LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF EDUCATION

CAPRICORN SOUTH DISTRICT

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS

MARCH 2025

COMMON TEST

MEMO

DATE: 11 March 2025

This marking guideline consists of 14 pages

SECTION A: COMPULSORY

QUESTION 1 **20 MARKS**

1.1. MULTIPLE CHOICE

1.1.1 B businesses ✓✓
1.1.2 A restrictive ✓✓
1.1.3 C government revenue✓✓
1.1.4 A exchange rate ✓✓
1.1.5 D foreign exchange controls ✓✓

(5 x 2) (10)

1.2 MATCHING ITEM

1.2.1 C / The cost of the factors of production used to produce goods and services ✓
1.2.2 D / The national bank that provides financial services for the government and the commercial banks ✓
1.2.3 F / Public goods that are non-excludable and non-rivalrous in consumption ✓
1.2.4 E / Exist when the central bank allows the value of the country's currency to float between an upper and a lower limit. ✓
1.2.5 A / When a person or business is dodging tax in illegal ways, such as misrepresenting taxable income in order to pay a reduced amount of tax ✓
1.2.6 G/ The government's plan for government revenue and government expenditure for the coming fiscal year.

(6 x 1) (6)

1.3 ONE WORD

1.3.1 Intermediate goods✓
1.3.2 Marginal Propensity to Save ✓
1.3.3 Inflation rate ✓
1.3.4 Foreign Direct Investment / direct investment ✓

(4 x 1) (4)

TOTAL SECTION A: (20)

SECTION B

QUESTION 2 **40 MARKS**

2.1 Short questions

2.1.1 Name TWO theories used to explain the causes of the business cycles

- Monetarist approach ✓
- Keynesian approach✓ (2 x 1) **(2)**

2.1.2 Why are injections important in the South African economy?

- They add more money in the circular flow, which will increase the quantity of money in the economy ✓✓
- Injections are additional money into the economy which result to an increase in the GDP (economic growth) and more profits✓✓
- They lead to an increase in output, income and employment opportunities✓✓

(Accept any other correct relevant response) (1 X2) **(2)**

2.2 Data response

2.2.1. What is the equilibrium exchange rate from the information above? (1)

- $1=R10✓

2.2.2. List any ONE cause for demand for foreign exchange. (1)

- Importing goods✓
- Payment of overseas loans✓

(Accept any other correct relevant response)

2.2.3. Briefly describe the term exchange rate. (2)

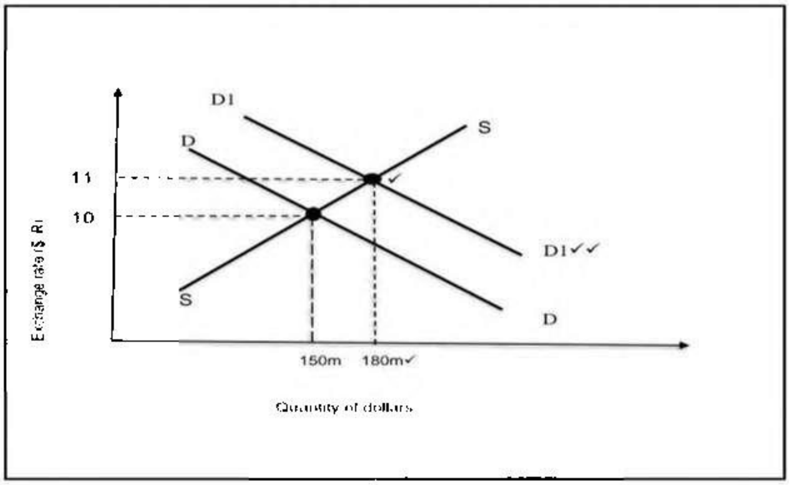
- A price of one country's currency in terms of another. ✓✓

2.2.4. Why are terms of trade important in international trade? (2)

- It shows whether the country can afford to pay for its imported goods with the amount of money earned from its exports over the same period. ✓✓

