

**GAUTENG DEPARTMENT OF EDUCATION  
PREPARATORY EXAMINATION  
ECONOMICS**

**POSSIBLE ANSWERS**

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SECTION A  
**COMPULSORY**

**QUESTION 1**

**1.1 Multiple-choice questions**

Various options are provided as answers to the following questions.

- 1.1.1 A (Savings) ✓✓
- 1.1.2 C (Product) ✓✓
- 1.1.3 C (Multiplier effect) ✓✓
- 1.1.4 C (Normal profit) ✓✓
- 1.1.5 A (Merit goods) ✓✓
- 1.1.6 C (Produce less and ask a higher price) ✓✓
- 1.1.7 B (Import substitution) ✓✓
- 1.1.8 C (NEPAD) ✓✓
- 1.1.9 B (BEE) ✓✓
- 1.1.10 A (Monetary) ✓✓
- 1.1.11 A (Domestic tourism) ✓✓
- 1.1.12 B (Externalities) ✓✓

12x2=(24)

**1.2 One-Word Items**

Give one **term** for each of the **descriptions**.

- 1.2.1 Capital market ✓✓
- 1.2.2 Non-rivalry ✓✓
- 1.2.3 Repo rate ✓✓

1.2.4 Hyperinflation ✓✓

1.2.5 Gold ✓✓

5x2=(10)

### 1.3 Matching Items

1.3.1 G ✓✓

1.3.2 E ✓✓

1.3.3 H ✓✓

1.3.4 B ✓✓

1.3.5 D ✓✓

1.3.6 I ✓✓

1.3.7 A ✓✓

1.3.8 F ✓✓

8x2=(16)  
[50]

## SECTION B

Answer any **THREE** questions from this section.

### QUESTION 2

2.1 Choose the **correct word(s)** from those given in brackets.

2.1.1 Increase ✓✓

2.1.2 Income ✓✓

2.1.3 Human development index (HDI) ✓✓

2.1.4 Price ✓✓

4x2=(8)

2.2 Name **THREE** instruments used in protection policies to limit the extent of free trade.

- Tariffs ✓✓
- Quotas ✓✓
- Exchange controls ✓✓

3x2=(6)

2.3 Study the cartoon below and answer the questions that follow.

2.3.1 The dollar ✓✓  
 OR American economy ✓✓  
 OR America ✓✓ (2)

2.3.2 Well-being going down ✓✓  
 OR Value of dollar is decreasing/depreciating ✓✓  
 OR Economy weakening ✓✓ (2)

2.3.3 ● Economic activities are going down / decreasing ✓✓  
 ● Banks bankrupt in America e.g. giving too much credit ✓✓  
 ● Economy is in a recession ✓✓  
 ● Share prices are falling ✓✓  
 (Accept any relevant answer) 4x2=(8)

2.3.4 New economic paradigm (smoothing of cycles)

- *OBE for FET* pg. 36
- Proposes active counter-cyclic policies to stabilize economic activity. ✓✓
- In time of recession, governments should reduce taxes, increase expenditure and boost credit expansion in order to raise aggregate demand and stimulate economic activity. ✓✓
- Conversely higher taxes and lower levels of state spending. ✓✓

Any 2x2=(4)

2.3.5 Recession ✓✓  
 Decrease in economic activities ✓✓  
 In times of a recession governments should reduce taxes, ✓✓ increase expenditure ✓✓ and boost credit in order to increase aggregate demand and stimulate economic activity. ✓✓

Any 2x2=(4)

2.4 Discuss the reasons for public sector failure.

SOURCES: *Oxford*, pg. 53  
*Focus*, pg. 35  
*OBE for FET*, pg. 61  
*Enjoy*, pg. 60  
*Economics, For All* pg. 60

- Management failure ✓✓  
 Ignorance/applying conflicting policies or lack of leadership, training and experience. ✓✓
- Apathy ✓✓  
 The potential to diagnose inefficiency, corruption and poor services and the determinants of these symptoms. ✓✓  
 For example, lack of resources, low motivation, poor training and lack of competence. ✓✓

- Accountability ✓✓  
State-owned enterprises are not directly accountable to tax payers ✓✓
- Politicians ✓✓  
Tend to promote policies and spend money on projects as long as they get votes in return. These policies might involve an inefficient allocation of resources. ✓✓
- Lack of motivation ✓✓  
Workers rarely receive incentives for successful service delivery. This leads to services being limited, low in quality and high in cost. ✓✓
- Special interest groups ✓✓  
Individuals and enterprises influence government to act in their interest e.g. profitable contracts, favourable regulations etc. ignorance, personal and hidden agendas, questionable motives improve the welfare of someone at the expense of another. ✓✓

