MPUMALANGA DEPARTMENT OF EDUCATION

MEMORANDUM OF MARKING

TRIAL EXAMINATION
2009

GRADE 12
ECONOMICS

TOTAL MARKS: 300 **TIME: 3 HOURS**

SECTION A

QUESTION 1

1.1

1.1.1 B

1.1.2 B

1.1.3 C

1.1.4 A

1.1.5 A

1.1.6 A

1.1.7 B

1.1.8 B

1.1.9 C

1.1.10 A

1.1.11 C

1.1.12 C (12 x 2) **(24)**

1.2

1.2.1 financial account

1.2.2 SDIs

1.2.3 downward sloping

1.2.4 macroeconomic policy

1.2.5 unemployment (5 x 2) 10

1.3

1.3.1 H

1.3.2 F

1.3.3 D

1.3.4 A

1.3.5 G

1.3.6 J

1.3.7 B

1.3.8 E (8 x 2) **(16)**

SECTION B

QUESTION 2

2.1

2.1.1 open

2.1.2 periodically

2.1.3 Laffer

2.1.4 increase (4 X 2) (8)

2.2 Exogenous reasons for business cycles

- in appropriate government policies
- weather conditions
- structural changes
- shocks

(3 X 2) (6)

2.3

2.3.1 The Balance of Payments is an accounting record of a country's transactions with the rest of the world during a given period of time. (3)

2.3.2 This is because South Africa is a net exporter of gold. (3)

2.3.3 Merchandise imports increased from 2006 to 2007. (2)

2.3.4

- Increase interest / repo rate.
- An increase in the interest rate would decrease the purchasing power of consumers and less would be imported.
- The balance on the current account would improve.

Any 3x2 (6)

2.3.5 493 893 + 39 898 – 574 322= -40 531 (4)

2.3.6

Exchange rate will weaken the rand (imported inflation)
(Any other relevant fact can be accepted) (2)

2.4 *Evaluate* the necessity of public sector: (evaluate means to give judgement)

1. Community goods
   - Goods like defence and street lighting – indivisibility, because free riders cannot be excluded – it cannot be charged a price on the basis of use. (learner's judgement on how SA provides these goods)

2. Collective goods
   - E.g. parks, beaches, streets and roads – possible to exclude freeriders by levying fees or tolls. (learner's own judgement)

3. Merit/demerit goods
   - Services like education, health and libraries supplied by government, because it would be undersupplied by market forces. (learner's own judgement)

(16)

[50]

QUESTION 3

3.1

3.1.1 sloping downwards from left to right.
3.1.2 excess supply
3.1.3 duopoly
3.1.4 supply (4 x 2) (8)

3.2 Characteristics of oligopolies.
- Type of product may be homogeneous or differentiated
- Entry is free for new producers, but not easy
- Considerable control over prices

(Any other relevant fact) (3 x 2) (6)

3.3.1 Study the table and complete A – D.

A – 40
B – 46
C – 18
D – 28

(4)

3.3.2 The price of the product is R20 (3)

3.3.3 4 units (2)

3.3.4
3.3.4.1 Perfect (2)
3.3.4.2 Break even point (2)

3.3.5 Total revenue – Total cost = profit (4)
80 - 66 = 14

3.3.6 The slope of the marginal revenue curve is a horizontal line because each additional unit of output adds the same amount to total revenue which is equal to the price of the product. (3)

3.4 Uses of cost-benefit analysis.

USES:
1. Used in public sector when evaluating large-scale public investment projects e.g. new highways, railway lines

FOUR issues:

- **Identification of all costs and benefits**√√
  All possible costs and benefits are identified and calculated. √√
  Costs and benefits are ranked according to how critical they are to the project√√
  This is important for accurate estimation of the costs of the project. √√
  Max 4
- **Valuation of cost and benefits**√√
  In the valuation of costs and benefits, the market prices are used. √√
  Distortions in market prices lead to difficulties in the valuation of projects. Distortions can be caused by big project, exchange rates, low wages as a result of high unemployment and monopoly prices. e.g Gautrain project being so large it distorts market prices
  Max 4
- **Interest rate at which to discount**
  Some of the costs and benefits may happen in the future.
  The value of these costs and benefits need to be discounted to represent the present
  The discounting is done by using either the repo rate or the lending rate points in time e.g. the repo rate and the bank lending rate where

- **Income redistribution**.