(Accept any other correct relevant response)

2.2.5. Redraw the graph above, and indicate what would happen in the market when the demand for dollars increases. (4)



Marking grid

Correct drawing and labelling of the new demand curve = 2 marks
Correct indication of the new equilibrium exchange rate= 1 mark
Correct indication of the new quantity of dollars traded = 1 mark
(4 marks)

2.3. Data response

2.3.1. Determine the value of the smallest current account shortfall since Q3 2023. (1)

- 75.3bn -70.8bn = 4.5✓

2.3.2. Name any factor that counterbalanced the broader deficit in the income /account.

(1)

- Narrower/reduced deficits in the services ✓
- Narrower/reduced deficits in current transfer account✓

2.3.3.'Briefly describe the concept *balance of payments*. (2)

- A systematic record of all transactions between one country and other countries over a particular time period. ✓✓

(Accept any other correct relevant response)

2.3.4. What is the significance of the balance on the current account? (2)

- It gives an indication whether a country is living within its means (indicates a surplus or a deficit). ✓✓

2.3.5. How can a surplus on the balance of payments affect South African economy positively? (2x2) (4)

The surplus of the balance of payments can affect the economy positively by:

• reaching the production potential of the country ✓✓

• building the reserves of the country due to a surplus ✓✓

• investing more in infrastructure ✓✓

• increased value of the rand ✓✓

• attracting more foreign direct investment ✓✓

• reducing the tax burden due to less money borrowed to pay off public debt ✓✓

• stimulating economic growth and create job opportunities ✓✓

(Accept any other correct relevant response) **(2 x 2) (4)**

2.4 Explain the relationship between *households* and *businesses* in the circular flow-model. **(8)**

- Households are owners of factors of production. ✓✓
- Household sell factors of production to businesses in the factor market in exchange for income. ✓✓
- Businesses then use the factors of production to produce final useful goods and services. ✓✓
- They are then sold to households in the goods/product market in exchange for sales revenue✓✓

(Accept any other correct relevant response) **(2 x 4) (8)**

2.5 Explain how changes in income affect the multiplier **(4 x 2) (8)**

- When more income is earned, a leakage can occur in the form of income tax, savings or spending on imports therefore the multiplier starts to kick✓✓
- When a firm increases investment spending, initially total spending increases, total production increases which also lead to an increase in income ✓✓
- The extra spending due to extra income has a knock-on-effect and create more spending, the size of the multiplier will therefore depend on the leakages ✓✓
- The multiplier relates to how much national income changes as a result of injection or withdrawal✓✓

(Accept any other correct relevant response)

QUESTION 3 **40 MARKS**

3.1 Answer the following questions.

3.1.1 Name any TWO accounts in the balance of payments. **(2 x 1)** **(2)**

- Current account✓
- Financial account✓
- Capital transfer account✓

3.1.2 How does the South African government smooth out fluctuations in business cycles?

- The government uses both taxation and government spending in order to influence both production and consumption ✓✓ **(2)**

3.2. Data response

3.2.1 Identify an example of an injection from firms in the above extract

- Investment ✓ (1)

3.2.2 Name any ONE participant not mentioned in the extract above in a three-sector economy (1)

- Households ✓

3.2.3 Briefly describe the term *circular flow*.

- Refers to the simplified economic model that describes the interdependence of an economy's participants, markets and flows in order to explain how the economy works ✓✓ (2)

(Accept any other correct relevant response)

3.2.4 What is the importance of the financial sector in the circular flow (2)

- Businesses invest their money into the financial sector ✓✓

(Accept any other correct relevant response)

3.2.5 How does Gross Capital Formation positively impact the economy

- The increased capital base of the country will increase production capacity leading to increase in employment✓✓
- Balance of Payment problems will decrease due to an increase in export production✓✓ (4)

(Accept any other correct relevant response)

3.3. Data response

3.3.1 Identify an item made up of salaries and wages from the table above

Compensation of employees ✓ (1)