Any 4x4=(16)  
**[50]**

### QUESTION 3

3.1 Choose the **correct word(s)** from those given in brackets.

3.1.1 Perfect ✓✓

3.1.2 Lower ✓✓

3.1.3 Price discrimination ✓✓

3.1.4 Oligopoly ✓✓

4x2=(8)

3.2 List any THREE ways how the government can intervene to correct and prevent market failures.

- Subsidies ✓✓
- Taxes ✓✓
- Legislation ✓✓
- Permits ✓✓
- Price control ✓✓
- Training schemes ✓✓
- Job-creation programmes ✓✓
- Labour legislation ✓✓
- BEE ✓✓

(Accept any other relevant answer)

Any 3x2=(6)

3.3 Study the graph below and answer the questions that follow.

3.3.1 A ✓✓✓

(3)

3.3.2 Economic profit:

Total revenue	R15 x 800 =	R 12 000	✓	(1)
Total cost	R13 x 800 =	- R 10 400	✓	(1)
		<u>R 1 600</u>	✓✓	(2)

3.3.3 R 10 ✓✓ (2)

3.3.4 D ✓✓✓ / LMC = LMR (3)

3.3.5 In the long-term, business can only make normal profit. ✓✓

Normal profit  $\Rightarrow$  MR = MC ✓✓

Total revenue R10 x 1 000 = R 10 000 ✓✓

Total cost R10 x 1 000 = R 10 000 ✓✓

TR = TC ✓✓

Economic profit is only applicable in the short-term when Total Revenue (TR) is greater than Total Cost (TC) ✓✓ (8)

3.4 Discuss any other **FOUR** characteristics of a monopoly.

SOURCES: *Focus*, pg. 89

*Enjoy*, pg. 138

*OBE for FET*, pg. 128

*Economics for All*, pg. 121

- **No competition** ✓✓  
One business in the market will control the supply of goods and services. ✓✓
- **No substitutes** ✓✓  
The consumers will have no choice in price, quality or supplier when choosing products. The product or service will be unique and cannot easily be replaced by another product or service. ✓✓
- **Price makers** ✓✓  
A single business controls the total supply of the whole industry and therefore controls the price by decreasing or increasing the supply on the market. ✓✓
- **Blocked entry** ✓✓  
No competitors because of barriers keeping would-be companies out of the market. Technology or patents may be some of the barriers preventing new companies from entering the market place. ✓✓
- **Imperfect competition** ✓✓  
The buyer and seller must have all the market information needed to clinch the deal. ✓✓
- **Non-homogeneous products** ✓✓  
Manufactures different varieties of their products in order to make it difficult for other companies to copy that specific products. ✓✓
- **Vast amounts of starting capital** ✓✓  
Some industries need millions as starting capital. ✓✓

- **Legal consideration** ✓✓  
New inventions are protected by patent right. Services, are protected by law and other businesses are prohibited from entering the market. ✓✓  
(Accept any relevant facts from an approved source.) 8x2=(16)  
**[50]**

#### QUESTION 4

- 4.1 Choose the **correct word(s)** from those given in brackets.
- 4.1.1 Real ✓✓
- 4.1.2 Tourism ✓✓
- 4.1.3 CPI ✓✓
- 4.1.4 Lorenz curve ✓✓ 4x2=(8)
- 4.2 List three uses of GDP per capita figures.
- To indicate economic development ✓✓
  - To indicate living standards ✓✓
  - To compare living standards ✓✓ 3x2=(6)
- 4.3 4.3.1 It compares the condition or situation of a year ago to the current year. ✓✓ (2)
- 4.3.2 0.3% ✓✓✓ (3)
- 4.3.3 TWO possible reasons of expected decline in economic growth.
- The economic downturn of 2008 will continue to negatively affect economic growth in 2009. ✓✓
  - The expectation is that 2009 will be worse than 2008 economically. ✓✓ 2x2=(4)
- 4.3.4 Conclusions
- The decline in economic growth will have an impact on the expenditure patterns of consumers. ✓✓
  - The economic downturn means that unemployment will increase.
  - People will have less money to spend. ✓✓ Any 2x2=(4)
- 4.3.5 The current account will be negative for the next few years. ✓✓✓ (3)

## 4.3.6 TWO ways to improve current account balance

- Increase Exports
- Import substitution ✓✓
- Decrease imports ✓✓
- Attract foreign tourists to South Africa ✓✓
- Stable foreign exchange rates ✓✓

Any 2x2=(4)

## 4.4 Discuss FOUR arguments in favour of protectionism.

SOURCES: *Enjoy*, pg. 212  
*UGO vir VOO*, bl. 189  
*Verken*, bl. 145  
*Ekonomie vir almal*, bl. 210

