specific year. ✓✓

7.4 Explain the difference between current prices and constant prices. (2)

Current prices

- Are also called nominal prices, does not take into account changes in the general price level. ✓✓

- No inflationary effect. ✓✓

Constant prices

- Are also called real prices, where the change in the general price levels were taken into account. ✓✓

- Inflation is added. ✓✓

7.5 Calculate the value of **A** in the table above. Show ALL calculations . (4)

| | | |
|---|---|---|
| GDP at market prices | 2 964 805 ✓ |
| + Primary income from rest of the world | 48 501 ✓ |
| • GNP at market prices | 2 978 806 ✓ |
| = Primary income to the rest of the world | 34 500 ✓ |

**Practice Questions : Marking Guidelines**

**SECTION A**

**QUESTION 1**

**MULTIPLE CHOICE QUESTIONS**

1.1

1.1.1 A ✓✓

1.1.2 C ✓✓

1.1.3 D ✓✓

1.1.4 D ✓✓

1.1.5 B ✓✓

1.1.6 A ✓✓

1.1.7 C ✓✓

1.1.8 B ✓✓

1.1.9 C ✓✓

1.1.10 C ✓✓

1.1.11 C ✓✓

1.1.12 B ✓✓ (12X2) (24)

1.2 **MATCHING QUESTIONS**

1.2.1 E ✓

1.2.2 D ✓

1.2.3 A ✓

1.2.4 F ✓

1.2.5 B ✓

1.2.6 G ✓

1.2.7 C ✓

1.2.8 I ✓ (8X1) (8)

1.3 **Give a term**

1.3.1 Factor ✓

1.3.2 Gross domestic product ✓

1.3.3 Intermediate goods ✓

1.3.4 Subsidy ✓

1.3.5 Factor cost ✓ (5X1) (5)

**SECTION B**

QUESTION 2

2.1 Answer the following questions

2.1.1. Name any TWO methods of calculating national account aggregates. (2X1) (2)

-Production method/ Value Added method/ GDP (P) ✓

- Income method/ GDP (I) ✓

- Expenditure method/ GDP (E) ✓

2.1.2 Name any TWO economic sectors in calculating GDP (P). (2X1) (2)

- Primary sector ✓

- Secondary sector ✓

- Tertiary sector ✓

2.2 Answer the following questions

2.2.1 How is GNI calculated? (1X2) (2)

- By subtracting income from the rest of the world and adding income to the rest of the world. ✓✓

2.2.2 How will the scenario, I+G+X>S+T+M, affect the national income? (1X2) (2)

- National income will rise because the injections are more than the leakages. ✓✓

2.2.3 What effect does taxes and subsidies have on the calculation of basic prices?

(1X2) (2)

- It will convert basic prices to gross domestic product at market prices. ✓✓

2.2.4 How will national income be influenced by leakages in the economy?

(1X2) (2)

- The national income will decrease because less money will be circulating in the economy. ✓✓

2.2.5 What is the role of the residual item? (1X2) (2)

- It's the balancing effect in calculating Gross Domestic Expenditure. ✓✓

QUESTION 3 PARAGRAPH QUESTIONS

3.1 MIDDLE ORDER QUESTIONS (EASY TO MODERATE)

3.1.1 Differentiate between taxes on production and taxes on products. (8)

- Taxes on production

- They are imposed on firms during the production process. ✓✓

- It does not depend on the actual value of the product. ✓✓

- e.g payroll taxes, recurring taxes on land, buildings or other structures, registration fees, stamp duties, etc ✓ (Max: 4)

Taxes on products

- They are paid on finished goods. ✓✓

- Paid on the actual volume of production. ✓✓

- It is paid per unit of product, for example excise duties, service tax, sales tax, etc. ✓

(Max: 4)

3.1.2 Differentiate between subsidies on production and subsidies on products. (8)

Subsidies on production

- Is a payment made by government to firms in an industry based on the output or on production of goods and services. ✓✓

- It is used to stimulate output for a good due to its strategic importance. ✓✓

(2X2) (4)