  It is also important that the redistribution of income associated with the project is desirable.

  If benefits are exceed costs a project is recommended. However, the losers should be compensated in cash or in kind there is no net loss of satisfaction

(16)

[50]

QUESTION 4

4.1 Choose the correct alternative between brackets:

4.1.1 growth rate

4.1.2 Spatial Development Initiative

4.1.3 export promotion

4.1.4 demographic (4 x 2) (8)

4.2 Any THREE arguments for free trade.

- Free trade is persuasive
- Leads to greater world production / economic growth, profits, savings and investment.
- Allows for specialization
- Mutual gains from international trade / developing countries take advantage of foreign expertise / innovation
- Efficient distribution of resources / promotes competition and resource allocation / choice
- Optimal use of endowment
- Trade restrictions tend to invite retaliation
- Generally agrees that open economy fares much better / increased efficiencies / economies of scale
- Protectionism leads to cost on society, inefficiency and loss in welfare
- Generates foreign exchange Any (3 x 2) (6)

4.3

4.3.1 Economic indicators are used to assess the performance of the economy - shows way in which economy is moving. (3)

4.3.2 GDP is total value of all final goods and services produced within borders of country in 1 year. √√It is one of most important measures of economic performance. √√ It measures the increase in capacity of the economy, at constant prices. √√ (3)

4.3.3 The £ (British Pound) (2)

4.3.4 It measures the inequality of income (2)

4.3.5

- The price of goods and services would increase
- The price of agricultural products would cost more because of increase in input costs
- inflation would go up
- Any other relevant fact

Any 1 x 3 (3)

4.3.6 Unemployment (2)

4.3.7 CPIX excludes interest on mortgages (3)

4.4

	South	North
Per capita income	Low	High
Life expectancy	Low	High
Education level	Low	High
Poverty level	High	Low
Growth	Low	High
Trade	Export raw materials	Export finished goods
Standard of living	low	High

Any 4 x4 (16)

[50]

QUESTION 5

5.1

5.1.1 deflation
5.1.2 direct
5.1.3 production
5.1.4 demand - pull (4 x 2) (8)

5.2 Any THREE economic effects of tourism:

- Direct foreign spending by tourists
- Job creation / employment
- Entrepreneurial opportunities and informal sector
- Foreign exchange generator
- GDP
- Poverty relief
- Tourism externalities
- Tourism and the environment
- Tourism and infrastructure (Any 3 x 2) (6)

5.3

5.3.1 Conservation – of the environment – a creative continuity of the environment while ensuring that change is sympathetic to the quality of life for both present and future generations. (3)

5.3.2

- 37 % decline in production of wheat, rice and corn yields
- decline in 30 % of major rivers providing richest agricultural regions in China
- one metre rise in sea level – half of population homeless and 60 % economic output gone (Any 1 X 3) (3)

5.3.3

- fuel and vehicle taxes
- effluent charges
- congestion charges
- Surcharges on the use of potentially damaging inputs such as pesticides, plastics and carbon.
- air pollution and tradable emissions permits
- recycling
- granting property rights.
- charging for the use of the environment.
- environmental taxes. any 3x2 (6)

5.3.4

- There is a need to increase the provision of energy
- Both countries want change to renewable energy.
- Both businesses and government must reduce energy consumption.

(Any 1 X 3 (3)

5.3.5

- Good environment encourages tourism while a bad environment discourages tourism.

(Any 1 X 2) (2)

5.3. 6

- Energy that can be replaced or replenished. (3)

5.4

- Economic growth
  - Tourism contributes to GDP in the country.
  - More services are rendered and there is an increase in manufacturing.

- Job creation
  - Tourism is the largest generator of job
  - Tourism is labour intensive
  - Tourism has the lowest ratio of investment to employment creation.
  - It employs many skills
  - It provides entrepreneurial opportunities

- Foreign currency
  - Tourism is an earner of foreign exchange
  - Foreign tourism bring into the country foreign currency similar to exports.

- Development of infra – and superstructures
  - Tourism leads to development of world – class infrastructure
  - There is improvement in communication and transport infrastructure.
  - The development of infrastructure has a spill - over effect on industrial development.

- The multiplying effect
  - An increase in tourism leads to an increase in GDP, job creation, foreign currency reserves etc.

