



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2016

## ECONOMICS

Time: 3 hours

300 marks

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### PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 16 pages and an Insert of 2 pages (i–ii). Please check that your question paper is complete.
  2. Read the questions carefully.
  3. All questions are **COMPULSORY**. Answer SIX questions as follows:  
ONE compulsory question from SECTION A;  
FOUR compulsory questions from SECTION B; and  
ONE compulsory question from SECTION C.
  4. Answer SECTION A on the inside front cover of the Answer Book provided and SECTION B and C in the Answer Book.
  5. Answer questions, where possible, point by point but in full sentences. A systematic presentation of facts is required.
  6. Number your answers exactly as the questions are numbered.
  7. Please leave lines open between answers.
  8. It is in your best interest to write legibly and to present your work neatly.
  9. Non-programmable calculators may be used.
  10. Please do not **write** in pencil as work in pencil will not be marked. However, any sketches or diagrams may be done in pencil.
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**SECTION A****QUESTION 1**

This question is **compulsory** and should be answered by ALL candidates.

**Select the correct alternative and indicate the answer by making a cross (X) in the column over the corresponding letter on the inside front cover of your Answer Book.**

1.1 In the circular flow of income model, which one of the following equations is correct?

- A Income = Output = Injections
- B Income = Output = Expenditure
- C Output = Expenditure = Withdrawals
- D Expenditure = Income = Injections (2)

1.2 The total value of all final goods and services produced in a country during a particular year is called the ...

- A gross domestic product.
- B net national income.
- C gross domestic expenditure.
- D gross national income. (2)

1.3 Study Table 1 below and answer the question that follows.

**Table 1: National Accounts**

<b>National Account Aggregates 2012</b>	<b>R millions</b>
GDP at market prices	3 155 195
Primary income from the rest of the world	48 501
Primary income to the rest of the world	118 508
GNI at market prices	?

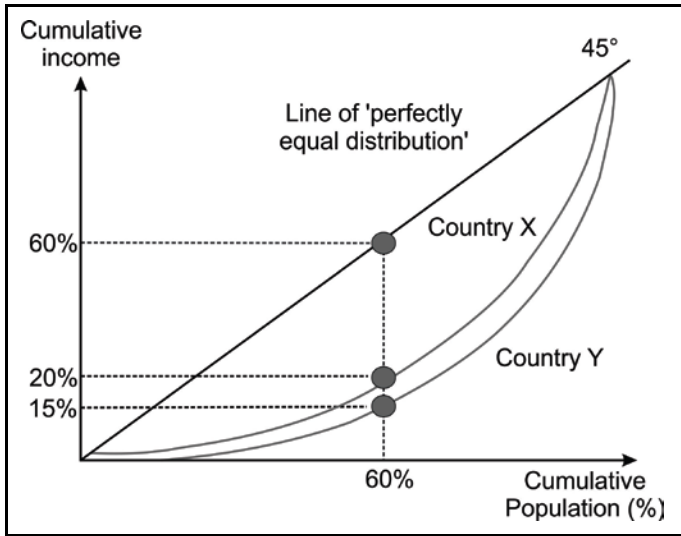
The value of GNI at market prices, in Table 1, is ...

- A 3 085 188
- B 3 225 202
- C 3 322 204
- D 2 988 186 (2)

- 1.4 The 'multiplier effect' refers to how an initial increase in investment, government spending or exports leads to a larger increase in the level of ...
- A prices.
  - B interest rates.
  - C unemployment.
  - D income. (2)
- 1.5 Which one of the following is an example of expansionary fiscal policy?
- A A reduction in interest rates.
  - B An increase in government spending.
  - C An increase in the money supply.
  - D An increase in tax rates. (2)
- 1.6 A major factor influencing demand in one particular market could be the ...
- A production method used.
  - B number of sellers in the market.
  - C disposable income of consumers.
  - D cost of raw materials. (2)
- 1.7 For a monopoly to exist for a long time in a market, it is most likely that ...
- A the firm is a price-taker.
  - B the firm is charging a high price.
  - C there are barriers to entry.
  - D demand for the good is price elastic. (2)
- 1.8 If you went shopping in Japan, which currency would you need?
- A Nikkei
  - B Yuan
  - C Yen
  - D Japanese dollar (2)