Subsidies on product

- Are subsidies payable per unit of a good or service produced or imported. ✓✓

- Usually becomes payable when a good is produced, sold or imported. ✓✓

- It maybe be specific amount of money per unit. ✓✓ (2X2) (4)

**3.2 HIGHER ORDER QUESTIONS (MODERATE TO DIFFICULT)**

3.2.1 How is expenditure related to income and production? (8)

- If the government decides to embark on a big infrastructure programme, such as bus lanes in the major cities (Pretoria/ Johannesburg/ Cape Town). ✓✓

- The project will require additional workers, who in turn will earn an income. ✓✓

- These individuals now have an income, which will be used to purchase consumer goods and services. ✓✓

- These employees will also add to greater demand, which will increase levels of production, which in turn increases the level of employment and income, stimulating greater consumer demand. ✓✓ (4X2) (8)

3.2.2 How is Gross Domestic Product (GDP) at market prices derived by using the expenditure method – GDP (E)? (8)

- Expenditure on GDP measures total expenditure on final goods and services produced in the borders of a country. ✓✓

- It is calculated by adding together expenditure of the participants in an open economy/ households/ state and businesses. ✓✓

- Households spend on durable goods, semi-durable, non- durable, and services. ✓✓

- State spends on public goods. ✓✓

- The residual item is included as a balancing item. ✓✓

- The exports of the foreign sector are added and the imports are subtracted. ✓✓

- GDP (E) = C+I+G+(X-M). ✓✓ (4X2) (8)

**QUESTION 4 DATA RESPONSE QUESTIONS**

4.1 Study the table below and answer the questions that follow.

4.1.1 Which method of calculation is depicted in the above table? (1)

- Income method/ GDP (I) ✓

4.1.2 Give an example of tax on products. (1)

- VAT/ import duties ✓/ excise duties ✓

4.1.3 Briefly explain the term *basic prices*. (2)

- Used when GDP is calculated according to the production method and represents the production costs of firms. ✓✓

4.1.4 Discuss the impact of subsidies on products in the economy. (2)

- These subsidies are provided to business by the government to reduce or decrease price of a product ✓✓eg, subsidy on bread. ✓

4.1.5 Calculate the GDP at market prices (A). Show ALL calculations. (4)

2 182 054+232 117-6 482=R2 407 689 ✓✓✓✓

[10]

4.2 Study the table below and answer the questions that follow.

4.2.1 Which method was used in the calculation of Gross Domestic Product (GDP) above? (1)

- Income method/ Gross Domestic Income method ✓

4.2.2 Give an example of compensation of employees. (1)

-Salaries/ wages ✓

4.2.3 Briefly describe the term *consumption of fixed capital*. (2)

- Is the depreciation in the value of fixed assets that occurs during the production process. ✓✓

4.2.4 Why are taxes added when calculating Gross Domestic Product at market prices? (2)

- Taxes increase the cost of production. ✓✓

4.2.5 Why does government provide subsidies on products? (4)

- Financial incentives to help struggling industries produce, as well as direct subsidies payable per unit exported to encourage exports. ✓

- It's a direct payment by the government to producers to help reduce or decrease the price of a product. ✓✓

- e.g government subsidy on bread ✓✓ (Max:4)

4.3 Study the table below and answer the questions that follow.

4.3.1 Name ONE example of a production activity found in the primary sector. (1)

- Mining/ Quarrying/ Forestry/ Fishing ✓

4.3.2 Which year is currently used as the base year by the South African Reserve Bank (SARB)? (1)

- 2010 ✓

4.3.3 Briefly describe the term *current prices*. (2)

- Also known as nominal prices, does not take into account changes in general price level. ✓✓

- Does not include inflation. ✓✓

4.3.4 What happened to the value added by the primary sector between 2018 and 2019? Motivate your answer. (2)

- It decreased

- Most provinces experienced drought during 2018 and 2019, agricultural sector could not contribute effectively to GDP. ✓✓

- Mining sector suffered tremendous losses, value of mineral resources dropped drastically in the export market. ✓✓