- Stimulation of other trades such as agriculture and mining
  - Establishment of new markets for South African products abroad.
  - Food production increases

(4 X 4) (16)

[50]

QUESTION 6

6.1

6.1.1 injections
6.1.2 exogenous
6.1.3 a budget
6.1.4 appreciation (8)

6.2 Any THREE characteristics of monopolistic competition

- Large number of producers active in market
- Nature of product is differentiated
- Free market entry
- Businesses have little control over price of product
- Incomplete information for both sellers and buyers

(Accept any other relevant fact) (Any 3 x 2) (6)

6.3

6.3.1 A = R8 000
B = R10 000
C = R2 000
D = R1 000
E = R7 000
F = R2 500
G = R4 500 (1 X 7) (7)

6.3.2 If income tax is decreased, disposable income will rise, √ aggregate consumption expenditure will also rise √ and lead to an increase in the level of production. √√
Increase and the level of production would increase. (2 X 2) (4)

6.3.3 Multiplier = $\frac{\text{change in income}}{\text{change in injection}}$

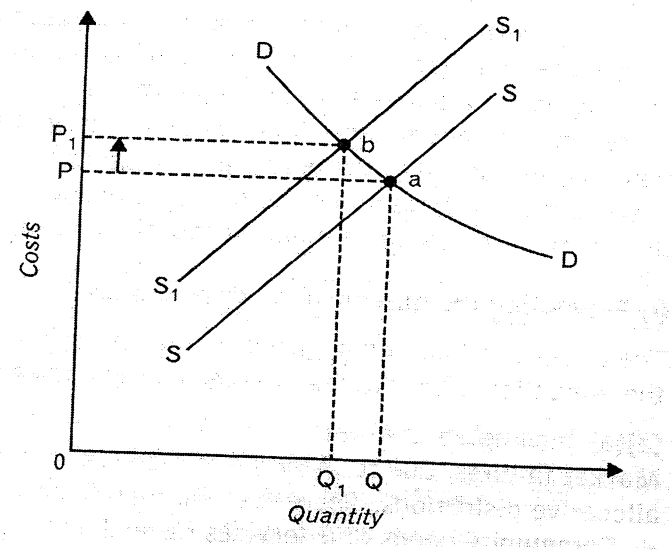
$4 = \frac{100}{I}$

$4I = 100$
$I = 25$ (4)

6.3.4

GDP at basic prices
- other taxes on production
+ other subsidies on production
= GDP at factor costs (or factor income) (5)

6.4 Explain externalities and public goods as reasons for market failures.



(8)

- Given the demand curve DD and the supply curve SS, the equilibrium price is P_1.
- Equilibrium quantity demanded and supplied is at Q.
- The supply curve SS represents the private cost of production.
- If the external costs were included the supply curve would be S_1S_1
- If the social cost of production, as represented by the supply curve S_1S_1 the price would have been P_1 and the quantity demanded and supplied would be Q_1.
- Because negative externalities are not taken into account, the market tends to overproduce the products in question.
- Allocative efficiency is not achieved.

Any 4x2 8

[16]

[50]

TOTAL SECTION B: 150

SECTION C

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

I. Essay responses should include an introduction, body and conclusion. For the introduction and conclusion 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.

II. Other long answer-questions: For the structure 5 marks will be allocated. In addition, 5 marks will be allocated for the interpretation of the topic and language usage. A maximum of 40 marks will be allocated for the body.

III. Long answer questions where a letter is required:
- 5 marks will be allocated for the format of the letter as follows:
3 marks for the salutation and 2 marks for the closing;
- 5 marks will be allocated for the interpretation of the topic and language usage;
- a maximum of 40 marks will be allocated for the body.

QUESTION 7

"It is the work of economists to analyze events as they happen, to explain them and to predict or forecast their future behavior." - Mike Levin

Discuss how business cycles are used in forecasting. Make use of a diagram to explain a typical business cycle. Conclude your discussion with a note to the local business chamber why you think we are at a certain point in the cycle.

ANSWER

- Important for those who wish to know if economic conditions are worsening or *business chamber why you think we are at a certain point in the cycle.*
Improving Where the economy is on the business cycle and in what direction it is moving
- We need to identify certain critical variables or indicators (business cycle indicators) that possibly reflect or predict movements in overall economic activity.