**Arguments infavour of protectionism**

- *Industrial development (infant-industry argument)* ✓✓
  - The first few years in the development of any undertaking are the most difficult – young industries have high production costs and must compete with established industries on an unequal footing. ✓✓  
Old established industries often use unfair methods such as price-cutting against young industries,  
Young industries need protection until they are properly established. ✓✓
- *Unemployment checked and more employment provided:* ✓✓
  - If goods are imported from countries with low wages production locally will be curtailed and unemployment created. ✓✓
  - Production may stop or workers may be dismissed due to foreign competition. ✓✓
  - If the local industry is protected and produces for the domestic market, such steps may not be necessary and could result in less unemployment. ✓✓
- *Economic self-sufficiency (national independence)* ✓✓
  - It is vital for a country to be self-supporting in times of war and sanctions. ✓✓
  - Industries such as Sasol, Iscor (Mittal Steel S.A.) and Denel produce ✓✓ products that are of strategic importance to South Africa.
- *Dangers of dumping* ✓✓
  - A country may sometimes sell goods to a foreign country at lower prices than are charged at home. ✓✓
  - Protection prevents foreign industries from dumping their surpluses and out-of-season goods at low prices. ✓✓
  - The aim of dumping is to gain a larger market share by out-pricing competitors – import tariffs can prevent this. ✓✓

- *Protects the balance of payments* ✓✓
  - If too many foreign goods are imported the balance of payments will show a deficit.
  - Protection will reduce a deficit to increase the price of imports by means of tariffs and quotas. ✓✓
- *Prevents a country from over-specialisation – greater economic stability* ✓✓
  - The theory of comparative and absolute cost differences can cause a country to concentrate on certain products only – over-specialisation. ✓✓
  - Protectionism creates a more differentiated economic production structure and ensures greater economic stability. ✓✓
- *Natural resources not depleted* ✓✓
  - When there is free trade, the natural resources of a country are exhausted sooner because the whole world shares in the use of these resources. ✓✓
  - Protectionism includes proper planning, conservation and utilisation of natural resources. ✓✓

Any 4x4=(16)  
[50]

### QUESTION 5

5.1 Choose the **correct word** from those given in brackets.

5.1.1 Increased ✓✓

5.1.2 Decreased ✓✓

5.1.3 Increased ✓✓

5.1.4 Decreased ✓✓

4x2=(8)

5.2 List THREE of South Africa's National World Heritage sites.

Isimangaliso (St. Lucia) Wetland Park ✓✓

Robben Island ✓✓

Cradle of Humankind ✓✓

uKhahlamba Drakensberg Park ✓✓

Mapungubwe Cultural Landscape ✓✓

Cape Floral Region ✓✓

Vredefort Dome ✓✓

Richtersveld Cultural and Botanical Landscape ✓✓

Any

3x2=(6)

5.3 CASE STUDY. Answer the questions that follow.

5.3.1 Electricity and liquid fuel supplies ✓✓✓  
(Accept any other relevant answer)

(3)

5.3.2 Human development suffers, ✓✓ schools, hospitals, businesses and computer networks ✓✓ without electricity.

Productivity lost. ✓✓ e.g. causes damage and losses.

2x2=(4)



- 5.3.3 They demand more fuel resources ✓✓✓ /  
In cities more economic activities dependent on electricity due to higher concentration of people. ✓✓✓ (3)  
(Accept any relevant answer).
- 5.3.4 Firewood ✓✓ (2)  
(Accept any relevant answer)
- 5.3.5 Decrease greenhouse gases ✓✓  
Use ozone friendly products ✓✓  
Do not litter. ✓✓  
Re-cycle e.g. paper ✓✓  
Preservation of forests ✓✓  
Use electricity sparingly ✓✓ Any 3x2=(6)  
(Accept any relevant answer)
- 5.3.6 To provide electricity. ✓✓ (2)
- 5.4 Discuss any TWO other international agreements.