3.3.2 Name one item used to convert GDP at factor cost to GDP at basic prices

- Subsidies on production ✓
- Taxes on production✓ Any 1 x1 (1)

3.3.3 Briefly describe the term *basic prices.*

The total income received by different factors of production and then adding other taxes on production and subtracting other subsidies on production✓✓ (2)

(Accept any other correct relevant response)

3.3.4 Explain the purpose of residual item in calculating GDP?

To ensure accuracy of the figures / to take into account discrepancies that arise because different methods are used to calculate GDP✓✓

(2)

(Accept any other correct relevant response)

3.3.5 Calculate the value of A. (Show ALL calculations)

Compensation of employees	2 861 309✓
Net operating surplus	+1 795 000✓
Consumption of fixed capital	+ 797 230✓
Gross value added at factor cost	**5 453 539**✓

or

2 861 309✓ + 1 795 000✓ + 797 230✓ = **5 453 539**✓ (4)

3.4. Discuss *money market* and *capital market* as markets in the four-sector model. (8)

Money markets

- In the money market, short-term loans and very short-term funds (less than 3 years) are saved and borrowed by consumers and business enterprises ✓✓
- 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 (3 years or longer) are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

3.5. How can improving efficiency in markets stimulate aggregate supply?
(4 x 2) (8)

- Over the long run, aggregate supply is not affected by the price level and is driven only by improvements in productivity and efficiency✓✓
- Efficiency can be improved through deregulation which is the removal of laws and regulations and all other forms of government control to make the markets freer. ✓✓
- More competition creates the establishment of new businesses and also attracts foreign investment. ✓✓
- Privatisation is important since public enterprises have legislative protection and they are supported by the government so private sector businesses cannot compete with the public sector. ✓✓

(Accept any other correct relevant response) (4 x 2)
Allocate maximum of 2 marks for mere listing of facts

[40

TOTAL SECTION B: [40]

SECTION C
QUESTION 4 **40 MARKS – 40 MINUTES**

• Discuss in detail the features underpinning forecasting of business cycles. (26 marks)

• Analyse the challenges that an economic recession poses on different participants in the economy. (10 marks)

INTRODUCTION

Business cycles can be described as successive periods of contraction and expansion of economic activities. ✓✓

(Accept any other correct relevant introduction) (Max 2)

BODY: MAIN PART
LEADING INDICATORS ✓

- Leading indicators are indicators that change before the economy changes ✓✓
- Leading indicators give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading. ✓✓
- These indicators peak before a business cycle has reached a peak. ✓✓
- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time. ✓✓
- When they decline it also means the level of economic activity will decline in the near future ✓✓
- Examples: include the number of residential plans passed, number of job advertisements, number of new companies ✓

COINCIDENT INDICATORS ✓

- Coincident indicators are indicators that change at the same time as the economy changes ✓✓
- Coincident indicators show the actual state of the economy. ✓✓
- A downturn is shown by a decrease in these indicators while an upswing is shown as an increase in these indicators ✓✓
- Coincident indicators confirm the changes predicted by the leading indicators. ✓✓
- The value of retail sales will reach a peak and then begin to decline at the same time as the business cycle. ✓✓
- Examples: are usage of capacity in manufacturing, registered unemployment, real GDP. ✓

LAGGING INDICATORS ✓

- Lagging indicators change after the economy has already changed ✓✓
- Lagging indicators reach the turning point after the business cycle has already turned ✓✓
- Lagging indicators serve to confirm the behaviour of co-incident indicators ✓✓
- Examples: number of commercial vehicles sold, real investment in machinery, unit labour costs in manufacturing ✓

COMPOSITE INDICATORS ✓

- Composite indicators summarise a group of indicators of the same type into a single value ✓✓
- The single figure forms a norm for a country's economic performance
- Composite indicators can be consolidated into single values of a composite leading, coincident and lagging indicator. ✓✓