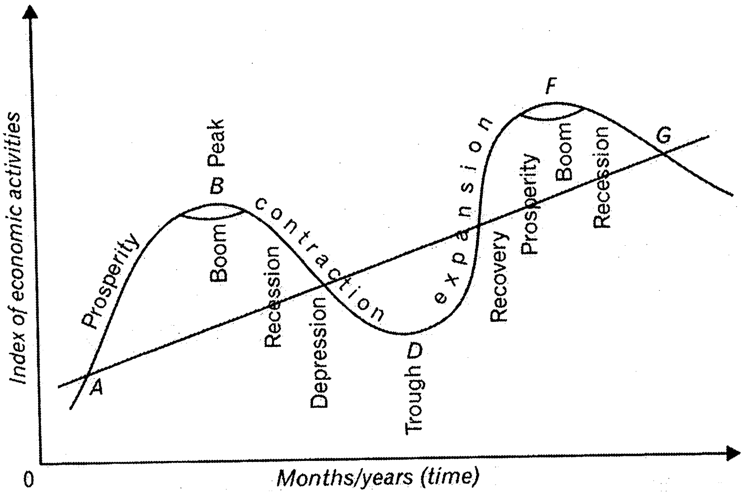


Diagram of a business cycle

7.1 THREE GROUPS OF BUSINESS CYCLE INDICATORS:

1.1 Leading indicators
1.2 Lagging indicators
1.3 Coincident indicators

7.1.1 Leading indicators:

- Lead the cycles in economic growth by a fixed period
- Cyclical behaviour have a fixed have a fixed relationship with the business *business chamber why you think we are at a certain point in the cycle.*
- Used to predict turning points in each other, since they should also lead those that lead the business cycle
- Peak before the peak in aggregate economic activity
- Reach the trough before the aggregate economic activity reaches a trough
- Advance the warning of changes in aggregate economic activity

(max 5)

7.1.2 Lagging indicators

- Follow coincident indicators
- Serve to confirm the behaviour of the coincident indicators
- If it does not confirm the upswing or downswing for instance, it signals that the upswing or downswing is weak and will most likely end at an early stage
- Change direction after reference turning points in the business cycle has been reached
- Confirm changes that were first indicated by the leading indicators and then the coincident indicators

- Provide an advance signal of a turning point in the business cycle
- First to reflect imbalances that intensify (increase) or subsidize (decrease) in the economy

7.1.3 Coincident indicators

- Gross value added at constant prices, excluding agriculture, forestry and fishing
- Value of wholesale, retail and new vehicle sales at constant prices
- Utilization of production capacity in manufacturing
- Total formal non-agricultural employment
- Industrial production index (max 5)

7.2. Other features underpinning forecasting

7.2.1 The length of the business cycle

- The length of a business cycle is measured from one peak to another peak or none trough to another trough, a cycle therefore includes a peak, a contraction phase, a trough, and expansion phase and a peak (max 3)

7.2.2 Amplitude

- The amplitude measures the distance of the oscillation of a variable from the trend line.
- It is the intensity of contraction and expansion of the phases. (max 3)

7.2.3 The trend

- The trend line represents the expected growth rate of the country given full use of resources.
- It is also referred to as the long – term growth potential of the economy.
- It usually has a positive slope. (max 3)

7.2.4 Extrapolation

- Extrapolation is the estimation of something unknown, from facts of information that are known.
- It is a technique used to predict the future by using past data.
- It involves the extension of the curve in the business cycle.(max 3)

7.2.5 Moving averages

- They are used to minimize the effect of short – term fluctuations.
- It is a method of repeatedly calculating a series of different average values along a time series to produce a smooth curve.

7.3 NOTE TO BUSINESS CHAMBER

- Very strong possibility that we might enter recess now (according to some Economists) due to: high interest rates, high petrol cost, power outages influencing production activities negatively all over the country might lead to cut down on costs e.g. lay off of workers

OR

- South Africa will stay in upswing although we are experiencing strong negative elements like power outages, we are strong enough to withstand a recess (downswing) in the economy

- The note is an open-ended answer and what ever the viewpoint of the learner, should be marked in that context.