SOURCES: *OBE for FET*, pp. 291-294  
*Economics for All*, pp. 288-291  
*Focus*, pp. 188-193  
*Enjoy*, pp. 317-323

1. **1972 Stockholm Conference** ✓✓
  - "The United Nations Conference on the Human Environment" ✓✓
  - Was the first major large-scale international meeting on the environment. ✓✓
  - Convened with the support of the United Nations. ✓✓
  - It was recognized that the rapid changes in science and technology, have given human beings power to transform their environment. ✓✓ (max 8)
  
2. **WSSD – Johannesburg** ✓✓
  - JHB hosted the World Summit on Sustainable Development (WSSD) in 2002. ✓✓
  - The agreements reached in JHB are a guide to action that will take forward the UN Millennium Summit Declaration's goal of halving world poverty by 2015, and incorporate decisions taken by world bodies since the Rio Earth Summit in 1992. ✓✓
  - The biggest success was getting the world to turn the UN Millennium declaration into a concrete set of programmes and mobilize funds for these programmes. ✓✓
  - The WSSD focused on the most marginalized sectors of society, including women, the youth, indigenous, and disabled people. ✓✓

- The implementation plan includes programmes to deliver water, energy, health care, agricultural development, a better environment for the world's poor, and targets for the eradication of poverty and protection of the environment. ✓✓
- Targets set at the Summit: ✓✓ ✓✓
- The number of people without basic sanitation and access to safe drinking water will be halved by 2015.
- Biodiversity loss is to be reversed by 2010, and collapsed fish stocks restored by 2015. ✓✓
- Chemicals with a detrimental health impact will be phased out by 2020. ✓✓
- Energy services will be extended to 35% of African households over the next ten years. ✓✓ Any (8)

### 3. **Kyoto Protocol** ✓✓

This conference was held in 1997 in Kyoto, Japan and mainly focused on climatic change. ✓✓  
 Under the Kyoto Protocol, high-income countries, together with former socialist countries, committed themselves to reducing their total emissions of greenhouse gases by 5% in relation to 1990 levels. ✓✓

- Each country was given a specific target. ✓✓

(8)  
 8x2=(16)  
**[50]**

## QUESTION 6

6.1 Choose the **correct word(s)** from those given in brackets.

6.1.1 Indigenous ✓✓

6.1.2 GDP ✓✓

6.1.3 Appreciation ✓✓

6.1.4 Injection ✓✓

4x2=(8)

6.2 List any THREE leading indicators. Enjoy Economics P. 36  
 Focus P. 25  
 OBE for FET P. 39  
 Economics for All P. 34

- Average manufacturing hours worked ✓✓
- Building plans approved ✓✓
- Inventory/sales ratio ✓✓

- o New vehicles sales ✓✓
- o Equity prices ✓✓
- o Commodity prices ✓✓
- o Job advertising space ✓✓
- o Manufacturing orders ✓✓
- o Real M1 money supply ✓✓

Any 3x2=(6)

6.3 Use the table to answer the questions.

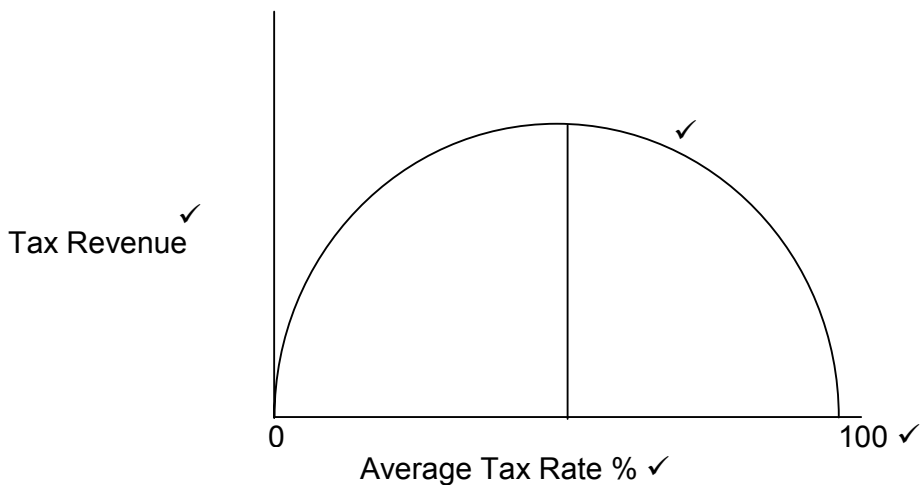
6.3.1  $Y = C + I + G + (X - M)$  **OR**  $Y = C + I + G + (X - Z)$   
 $= R\ 140\ m\ ✓ + R\ 160\ m\ ✓ + R\ 100\ m\ ✓ + (R\ 20\ m\ ✓ - R\ 30\ m\ ✓)$   
 $= R\ 390\ m\ ✓✓$  (7)

6.3.2 Marginal revenue to save =  $(1 - 0.7) = 0.3$  ✓✓✓ (3)

- 6.3.3 a. AB – Recovery ✓✓  
 b. BC – Prosperity/Upswing/Expansion ✓✓  
 c. CE – Recession/Downswing/Contraction ✓✓  
 d. EF – Depression ✓✓  
 e. J – Trough ✓✓
- 5x2=(10)  
(20)