AMPLITUDE ✓

- It is the difference between the value of total output between peak and trough measured from the trend line to the peak and trough ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity ✓✓

<u>The amplitude shows two things:</u>

-**The power of the underlying forces** such as interest rates, exports or consumer spending. ✓✓ A large amplitude during the upswing signifies strong underlying forces. ✓✓ The duration of a cycle with larger amplitude is usually longer than one with a small amplitude ✓✓
- **The extent of change such a** decrease in unemployment of 50% or increase in inflation of 100% during the upswing ✓✓ The larger the amplitude, the more extreme the changes that may occur. ✓✓

TREND LINE ✓

- The trend line indicates the general direction in which the economy is moving✓✓
- When the economy is growing, there is an upward trend, but when the economy is contracting there is a downward trend ✓✓
- The trend will change when the time series data change their behavioural patterns of the past ✓✓
- The trend line normally has a positive slope because the production capacity of the economy increases over time ✓✓

LENGTH/DURATION OF A CYCLE ✓

- Length is measured from peak to peak or from trough to trough ✓✓
- Longer cycles show strength and shorter cycles show weakness with regard to economic activities ✓✓
- Cycles may overshoot which means that whenever activity in terms of some composite indicators increase to beyond its normal level ✓✓
- The contraction in the growth of output may overshoot the level where it should naturally stop. ✓✓

EXTRAPOLATION ✓

Extrapolation refers to the estimation of something unknown from the facts that are known ✓✓
Past data is used when predictions are made about the future based on assumptions related to trends ✓✓
Extending a trend into the future may provide information on what is likely to happen ✓✓
Economists may predict that the economy will grow in few months to come if a business cycle has passed through a trough and entered into an upswing ✓✓
Extrapolation techniques are sometimes used to predict future share prices ✓✓

MOVING AVERAGES ✓

- They are calculated along the time series so that a smoother business cycle can be established. ✓✓
- Moving averages are used to analyse the changes in a series of data over a certain period of time. ✓✓
- Economists use moving averages to eliminate the effect of sharp fluctuation in the business cycle ✓✓

(Accept any other correct relevant response)
(A maximum of 8 marks may be allocated for mere listing of headings/examples) (Max 26)

ADDITIONAL PART
An economic recession may pose the following challenges on the different participants in the economy:

- The tax base for the government may shrink as some businesses may shut-down their operation and workers lose jobs ✓✓
- Government will collect less tax revenue from businesses and households resulting in postponement of some public projects due to lack of funds ✓✓
- Social expenditure by the government may increase as poverty and unemployment levels increase during the recession ✓✓
- State debt may increase as the government tries to raise funds for some of its critical expenditure ✓✓
- Households may lose their jobs and fail to find new employment as production of goods and services decrease.✓✓
- Consumers' confidence will decrease resulting in less expenditure on goods and services ✓✓
- Businesses may experience low demand for goods and services as consumers postpone some of their expenditures ✓✓
- Business may generate less revenue resulting in less profits. ✓✓
- Business confidence may decrease thereby discouraging them from investing in the economy✓✓
- The foreign sector will have less supply of South African exports as domestic production decreases ✓✓
- Foreign investors will lose confidence with the economy resulting in less capital inflow ✓✓

(Accept any other correct relevant response)
(A maximum of 2 marks may be allocated for mere listing of facts/examples)
(Max 10)

CONCLUSION
The country can be enabled to prepare suitable policies to deal with different changes in the economy reflected by the indicators and features ✓✓

(Accept any other correct relevant higher order conclusion) (Max 2)

QUESTION 5 **40 MARKS**

- **Discuss in detail the reasons for public sector failure (link them to typical problems experienced through public sector provisioning)** **(26)**
- **Why are parastatals bailouts unsustainable (do they not provide long term solutions to the problems of parastatals)?** **(10)**

INTRODUCTION

Public sector failure occurs when a government intervention fails to meet the desired outcome making the existing economic situation worse ✓✓