1.9 Study Graph 1 below and answer the question that follows.

**Graph 1: Lorenz Curve**



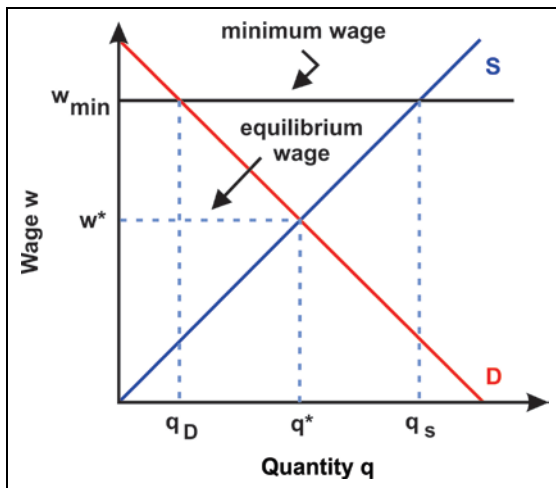
Reading from the Lorenz Curve in the above graph, one can see that in Country X ...

- A 60% of the population earn 60% of the total income.
- B 40% of the population earn 20% of the total income.
- C 40% of the population earn 60% of the total income.
- D 60% of the population earn 20% of the total income.

(2)

1.10 Study Graph 2 below and answer the question that follows.

**Graph 2: Minimum Wage**



[Source: <<http://img.sparknotes.com/figures/3/38bf88807fd6b1e5beccc807f687acf4/minwage.gif>>]

Graph 2 shows the labour market for unskilled fruit pickers in Limpopo. An increase in the national minimum wage, from  $W^*$  to  $W_{min}$ , is likely to ...

- A increase unemployment amongst fruit pickers.
- B cause an outward shift in the supply curve for fruit.
- C increase employment amongst fruit pickers.
- D increase the shortage of fruit pickers.

(2)

1.11 Lighthouses are considered public goods because their use is \_\_\_\_\_ in consumption and non-payers \_\_\_\_\_ be excluded from using them.

- A non-rival; cannot
- B non-rival; can
- C rival; can
- D rival; cannot

(3)

1.12 An increase in investment of R5 000 increases the equilibrium level of national income by R20 000. What is the marginal propensity to consume (mpc)?

- A 0,75
- B 0,25
- C 4
- D 0,8

(3)

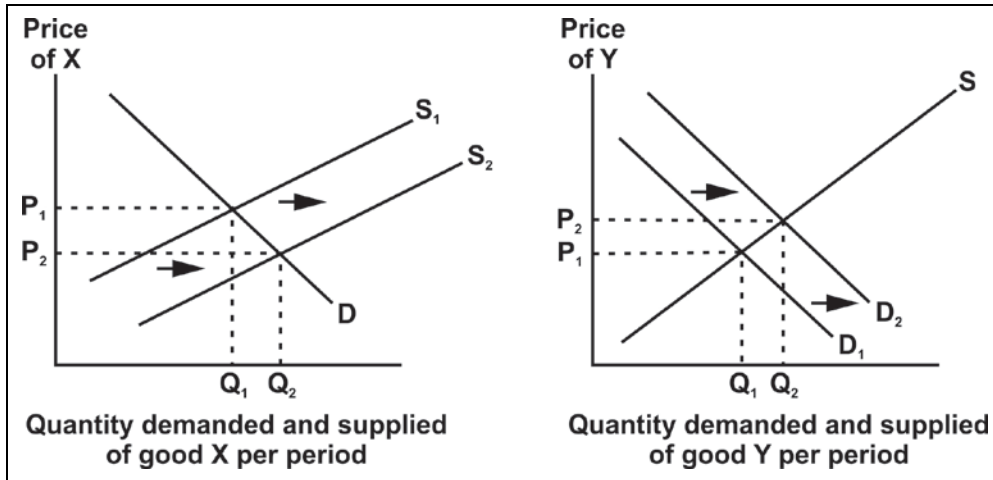
1.13 Which of the following is most likely to reduce South Africa's import volumes?