6.4 Illustrate and explain the Laffer curve.

*Enjoy*, pg. 58  
*OBE for FET*, pg. 59 – 60  
*Focus*, pg. 42  
*Eco for All*, pg. 58-59



- The Laffer curve shows the relationship between tax rates and tax revenue collected by government. ✓✓
- If the tax rate is zero, the revenue of government will be zero. ✓✓
- If the tax rate is 100 % i.e. if you must pay all your income to the government, nobody will be prepared to work and the revenue of government will also be zero. ✓✓
- The curve has an upward slope. ✓✓
- Tax revenue decreases because of higher tax rates people are not prepared to work so hard since too much of their income must be paid to the government as taxes. ✓✓
- This lack of incentive to work harder leads to a fall or decrease in income and therefore a fall or decrease in tax revenue. ✓✓
- The point at which the curve achieves its maximum will vary from one economy to the next. ✓✓ (max 12)

(16)  
[50]

### SECTION C

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

In this section a maximum of 5 marks will be allocated for the interpretation of the topic and language usage.

#### QUESTION 7

Discuss the **components** of the **balance of payments account**.

[50]

SOURCES: *Enjoy*, pp. (68-72)  
*Economics for All*, pp. (67-73)  
*Focus*, pp. (53-56)  
*Oxford*, pp. (60-63)  
*OBE for FET*, pg. (91)

#### INTRODUCTION

- **DEFINITION**
- A statement of a country's trade and financial transactions with the rest of the world over a particular period of time. ✓✓✓
- The South African Balance of Payments consists of the following four components:
  - The current account
  - The capital transfer account
  - The financial account
  - The change in foreign reserves
- The SARB publishes the balance of payments account.

(3)

**Body**

## 1. Current account ✓✓

- The current account is the first account of the Balance of Payments.
- It shows transactions relating to production, income and expenditure. It includes the following:
  - Merchandise (goods) ✓✓
    - It includes transactions in movable (visible and tangible) goods that change ownership between South African residents and non-residents. ✓✓
    - e.g. wheat, machinery, minerals, oil.
  - Net gold exports ✓✓
    - It refers to gold as a commodity. ✓✓
    - The net amount shows the difference between the amount of gold exported and the amount of gold imported. ✓✓
    - South Africa is the world's largest gold producer.
    - It is a net exporter of gold and the amount is positive. ✓✓
  - Services ✓✓
    - Includes items such as transportation, travel, financial, insurance, professional, technical, recreational and government services. ✓✓
  - Income ✓✓
    - Refers to income earned by South African residents from non-residents and vice-versa. ✓✓ E.g. Salaries, wages and benefits earned by individuals and investment income such as, interest, dividends and profits. ✓✓
  - Current transfers ✓✓
    - Are transfers from residents to non-residents and vice versa. ✓✓
    - E.g. presents in the form of cash, welfare, insurance, benefits and taxes ✓✓

(Max 16)

2. **Capital transfer account** ✓✓

It is a net amount and includes transactions and grants relating to the ownership of fixed assets, ✓✓ debt release ✓✓ and the value of household and personal effects and financial claims and liabilities of migrants. ✓✓ (Max 6)

### 3. Financial account ✓✓

The balance on the financial account is the outcome of three types of investments:

- Direct investments ✓✓
  - Are known as Foreign Direct Investment ( FDI). ✓✓
  - Includes establishment of new business enterprises or purchasing shares in existing businesses. ✓✓
  - Investments in fixed property. ✓✓
- Portfolio investments ✓✓
  - This includes the buying and selling of shares and bonds not part of direct investments ✓✓
  - These investments are mainly effected through security exchanges and bond exchanges. ✓✓
  - These investments are highly liquid. ✓✓
- Other investments ✓✓
  - Is a residual category ✓✓
  - includes all financial transactions not included under direct investment or portfolio investment ✓✓-
  - e.g.-loans, currency and deposits. ✓✓
  - An important category of other investments is short-term trade credit, which is used to finance imports and exports. ✓✓
- Unrecorded transactions ✓✓
  - Errors and/or omissions from transactions on the current, capital transfer and financial accounts. ✓✓
  - This item is included to balance the balance of payments. (Max 12)

### 4. Changes in foreign reserves ✓✓

- The change in net gold and other foreign reserves owing to balance of payments transactions is a balancing amount. ✓✓
- South Africa's balance of gold and foreign exchange reserves are not shown in the balance of payments because it represents a stock (inventory). ✓✓ (Max 6)

### Conclusion

The balance of payments shows flows only and not stocks. ✓✓  
 Only the changes to the gold and foreign reserves are shown. ✓✓  
 (Accept any other relevant conclusion (Max 2)

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shows no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1-15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16-30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31-45)

(5)  
[50]

**QUESTION 8**

Discuss **cost-benefit analysis** by applying it to the Gautrain project.