(Accept any other correct relevant introduction) **Max 2**

BODY: MAIN PART

Management failure. ✓

- Since the assessing of needs is difficult therefore the state might oversupply some goods and undersupply some goods. ✓✓
- In this way the management was not able to satisfy the needs of the consumers and there will be wastages leading to the public sector failure. ✓✓
- People working in parastatals might lack management skills and might end up implementing wrong policies that may cause the public sector to fail. ✓✓
- If the management cannot explain the decisions that they took and explain how they spend the money they have been allocated then they are not accountable and this may be a result of corruption, corruption results in inefficiencies that lead to fail in public sector. ✓✓

Apathy. ✓

- The government servants do not provide an efficient service to the public as a result of corruption. ✓✓
- Corruption and poor service delivery are signs of apathy and may results as a cause of poor accountability. ✓✓
- Parastatal employees lack the interest or concern because they know they will get paid even when they are underperforming✓✓

Bureaucracy. ✓

- Complex rules and procedures might lead to inefficiencies in the public sector and the public sector might fail to provide the goods and services in time for the consumers. ✓✓
- For example, if there is an electricity fault at some house the state company Eskom will send their workers to fix the fault and the workers will only fix that fault because they were told to fix that only even if there is a fault in the neighbouring house they won't fix it but they will need that fault to be reported so they can come fix it. ✓✓
- This simply means that the parastatals cannot satisfy the needs of

consumers in time because of the rules and procedures that have to be followed that may take time to finish following them. ✓✓

Lack of motivation. ✓

Nationalizing companies may demotivate workers to work hard as their hard work would not be recognized leading to the workers being efficient. ✓✓

Politicians. ✓

- Lack of accountability by politicians may be a result of corruption and this may lead to them not fulfilling the promises they made to individuals when they were running their campaigns. ✓✓
- As the politicians are not accountable for their actions then resources may not be allocated fairly because of corruption. ✓✓

Structural weaknesses. ✓

- Incompetency of workers may lead to the workers not being able to provide efficient services to the public. ✓✓
- Nationalization of companies that provide a different good that the state provides may make it difficult for the state to be able to provide that good. ✓✓

Special interest groups. ✓

- Special interest groups can be viewed as using their political power to raise demand for public services, as well as using their bargaining power to fight for higher wages✓✓
- Special interest groups' political power leads to more government spending which strain the government expenditure for the fiscal year✓✓
- Huge strike caused by special interest groups such as South African taxi association decreases production of the economy since people will not be having alternative transportation to work✓✓

(Accept any other correct relevant responses) **(Max.26)**
(Allocate a maximum of 8 marks for the mere listing of facts including headings)

ADDITIONAL PART

Why are parastatals bailouts unsustainable (do they not provide long term solutions to the problems of parastatals)?

- The financial position of state-owned entities has deteriorated further in 2022/2023 due to the weak economy and historically poor performance. ✓✓
- The net cash operations of these entities decreased over the year while capital expenditure by these entities declined. ✓✓
- Bailouts erode public policy as they require a redirection of resources from the public service priorities such as education, public safety and criminal justice. These entities (SOEs) are meant to be self-sufficient. ✓✓
- These bailouts have not succeeded in effecting operational and financial improvements since most of these entities reported losses in 2022/23. ✓✓

- For instance, Eskom has received R241, 6bn in bailouts since 2009 while SAA received R48, 2bn and still went into business rescue. ✓✓
- Denel remained unable to meet its financial obligations and was working through a R3.4bn bailout granted in 2022. ✓✓

(Accept any other correct relevant response) **(Max 10)**
Allocate maximum of 2 marks for mere listing of facts

Conclusion
If the above problems are not dealt with timeously by government, government will continue to fail its people in terms of service delivery, seeing many protests occurring regularly. ✓✓

(Accept any other correct relevant response) **(Max 2)**

TOTAL SECTION C: 40
GRAND TOTAL: 100