- Brain drain, most qualified farmers and engineers left the country in search of better opportunities in other countries eg Australia ✓✓

4.3.5 Calculate Gross Value Added basic prices "A". (4)

398 770 ✓

+815 816 ✓

+2 654 870 ✓

=3 869 456 ✓

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

4.4.1Which method of calculating the national account was used in the table above? (1)

Expenditure method ✓

4.4.2 Name one item used to convert GDP to GNP (1)

- Factor income earned abroad by South Africans/ Primary income from the rest of the world. ✓

- Factor income earned in South Africa by foreigners/ Primary income to the rest of the world. ✓

4.4.3 Briefly describe the term *gross fixed capital formation* (2)

- Includes all investment spending by businesses on capital goods. ✓✓

- Expenditure on assets used repeatedly in the process of production. ✓✓

- Increase in the stock of capital. ✓✓

4.4.4 How do imports of goods and services affect the multiplier? (2)

- Imports are leakages, if more goods are imported more money leaves the country and the multiplier becomes smaller. ✓✓

4.4.5 Use the table above and calculate the economic growth rate for 2020. Show ALL calculations. (4)

| | | |
|---|---|---|
| 2020 | 3 144 539 | ✓ |
| 2019 | - 3 119 984 | ✓ |
| = | 24 555 | ✓✓ |

**Data Response**

4.5.1 When did South African reach its highest GNI? (1)

- Jan 2018 ✓

4.5.2 Name ONE method that can be used to calculate the GDP (1)

- GDP (P) ✓/ Production method✓
- GDP (I) ✓/ Income method ✓
- GDP (E) ✓/ Expenditure method ✓

4.5.3 Briefly describe the concept g*ross national income.* (2)

- The value of all final goods and services produced by the permanent residents of a country for a specific period. ✓✓

4.5.4 How would the GNI at market prices be calculated? (2)

GDP at market prices

+ Primary income from the rest of the world

- Primary income to the rest of the world

= GNI at market prices ✓✓

4.5.5 Explain the importance of measuring national account aggregates. (4)

- To determine the standard of living of a specific year. ✓✓
- To compare prosperity levels between countries. ✓✓

To measure economic growth on a year to year basis. ✓✓ (Max: 4)

4.6 Study the information below and answer the questions that follow.

4.6.1 What source was used to compile the data above? (1)

- STATSSA ✓

- South African Reserve Bank/ SARB ✓

4.6.2 Indicate in which year real GDP was at its highest. (1)

- 2020 ✓

4.6.3 Briefly describe the term *real GDP*. (2)

- Can also be referred to as constant prices where the rate of inflation as expressed by the consumer price index (CPI) has been taken into account. ✓✓

4.6.4 Provide an equation for GNE. (2)

- GNE= C+I+G+(X-M) ✓✓

4.6.5 Differentiate between GDP and GNP. (4)

GDP

- Is the value of all final goods and services produced in a specific country normally in a year's period. ✓✓

Includes income earned by foreigners living in South Africa. ✓✓

GNP

- Is the value of all final goods and services produced by the permanent residents of a country in a specific year. ✓✓

- Only includes production by South Africans. ✓✓

## Examination Tips: Circular flow and National Accounts Aggregate

- Use the Grade 12 Economics Examination Guidelines to check what is required in this topic
- Make use of the Study guide to answer practice questions in each subtopic
- Use the previous examination papers to answer each topic you have studied
- Remember to practice all various types of questions in Section A, B and C.
- Learn the different concepts related to national account aggregates and the inter relationships between the accounts
- Keep in mind the 3 different GDP accounts also have to be converted to GNP. Practice the formulas with the conversions to GNP.
- Make use of the study guide and extra material at your disposal to practice the calculations of the different forms of GDP and conversion to GNP.
- Activities that are available in the study manual is latest data from South African Reserve Bank and STATSSA. Practice the activities thoroughly and look at the solutions only at the end to see how far you master your work.
- Make sure you familiarise yourself with the use of a standard calculator, NO Cellphones will be accepted in any examination room.
- The examination questions are scalfolded from lower to higher order cognitive levels. Try by all means to answer your examination with economics in mind. Language terminology, calculations and way of answering is very imperative.
- Do not leave any spaces open, answer to the best of your ability.
- There is a specified amount of time allocated to each question, try by ALL means to work in that specified time period so as to complete examination on time.