	<b>Economic activity in South Africa</b>	<b>South African Rand (ZAR)</b>
A	Recession	Appreciation
B	Expansion	Depreciation
C	Expansion	Appreciation
D	Recession	Depreciation

(3)

1.14 Study the graphs below and answer the question that follows.

**Graph 3 and Graph 4**



The graphs show how a shift in the supply of good X results in a shift in the demand for good Y. Which of the following pairs is most likely to be represented by good X and good Y?

- A Tea and coffee.
- B Leather and beef.
- C Rail travel and petrol.
- D Tennis rackets and tennis balls.

(3)

1.15 A cellphone company has 2 million customers. Each customer pays a monthly fee of R250. The company conducts market research and estimates that price elasticity of demand for this package is (-) 2.

If the company reduces monthly fees by R50, the change in total revenue is likely to be:

- A + R60 million.
- B - R30 million.
- C - R60 million.
- D + R30 million.

(3)

1.16 A cut in income tax rates could be considered ...

- A both a monetary policy and a fiscal policy.
- B both a monetary policy and a supply-side policy.
- C both a fiscal policy and a demand-side policy.
- D neither a monetary policy nor a fiscal policy.

(3)

- 1.17 The use of real GDP per capita as a measure of economic welfare fails to take into account ...
- A the effect of inflation.
  - B increase in the country's population.
  - C changes in the output level of the economy.
  - D changes in the nation's distribution of income. (3)
- 1.18 Brazil is a highly taxed economy. Some Brazilian economists have suggested that if the government were to cut tax rates, it would actually receive more tax revenue. Why may cutting taxes increase revenue?
- A It may encourage emigration.
  - B It may increase the tax burden.
  - C It may lead to a fall in investment.
  - D It may reduce tax evasion. (3)
- 1.19 A government wishing to reduce the level of unemployment through the use of fiscal policy would be most likely to ...
- A lower interest rates.
  - B increase the size of the budget deficit.
  - C increase interest rates.
  - D encourage a depreciation of the exchange rate. (3)
- 1.20 The government reduces its spending. At the same time, the South African Reserve Bank increases the interest rate. All other things being equal, the most likely outcome is that ...
- A aggregate demand will fall but inflation will rise.
  - B aggregate supply will fall but economic growth will rise.
  - C unemployment will fall but the current account on the balance of payments will improve.
  - D inflation will fall but unemployment will rise. (3)

<b>50 marks</b>
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**SECTION B**

Answer all the questions in this section.

**QUESTION 2      MACRO ECONOMICS**

2.1 Study Table 2 below and answer the questions that follow.

**Table 2: 2014 GDP at Current Prices**

<b>Item</b>	<b>Million rand</b>
Final consumption expenditure by households	2 299 426
Final consumption expenditure by general government	771 641
Gross capital formation	772 808
<b>A</b>	23 844
<b>Gross Domestic Expenditure</b>	<b>B</b>
Exports of goods and services	1 186 640
<b>C</b>	1 257 292
<b>GDP at market prices</b>	<b>D</b>

2.1.1 Explain the meaning of 'GDP at Current Prices'. (2)

2.1.2 Name or calculate A to D. You do not have to show your calculations. (4)

2.2 **'In a free-floating exchange rate system, a currency may be subject to frequent fluctuations in its external value, either causing appreciation or depreciation of the currency.'**

2.2.1 Describe the economic term 'free-floating exchange rate'. (2)

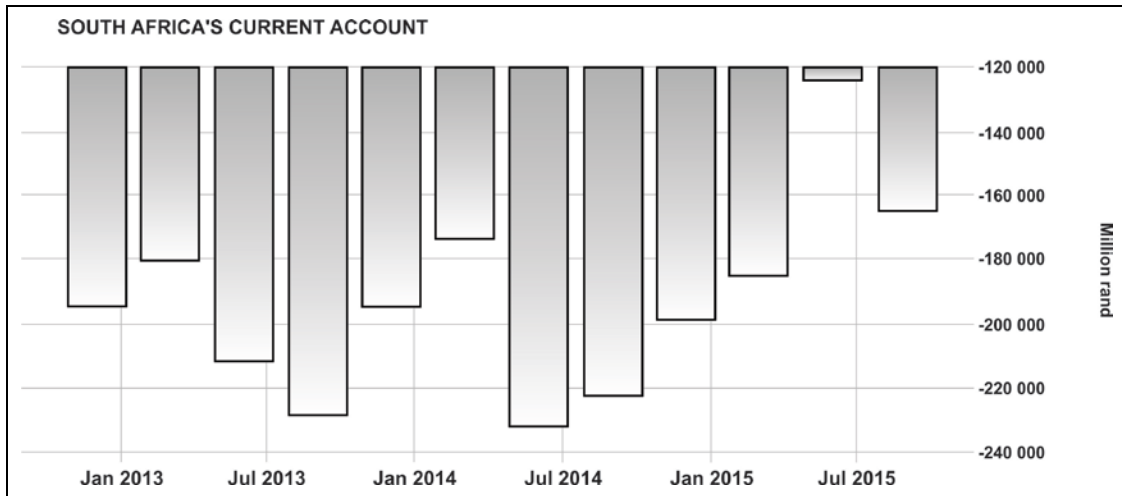
2.2.2 Explain the difference between currency appreciation and currency depreciation. (2)