[50]

SOURCES: *Focus*, pg. (83)  
*Enjoy Economics*, pg. (127)  
*OBE for FET*, pg. (117)  
*Economics for All*, pg. (146)

**DEFINITION**

CBA is a technique for enumerating and evaluating the total social costs and total social benefits associated with an economic project. ✓✓✓

(3)

**SEVEN STAGES**

- Identification and quantification of all private costs ✓✓
- Identification and quantification of all external costs ✓✓
- Calculation of social costs – private plus external costs ✓✓
- Identification and quantification of all private benefits ✓✓
- Identification and quantification of all external benefits ✓✓
- Calculation of social benefits – private plus external benefits ✓✓
- Comparison of social costs with social benefits – if social benefit exceeds the social cost, society as a whole benefit from the development ✓✓ (Max 12)

**APPLICATION**

- Cost-benefit analysis is usually applied to those projects where it is expected where will be a significant difference between private and social costs and benefits. ✓✓
  - For example, a new highway through a densely populated area will have high social costs, while a large dam in a dry urban area will have high social benefits. ✓✓
  - The project will usually go ahead if the social benefits exceed the social costs. ✓✓
- **Gautrain project**

**Private costs and benefits****Private costs**

May include many items but the following are most relevant:

- Land to be used by the railway line. Hundreds of houses need to be expropriated and owners compensated. ✓✓
- Building such as gravel, sleepers, steel rails, cement and sand. ✓✓
- Building equipment, for example, graders, bulldozers, tunnel boring machines and cranes. ✓✓
- Locomotives, rolling stock and buses. ✓✓
- Labour to build, run and maintain the line. ✓✓
- Overheads, such as electricity, water, telephone, taxes and banking fees. ✓✓

**Private benefits**

May include a number of items. The following are some of the items that will render revenue: ✓✓

- Train and bus fares ✓✓
- Subsidies from the national, provincial and local governments. ✓✓
- Advertising in the train, on the buses and along the route. ✓✓

If the private benefits exceed private costs the project will be profitable and the operating company will be prepared to build the line. ✓✓

**External costs and benefits**

External costs and benefits are the externalities of the rail building and transport operation. ✓✓

**Negative externalities**

- Pollution e.g. air, noise, nuisance, vibrations and scenic pollution. ✓✓
- Habitats of plants, animals and insects that are destroyed, historical buildings are lost. ✓✓
- Traffic increases in the immediate environment of stations and their negative effects ✓✓
- Blockages of driving and walking routes e.g. to schools, hospitals and traditional business centers. ✓✓
- Accidents for example, on the line and as a result of new traffic patterns in the suburbs ✓✓
- Resettlements, for instance, of families whose properties are expropriated ✓✓

**Positive externalities**

- Employment and income from the building and operation of the line. ✓✓
- Businesses establishing along the route and at stations. ✓✓
- Time saved because of the high speed at which the train moves, and less traffic congestion on the two highways linking Tshwane and Johannesburg. ✓✓
- Less air pollution from fossil fuels due to there being less traffic on the highways. ✓✓
- Less accidents and lower fuel consumption. ✓✓
- Lives saved because of less traffic on the main road arteries. ✓✓ (Max 28)

In a cost-benefit analysis the business would attempt to place a value on these externalities in order to calculate the social cost and social benefit of the project and proceed only if social benefit exceeded social cost. ✓✓ (Max 2)

MARKS	INTERPRETATION OF TOPIC
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(5)  
[50]



### QUESTION 9

Write a memorandum to the chairperson of SADC on South Africa's new regional development policy focusing on **Spatial Development Initiatives (SDIs), Industrial Development Zones (IDZs)** and **financial incentives**.

SOURCES: *Enjoy Economics*, pp (192-198)  
*Economics for All*, pp (189-196)  
*Focus*, pp (127-132)  
*Oxford*, pp (130-134)

#### MEMORANDUM

**FROM:** Any name ✓  
**DATE:** Any date ✓  
**TO:** Chairperson: ✓ SADC ✓  
**SUBJECT:** South Africa's new regional development policy ✓

#### South Africa's policies / endeavours:

- In 1997 the government introduced a new Industrial Development Programme. ✓✓
- The Dept of Trade and Industry is responsible for co-ordinating the industrial development plans at all levels of government and the private sector. ✓✓
- The state's current Industrial Development Programme has two main focuses:
  - A. Spatial Development Initiatives (SDIs) and Industrial Development Zones (IDZs) ✓✓
  - B. Financial incentives. ✓✓