## General Examination Tips

**Know the paper**: Format of the question papers

There are TWO Papers in Economics: Paper 1 and Paper 2.

- Each paper carries **150 MARKS**
- The duration of each paper is **2HOURS**
- Each paper comprises **SIX QUESTIONS** divided into three sections
  Of the six questions **only FOUR** must be answered as follows:
    - **Section A**: QUESTION 1 is compulsory
    - **Section B**: Consists of THREE questions: QUESTION 2-4 of which the candidates must choose only TWO
    - **Section C:** Consists of TWO questions: QUESTION 5-6 of which the candidate must choose only ONE.
- Study **ALL topics** prescribed for both papers which are as follows:

| Paper 1 topics | Paper 2 topics |
|---|---|
| **Macroeconomics**<br>• **Circular flow/**<br>• **Business Cycles**<br>• **Public sector**<br>• **Foreign Exchange markets** | **Microeconomics**<br>• Perfect markets<br>• Imperfect markets<br>• Market failure |
| **Economic Pursuits**<br>• **Protectionism and free trade**<br>• **Growth and Development**<br>• **Industrial development policies**<br>• **Economic and social performance indicators** | **Contemporary Economic issues**<br>• Inflation<br>• Tourism<br>• Environmental sustainability |

**HINT**: Apply the following when answering the question paper:

**Section A**

- When answering Section, A – these are short questions. it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking.
- You are looking for the MOST correct answer in the multiple-choice questions.
- There are 4 options so try to eliminate the completely wrong answer(s).
- Read carefully to identify the correct answer, identify the distractors that will also appear correct.

- The answer will NEVER be two options. Only ONE option is correct.
- Your answer will immediately be marked incorrect if you write TWO options.
- Give ONE term for each of the following descriptions, know your concepts.
- There are 6 marks for these questions in each paper (Q 1.3). Know your concepts and definitions to answer these questions.

**Section B**

- When answering Section B - Choose 2 of the 3 options.
- Read through the questions to select the ones that you know best.
- Use your 10 minutes reading time to identify the questions you know best.
- The mark allocation should guide you to the length of your answers.
- Discuss, explain, why, how and what type of questions should be answered in full sentences.
- For example: 4-mark questions must be answered with at least 2 facts, in full sentences.
- Calculations – Start off with the formula; then show all steps in the calculations.
- Specify the items when doing calculations – e.g

| | |
|---|---|
| Consumption (C) | R 1000 |
| Government spending (G) | R 800 |
| Investment (I) | R 250 |
| GDP | R 2050 |

**Paragraph (8 mark questions)**

- Ensure that you have sufficient facts to answer the question
- E.g. Differentiate between two concepts (X and Y). Write at least TWO facts for X and TWO facts for Y. The mark allocation will be (2x4=8)
- If required to explain or discuss, write at least four facts on the topic. The mark allocation will be (4x2=8).

**Data response questions**

- Answer any TWO of the three questions. Read the information provided carefully
- Each data response question consists of 5 questions.
- Your responses must be based Economics related.

Application type questions in question 2.5, 3.5 and 4.5 must be answered in full sentences and relate to relevant content.

**SECTION C – is the essay questions**

Answer ONE of the two questions.

The **introduction** should be a definition. Do not repeat any part of the question in your introduction

**In the body make use of headings** where possible- a maximum of 8 marks are allocated for headings and examples. These are easy marks to collect

Include sufficient facts to cover the 26 marks in the body. These facts should be written in **full sentences** to obtain maximum marks.

The **conclusion** must not repeat any of the facts already mentioned in the body or introduction. Read the table outlining the structure of the essay to ensure that you have an appropriate conclusion.

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