2.2.3 Briefly discuss **THREE** factors that would increase the **demand** for dollars by South Africans. (6)



2.3 Study Graph 5 below and answer the questions that follow.

**Graph 5: South Africa's Current Account**



[Source: <www.tradingeconomics.com> South African Reserve Bank]

2.3.1 Explain the following **FOUR** sections that make up the **current account** of the balance of payments:

- Merchandise imports and exports
- Service receipts and payments
- Income receipts and payments
- Current transfers

(8)

2.3.2 With reference to Graph 5, explain whether the current account balances, from January 2013 to July 2015, represent a leakage or an injection.

(4)

2.4 Study Table 3 below and answer the questions that follow.

**Table 3: Summary of Composite Business Cycle Indicators for Country X**

Indices: 2010=100	2015						
	Mar	Apr	May	Jun	Jul	Aug	Sep
Leading indicator	95,7	96,7	95,6	95,2	93,1	93,0	92,5
12 month % change	-2,3	-0,3	-2,1	-2,2	-3,5	-4,7	-5,1
Coincident indicator	116,1	115,0	114,4	114,3	113,9	113,5	113,3
12 month % change	2,2	0,5	0,2	-0,3	0,1	-0,2	-0,6
Lagging indicator	104,9	105,5	105,5	104,9	104,7	105,3	105,2
12 month % change	-0,3	-0,2	0,7	0,3	-0,8	0,3	0,0

2.4.1 Which institution in South Africa would publish economic data, as seen in Table 3?

(1)

2.4.2 Using examples, briefly explain the difference between **leading**, **coincident** and **lagging indicators**.

(9)

2.4.3 Draw a diagram of the business cycle. Use the information in Table 3 to identify where Country X was on the business cycle at the end of September 2015. Give **ONE** reason (from the table) for your decision.

(12)

[50]

**QUESTION 3      MICRO ECONOMICS**

3.1 Study Table 4 below and answer the question that follows.

**Table 4: Cost data for an Imperfectly Competitive Firm**

Quantity	Fixed cost FC	Variable cost VC	Total cost TC	Average cost AC	Marginal cost MC
0	30	0	30	—	—
1	30	16	46	<b>C</b>	16
2	30	<b>A</b>	60	30	<b>D</b>
3	30	48	<b>B</b>	26	18
4	30	70	100	25	<b>E</b>

Calculate the values of A–E. (5)

3.2 Sales of digital music downloads have been soaring with the growth of broadband and falling prices for music downloads. As a result, sales of music CDs have fallen sharply. The price of music downloads decreased by 10% over the last few years and as a result CD sales have dropped by 7,5%.

3.2.1 Calculate the cross price elasticity of demand for CDs with respect to the price of music downloads. Show all calculations. (3)

3.2.2 Use your answer in Question 3.2.1 to identify the relationship between the two products. (2)

3.3 **'When it comes to the income elasticity of demand, no-name brands are regarded as inferior goods.'**

3.3.1 Define the economic term 'income elasticity of demand'. (2)

3.3.2 Use ONLY a supply and demand graph to show the effects that an increase in income would have on the price and quantity sold of an **inferior** good. (6)

3.4 **'In certain markets, the price mechanism might fail to allocate resources efficiently, causing market failure.'**