#### A. Spatial development initiatives (SDIs):

##### • Description

- SDIs are a government regional development strategy that aims to stimulate industrial development in areas where socio-economic conditions require concentrated government assistance and where economic potential exists. ✓✓
- SDIs aim to unlock the under-utilised economic development potential of certain specific locations in South Africa. ✓✓

##### • Specific objectives of SDIs

- sustainable economic growth and development in under-developed areas, according to the economic potential of the area ✓✓
- long-term and sustainable employment for the local inhabitants of the area and for the nation in general ✓✓
- maximise the extent to which private sector investment and lending can be mobilised into the SDI area ✓✓
- exploit the opportunities that arise from investments due to private-public partnerships (PPPs) ✓✓
- exploit the under-utilised opportunities for export-orientated growth in the SDIs. ✓✓

- **Private-public partnerships (PPPs)**

- Partnership between the public and private sectors. ✓✓
- Objectives:
  - o promote sustainable growth ✓✓
  - o empower local communities through effective partnerships ✓✓
  - o encourage sustainable resource usage ✓✓
- Example: a situation where a private sector business provides the funds to set up and manage a business venture and the state provides the funding for the physical infrastructure, e.g. roads, water and electricity. ✓✓

- **Corridors**

- Are spatial areas that offer particular advantages to mining, manufacturing, agriculture, tourism and other businesses. ✓✓
- Advantages include the presence of existing infrastructure and specialisation of production and/or services. ✓✓

- **The SDI programme consists of 11 local SDIs and four IDZs:**

- **11 SDIs:**

1. Maputo Development Corridor (minerals, tourism, transport)✓✓
2. Lubombo (agri-tourism)✓✓
3. Richards Bay (metals, aluminium, coal, auto-components)✓✓
4. Durban and Pietermaritzburg (chemicals)✓✓
5. Wild Coast (agri-tourism and forestry)✓✓
6. Fish River (industrial)✓✓
7. West Coast Investment Initiative (minerals and metals)✓✓
8. Platinum (metals and minerals)✓✓
9. Phalaborwa (tourism and minerals)✓✓
10. Coast 2 Coast corridor (industries, tourism and transport)✓✓
11. Gauteng (hi-tech industries)✓✓

(Max 18)

- **IDZs – industrial development zones:**

- Are purpose-built industrial estates, physically enclosed, and linked to an international port or airport with duty-free incentives.✓✓
- Raw materials for production are imported free of import duties to these zones.✓✓
- The idea is that goods produced in these zones should be exported to foreign countries.✓✓
- Is designed to boost exports and create jobs.✓✓

- **4 IDZs**

- o JHB Airport (hi-tech industries)✓✓
- o Richards Bay (metals)✓✓
- o Coega, near PE (steel and automotive components)✓✓
- o Saldanha (Steel Park)✓✓

(Max 8)

- B. Financial incentives**

1. *Small and Medium Enterprise Development Programme (SMEDP)* ✓✓
- Offers financial incentives to small and medium business enterprises that specialise in producing goods and services that include manufacturing, food processing, tourism and recycling. ✓✓
- Businesses with assets of R100 million or less qualify for the incentive.✓✓
- Must be competitive in their own right without protection or subsidies.✓✓

2. *Skills Support Programme (SSP)* ✓✓
  - Offers financial incentives in the form of a cash grant of up to 50% of the costs of training new staff resulting from an expansion or a new project. ✓✓
3. *Critical Infrastructure Facility (CIF)* ✓✓
  - Offers financial incentives to large enterprises whose projects require infrastructure such as roads, electricity and water purification and sewage systems. ✓✓
  - The incentive covers up to 30% of development costs. ✓✓
4. *Duty-free incentives* ✓✓
  - Will be given to businesses that are established within an IDZ. ✓✓
  - Is offered in an attempt to encourage domestic and foreign businesses to settle in IDZs and to produce goods and services for export. ✓✓
5. *Foreign Investment Grant (FIG)* ✓✓
  - Is a cash incentive scheme for foreign investors who invest in new manufacturing businesses in South Africa. ✓✓
  - The investor is compensated for the cost of moving new machinery and equipment to South Africa from abroad. ✓✓
6. *Black Businesses Supplier Development Programme (BBSDP)* ✓✓
  - Consists of a 80% cash grant. ✓✓
  - It provides black-owned enterprises with access to training to improve the management effectiveness of their enterprise. (production planning, project management, inventory control, etc.) ✓✓
  - Enterprises with a turnover of R12 million or less qualify and the maximum amount payable is R100 000. ✓✓
7. *Strategic Investment Programme (SIP)* ✓✓
  - Is an incentive scheme which makes an additional industrial investment allowance available to projects in the manufacturing, computer and research and development fields. ✓✓

(Max 14)

MARKS	INTERPRETATION OF TOPIC
0	Candidate has shown no understanding of the topic.
1	Candidate has shown some understanding of topic but has missed important aspects of topic. (1-15)
3	Candidate has interpreted topic correctly but has not linked facts to topic. (16-30)
5	Candidate has interpreted topic correctly and has linked facts to topic. (31-45)

(5)  
[50]

### QUESTION 10

Write a report on the *effects of tourism* on the South African economy.