(max. 10 marks)

Use the following rubric together with the above to assess the discussion:

MARKS	INTERPRETATION OF TOPIC
1	Candidate has shown some understanding of topic but has missed important aspects
2	Candidate has interpreted topic correctly but has not kinked facts to topic
3	Candidate has interpreted topic correctly and has kinked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

MARKS	PRESENTATION OF FACTS (COGNITIVE CONTEXT)
1	Demonstrates limited ability to mould the content to the required context;
2	Demonstrates general ability to mould the content to the required context; good writing style
3	Demonstrates comprehensive ability to mould the content to the required context; very good writing style
4	Demonstrates comprehensive ability to mould the content to the required context; excellent writing style
5	Demonstrates outstanding ability to mould the content to the required context; outstanding writing style

(10)

QUESTION 8

It is the aim of firms operating in a free market system to maximize their profits. The industry is characterized by freedom of entry and exit. Therefore, the individual business is a price taker.

Write an essay and explain with the aid of a diagram how long-term equilibrium

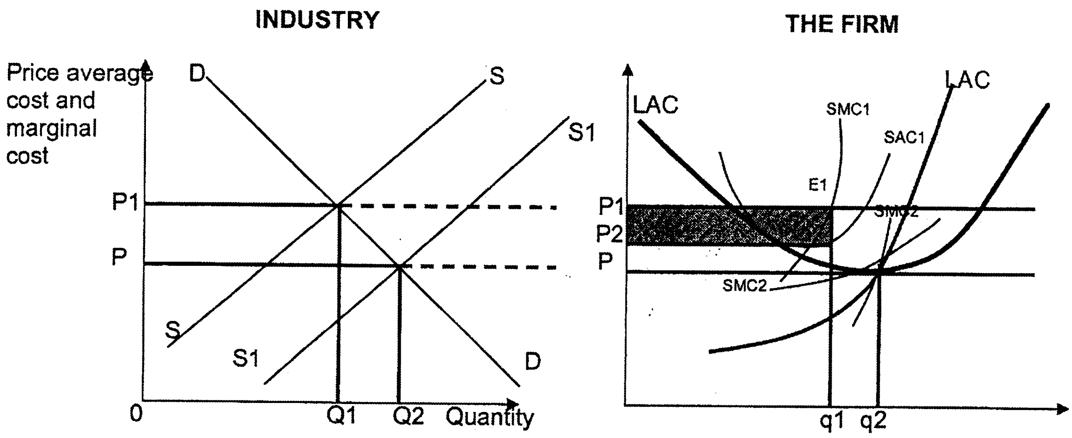
[50]

INTRODUCTION

The industry is the sum of all the individual businesses involved in a particular industry.

The LAC curve indicates the lowest cost per unit at which any particular output, as indicated on the horizontal axis, can be produced in the long term. Industry is made up of all individual businesses that supply output to particular market e.g. wheat market. (max 3 marks)

Body



ALLOCATION OF MARKS FOR GRAPHS:

- Labeling of axes X 2 for each graph
- Numbering of axes X 2 for each graph
- Correct outlay of graphs X 2 for each graph
- Labeling of graphs X 2 for each graph
- MAXIMUM = 8 MARKS PER GRAPH

- In long term all factors of production are variable (mobile) – business can adapt capacity in full
- Businesses will not be making an economic profit or loss over the long term
- Businesses entering market and others makings readjustments – equilibrium where all businesses are merely making normal profits.
- Industry as a whole can expand or shrink, because new businesses could enter market or existing businesses could exit.
- Graph illustrates the way in which businesses that are making an economic profit adapt their equilibrium position in the long term under perfect competition.

- ECONOMIC PROFIT: suppose business short-term plant is represented by SAC1. With market price P1 business is making economic profit of P1E1FP2 with short –tern plant-size represented by SAC1. At price P1 business will maximize profit in short term at point W1, where principle of profit maximization MR = MC applies and quantity q1 will be produced.

- BIGGER PLANT, LOWER UNIT COST: when doing good estimate, if they expand, be able to produce at lower unit cost in long term (descending portion of LAC-curve). Possibility of bigger profit will lead to bigger plant being built. Business will not be interested in producing at levels higher than E2 of LAC because it represents higher cost levels - internal scale disadvantages (diseconomies of scale) cause LAC of rise to right of point E2.

- NEW ENTRANTS, INCREASED SUPPLY: Economic profit attracts new businesses to industry because quantity offered on market increases as result of expansion by existing businesses supply curve shift to right (S to S1) – price drops until it reaches price level P. Price P is at same level as minimum point in LAC where total revenue OP x Oq2 equals total cost Oq2 x q2E2 = normal profit - long –term equilibrium

- INITIAL LOSSES: Process of adjustment of businesses who made economic profits was discussed above. If business however made losses (market price below minimum point of long- term average cost curve) process works other way round eventually LAC curve form tangent with demand curve and businesses remaining in industry with be making normal profit.