Discuss **TWO** causes of market failure and outline what the government can do about each one. (12)

3.5 Study the image below and answer the questions that follow.



[Source: <<http://businesstech.co.za/news/banking/37442/is-capitec-really-the-4th-biggest-bank-in-sa/>>]

3.5.1 Use an example to discuss how banks use *non-price competition* to make their products or services more price inelastic. (4)

3.5.2 The banking sector in South Africa is regarded as an example of an oligopoly. Justify how this example corresponds with **FOUR** characteristics of oligopolies. (16)  
[50]

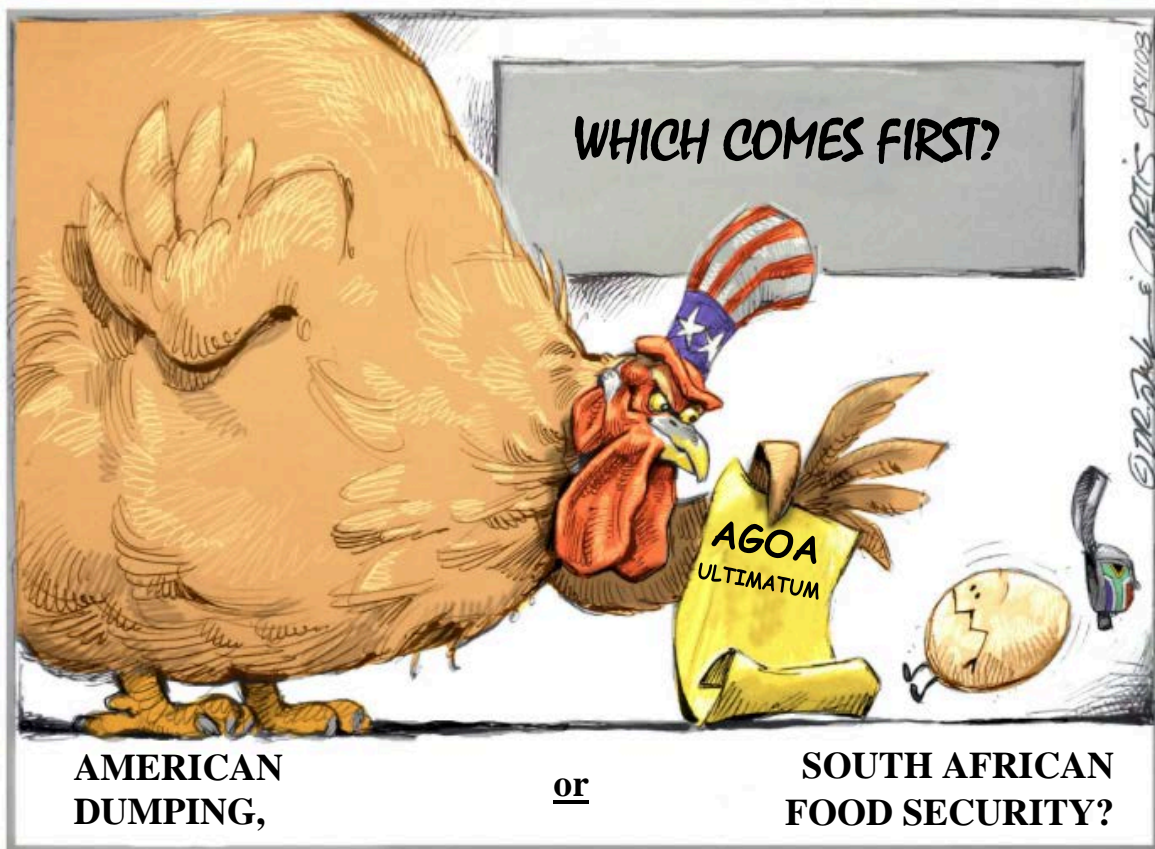
**QUESTION 4 ECONOMIC PURSUITS**

4.1 **'International Trade ensures that economic growth and economic development takes place in resource-rich economies in Africa.'**

4.1.1 Explain the difference between economic growth and economic development. (4)

4.1.2 Does economic growth as a result of international trade always lead to economic development in the resource-rich economies in Africa? Give reasons for your answer. (6)