[50]

SOURCES: *Enjoy Economics*, pg. 286-291  
*OBE for FET*, pg. 256-261  
*Focus*, pg. 176-178

**TO:** DEPARTMENT OF ENVIRONMENTAL AFFAIRS AND TOURISM (DEAT) ✓

**TITLE:** EFFECTS OF TOURISM ON THE SOUTH AFRICAN ECONOMY ✓

**TERMS OF REFERENCE:** As requested by DEAT, this report refers to the effects of tourism on the South African economy.

**PROCEDURE:** Report will look at effects of tourism on South African economy. ✓ (Max. 3)

#### **FINDINGS:**

##### **Gross domestic product (GDP) ✓✓**

- Tourism currently plays a relatively small role in the economy of South Africa. ✓✓
- It is estimated that tourism could contribute 12% to the GDP by 2014. ✓✓
- Tourism is the fourth-largest industry in South Africa and supports about 700 hotels, 2 800 guesthouses and bed-and-breakfast establishments, and 10 000 restaurants. ✓✓

##### **Employment ✓✓**

- Many authorities consider tourism development to be ideal for soaking up unemployment in areas that offer few employment opportunities. ✓✓
- Tourism employs an estimated 7% of the South African workforce, and is potentially regarded as the largest provider of jobs and earner of foreign exchange. ✓✓
- Tourism is the world's largest generator of jobs – reasons:
  - o Tourism is labour intensive ✓✓
  - o Tourism employs many skills ✓✓
  - o Tourism can provide immediate employment ✓✓
  - o Tourism provides entrepreneurial opportunities – informal sector ✓✓

##### **Poverty relief ✓✓**

- Tourism brings development to the poor in rural areas. Many of the prime tourism attractions are located in the rural areas and not in the city centres. ✓✓
- Tourism allows rural people to share in the benefits of tourism development, thereby promoting more balanced and sustainable forms of development. ✓✓
- The purpose of DEAT Poverty Relief Programme is to manage and administer poverty relief proposals and spin-off projects in the tourism and environment sectors, with a special focus on infrastructure investment and product development such as heritage sites, rock art and conservation. ✓✓
- Through the programme the DEAT is seeking to assist the members of South Africa's poorest communities to create long-term and sustainable work opportunities. ✓✓

**Externalities ✓✓**

- Are the benefits or costs which result from economic activities, but which are not reflected in the price of the activities. ✓✓
- Tourism activities may impose on third parties who are not part of the buyer-seller market. ✓✓
- Benefits for which no payment is received may be granted, and costs for which no payment is made is imposed. These benefits and costs are known as externalities or external effects. ✓✓

**The environment ✓✓**

- South Africa is the third most biodiverse country in the world (large variety of plant and animal life) ✓✓
- The country has a well-maintained network of protected areas and is globally renowned for its conservation practices. ✓✓
- South Africa is also one of the environmental “hot spots” in the world, with 2 000 plant species on the endangered list. ✓✓
- The main environmental problems and issues:
  - o Unequal land distribution and landlessness ✓✓
  - o Soil erosion ✓✓
  - o Deforestation ✓✓
  - o Water shortages and pollution ✓✓
  - o Air pollution ✓✓
- Poor coastal zone management and unplanned development aggravate the environmental problems. ✓✓
- Litter has become a national problem. ✓✓

**Infrastructure ✓✓**

- In most countries, the government is responsible for providing economic infrastructure. ✓✓
- Infrastructure includes fixed passenger transportation investment, destination services such as power, water and sewerage, cleaning and health, fixed communications investments, and so on. ✓✓
- There is a lack of infrastructure in rural communities in the tourism industry, seriously limiting these communities’ participation in the tourism industry. ✓✓
- The absence of adequate transportation services effectively prevents rural communities from participating in the industry, both as potential suppliers of products and services, and as tourists themselves. ✓✓

16x2=(32)

**CONCLUSION:** (Any acceptable comment)

2x2=(4)

**RECOMMENDATIONS:** (Any acceptable comment)

2x2=(4)

**SIGNATURE:** ✓**NAME:** ✓**DESIGNATION:** ✓**DATE:** ✓  
(Max 2)

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(5)  
**[50]**