- PRICES IN LONG TERM: Above analysis leads to conclusion that under perfect competition price of product in long term will settle at level that corresponds to lowest point of LAC curve. Point E2 represents equilibrium in long term no incentive to leave or enter industry when market price has been established under perfect competition at level where each business is in equilibrium at minimum point of its LAC curve, the industry will also be in long-term equilibrium.

- EQILIBRIUM: once long-term equilibrium ha been achieved, provided no changes is technology or factors of production, there will be no further entry or exit of businesses.

CONCLUSION

Any suitable sentence – 2 max.

Use the following rubric together with the above to assess the discussion

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MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well puntuated

QUESTION 9

Since 1994 South Africa also made significant progress towards strengthening bilateral ties with its main trading partners. This has mainly taken the form of free trade area (FTA) protocols. *Write a letter to the Minister of Trade and Industry, where you discuss the argumentsin favour of protectionism. Evaluate SACU, SADC and AU as major protocols in terms of these. Address of recipient: P/Bag X101, Cape Town, 8000.*

Address of sender

Date

Minister of Trade and Industry
P/Bag X101
CAPE TOWN 8000 □□□□□□

Sir

ARGUMENTS IN FAVOUR OF PROTECTIONISM

As protectionism is the application of a trade policy whereby you as the government discourages importing of certain goods and services with a view to protect home industries against unequal competition from abroad, I would like to highlight the main arguments for protectionism as follows

1. INDUSTRIAL DEVELOPMENT
• some countries suitable for establishing certain kinds of industries
• if there is free trade, these industries will not be able to compete with wellestablished older countries as first few years are the most difficult
• established countries also use unfair methods like price-cutting and dumping, so they will need protection
• by protecting these industries, competition will be prevented which may hamper the growth of local industries
• You must however realize that it is difficult to do away with protectionism one it has been applied for some time and often it is of a permanent nature

2. STABLE WAGE LEVELS AND A HIGH STANDARD OF LIVING
- We might think that the standard of living will be undermined if cheaper goods are imported from countries where wages are lower
- It is however incorrect that high wages always result ini high production costs – if the workers productivity is very high, the unit cost of production is relatively low
- protection can prevent local wage levels from falling

3. UNEMPLOYMENT CHECKED AND MORE EMPLOYMENT PROVIDED:
- Foreign competition may lead to local industries not able to find a profitable market – production may stop
- If protected, it will result in less unemployment – only valid if production is for local market
- The unemployment problem can however not be solved by protection □□□□

4. ECONOMIC SELF-SUFFICIENCY
- In war time/friction between countries/shift in demand/depending to much on other countries/a country gets cut off – must be self-sufficient
- Protection should be granted especially to key industries

5. DANGERS OF DUMPING
- Sometimes sell goods to foreign country at lower prices than charged at home
- Protection prevents foreign industries from dumping their surpluses and out of season goods at low prices, harmful to local industries
- Reason for dumping is to capture new markets and force financially weaker industries out of competition

6. INHABITANTS OF COUNTRY UNABLE TO SPEND MONEY OVERSEAS □□
- Money remains and circulated in country
- Protection stimulates establishment of new industries and expansion of existing ones
- More money might lead to inflation – when protected prices usually rise

7. GREATER ECONOMIC STABILITY
- Prevents country from over specialisation – a problem of free trade□□□□
- Protection is beneficial to secondary industries and promotes economic welfare

8. NATURAL RESOURCES NOT DEPLETED
- Free trade exhausts resources – world shares in resources
- Protection protects home industries from overseas competition, ensures survival of industries, with proper planning, conservation and utilization of natural resources

9. STABILISING EXCHANGE RATES AND BALANCE OF PAYMENTS CONSIDERATIONS

- Traders buy on cheapest markets and sell on most expensive marts
- Export primary products and imports manufactured goods
- Disrupts balance of payments and exchange rates (max 9)

It is however clear that South Africa has adopted a deliberate policy of liberalizing international trade by abolition of trade restrictions and moving towards free trade and development:

- SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) implementing SADC Protocol on Trade – come into effect in 2000 SA member of SADC in 1992 at present it has status of FTA SADC protocol, some 97 % of imports from SADC qualified for duty-free access to SA in 2005 trade should be fully liberalized by 2010

- SOUTHERN AFRICAN CUSTOMS UNION (SACU) into effect in 2004 □□current members Botswana, Lesotho, Namibia, SA and Swaziland members jointly negotiate FTAs with rest of world current negotiating agenda includes talks with United States of America and European Free Trade Association (EFTA)

- AFRICAN UNION (AU) intends to develop continent into economic and monetary union adopted New Partnership for Africa's Development (NEPAD) as development strategy provides regional cooperation and integration first phase to develop five regional FTAs – SADC is one of them.

All these developments do not take place in isolation but is part of SA's broad industrial strategy towards economic relations with developed and developing trading partners in the North and South

Yours sincerely,

_________________________(your signature)
YOUR NAME

MARKS	INTERPRETATION OF TOPIC
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3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

(5)

QUESTION 10

Write an essay on inflation, explaining the policies that are used to combat it. Conclude your essay with the most important measure used by the Reserve Bank to combat it and give a short evaluation of the efficiency of this instrument.

[50]

INTRODUCTION

A sustained and considerable increase in the general price level and a simultaneous decline in the buying power of money / Sustained and a significant increase in the general price level over a period of time (Max 3 marks)

BODY

Fiscal measures: Measures to taken by the Minister of Finance through policies for taxation and expenditure control inflation

- If there is *excess demand* in the economy, which stimulates inflation, fiscal authorities can lessen the demand through direct taxation e.g. personal income tax
- *Indirect taxation* Vat or customs and excise duties can be increased
- A *loan levy* can be introduced or increased
- State can cut back on its *expenditure* by postponing, reducing, or canceling governments projects e.g. dams, roads, schools
- *Financing the budget deficit* This must be done on a non-inflationary basis e.g. loans from the non banking sector
- *Imposing surcharges* This imposed on imported goods can help control inflation e.g. especially on luxury goods
- An alternative fiscal approach to curbing inflation was intruded in the USA known as the *supply-side economy*
- This could be done through tax reduction on personal income to encourage people to work harder
- Tax reduction on Companies to encourage investment and capital growth
- Reduction of taxes on interests and dividends to encourage greater savings
- Reduced government spending (max 14 marks)

Monetary measures: This the reduction or adjustment of the quantity of money in circulation in the economy

- Maintain a *fine balance* between goods and services (real sector) and the monetary sector(money supply, credit)
- Inflation caused by *excess demand* can be curbed by if monetary authorities reduce the money supply
- *Bank rates* the central bank has to make decisions on the position of the interest rates
- *Excessive credit* is cause of inflation Restrict the granting of credit by banks
- *Moral pressure*□Banks have to be more careful when granting credit
- Relaxing *exchange controls* (max 14 marks)

Other measures These depend upon any mixtures of policies during a given situation

- *Increasing productivity* A positive long-term measure to reduce inflation and an important means to counteract inflation
- *Price controls* most direct method to combat inflation e.g. fixing prices etc.
- A *wage policy*- Used to break the inflationary spiral of increased wages
- *Stricter conditions for consumer credit*□ introduction of a need for a deposit in credit transactions
- *Encouraging personal savings* - Imbalance between demand and supply caused by inflation is corrected because greater savings means that the supply can expand while the demand declines
- *Import control* - Allow entry of more imports to dilute local prices
- A *floating exchange rate* - Prices are automatically adjusted to international conditions
- *Indexation* Inflation cannot be beaten but the harmful effect of it should at least be lessened
- *Inflation targeting* Central government and the central bank set a target for the inflation rate and applied policy measures in an attempt to meet the target

(max 14 marks)

Interest rates □□ most important instrument used by SARB – influenced by the repo rate – currently due to excessive private consumption expenditure (max 6)

CONCLUSION

Any suitable sentence may be taken as correct as a conclusion (max 2 marks)

MARKS	INTERPRETATION OF TOPIC
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3	Candidate has interpreted topic correctly and has linked facts to topic.

MARKS	LANGUAGE USAGE
1	Language usage is fair with some inappropriate use of vocabulary and punctuation.
2	Language usage is good. Answer is easy to read and well punctuated

(5)

TOTAL SECTION C: 100

GRAND TOTAL: 300