4.2 Study the following cartoon and answer the questions that follow.



[Source: <<http://www.weeklystorybook.com/.a/6a0105369e6edf970b01b8d172d9dc970c-800wi>>]

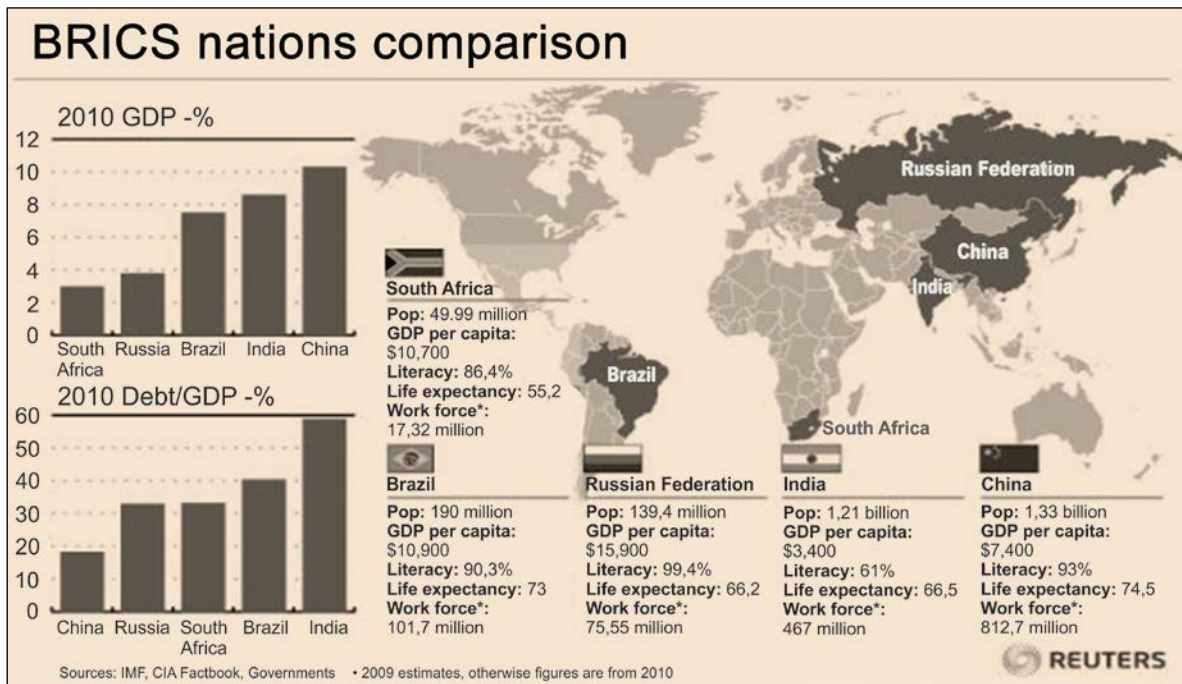
4.2.1 What does the acronym AGOA stand for? (2)

4.2.2 Explain the economic concept 'dumping'. (2)

4.2.3 With reference to the cartoon above, discuss reasons for South Africa using trade barriers to protect the economy, under the following headings:

- Protection of specific industries (4)
- Employment (4)

4.3 Study the following infographic and answer the questions that follow.



[Source: <<http://static.sify.com/cms/image/lenn75efagb.jpg>>]

Using the information above, identify the member of the BRICS countries that has ...

4.3.1 the smallest workforce.

4.3.2 the most educated population.

4.3.3 the highest standard of living.

4.3.4 the best HDI ranking. (8)

4.4 'The drought in South Africa affects agriculture and food security.'

4.4.1 Using your knowledge of the National Development Plan, name the **TWO** main aims of the NDP and discuss the ways in which the drought will affect these aims. (8)

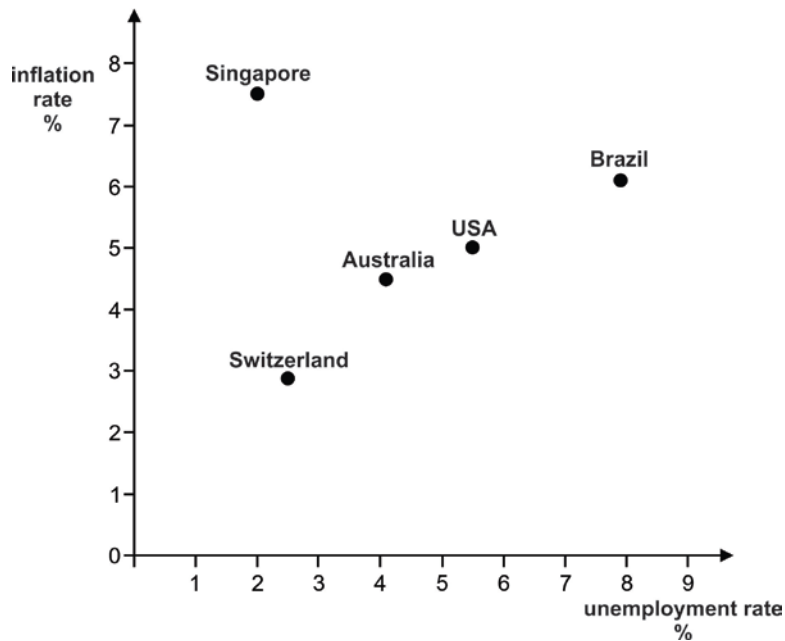
4.4.2 With reference to the above statement, use a **graph** and an **explanation** to discuss the possible impact on the **supply side** of the economy and how the drought will affect price level and output. (12)

[50]

**QUESTION 5            CONTEMPORARY ECONOMIC ISSUES AND MIXED QUESTIONS**

- 5.1 Define the following concepts:
- 5.1.1 Deflation (2)
  - 5.1.2 Hyperinflation (2)
  - 5.1.3 Trade Union (2)
- 5.2 **'The CPI does not reflect the poor people's pain.'**
- 5.2.1 What does the acronym CPI stand for? (2)
  - 5.2.2 Briefly explain how the CPI is calculated and why this calculation 'does not reflect the poor people's pain'. (4)
- 5.3 **'The Reserve Bank's mandate requires it to target inflation, but it must also consider the impact of monetary policy on growth and unemployment.'**
- 5.3.1 What is the percentage range of the inflation target in South Africa? (2)
  - 5.3.2 Explain how monetary policy can negatively impact **growth** and **employment**. (6)
  - 5.3.3 Analyse the **TWO** main causes of inflation. (10)

5.4 **Graph 6: Phillips Curve**



5.4.1 Explain the Phillips Curve theory. (4)

5.4.2 Choose **THREE** countries in **Graph 6**. To what extent does each of your chosen countries support the theory of the Phillips Curve? (6)

5.5 **'Labour unrest and increasing unemployment pose a significant risk to South Africa's economic stability.'**

5.5.1 To what extent are improvements in **labour productivity** important to the international competitiveness of a firm? (4)

5.5.2 Using your knowledge of the South African labour market, discuss **THREE** ways in which labour unrest and increasing unemployment pose a risk to economic stability. (6)

**[50]**

**200 marks**

**SECTION C****QUESTION 6 DATA RESPONSE**

Refer to **Source 1** on page (i) of the Insert and answer the questions below.

- 6.1 6.1.1 Define the economic term 'emerging market'. (2)
- 6.1.2 Which emerging market is predicted to have the lowest growth rate for 2016, according to the forecast in **Source 1**? (2)
- 6.1.3 Your financial advisor recommends that you invest some of your money in developed economies rather than the emerging economies in **Source 1**. Do you agree with his advice? Give **TWO** reasons for your answer. (4)

Refer to **Source 2** and **Source 3** on page (ii) of the Insert and answer the questions below.

- 6.2 6.2.1 What is meant by a 'diversified economy'? (2)
- 6.2.2 Name **TWO** advantages of a weak rand for the South African economy. (4)
- 6.2.3 Use **ONLY** a **graph** to explain what will happen to the R/\$ exchange rate, as a result of a decrease in demand for South African exports. (8)
- 6.2.4 Trade with China is a key growth area for South Africa. Discuss **THREE** reasons why China and South Africa trade. (12)
- 6.2.5 South Africa's macro-economic objectives are affected as a result of the slowdown in China's economy. Analyse how China's slowdown may negatively impact any **FOUR** of South Africa's macro-economic objectives. (16)
- [50]

<b>50 marks</b>
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**Total: 300 marks**