



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATION

ECONOMICS P2

2015

MEMORANDUM

MARKS: 150

This memorandum consists of 20 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 B – external ✓✓
 1.1.2 C – buyers and sellers ✓✓
 1.1.3 A – less at a higher ✓✓
 1.1.4 C – decrease ✓✓
 1.1.5 C – labour ✓✓
 1.1.6 A – marginal ✓✓
 1.1.7 B – biodiversity loss ✓✓
 1.1.8 A – monetary ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 I – The number of units produced during a particular time ✓
 1.2.2 C – The positive difference between total revenue and total costs ✓
 1.2.3 E – Negative or positive third party effects ✓
 1.2.4 G – Excludes items with highly volatile prices from the CPI basket ✓
 1.2.5 H – Reasons for growth in tourism ✓
 1.2.6 A – Sustainable management and use of resources ✓
 1.2.7 D – Brands play a significant role in determining customer loyalty ✓
 1.2.8 B – Grants and pensions ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

- 1.3.1 Non-price competition ✓
 1.3.2 Fixed cost (FC) ✓
 1.3.3 Public goods ✓
 1.3.4 Stagflation ✓
 1.3.5 Inbound tourism / International tourism ✓
 1.3.6 Global warming / Greenhouse effect ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer TWO of the three questions from this section in the ANSWER BOOK.

QUESTION 2: MICROECONOMICS**2.1 Answer the following questions:**

2.1.1 **Name any TWO institutions in South Africa that regulates anti-competitive behaviour.**

- Competition commission ✓
 - Competition tribunal ✓
 - Competition appeal court ✓
- (Any 2 x 1) (2)

2.1.2 **What influence does VAT have in the calculation of CPI (Consumer Price Index) and PPI (Producer Price Index)?**

CPI increases / VAT is included ✓ No effect on PPI / VAT is excluded ✓ (1 x 2) (2)

2.2 Data response

2.2.1 **What is the visible relationship between the MC and AC curves?**

The MC curve cuts the AC curve at its lowest turning point ✓✓
(Accept an explanation of the relationship) (2)

2.2.2 **Define the term *economic loss*.**

When a business' average costs exceeds the price (total cost more than total revenue) ✓✓ **OR** $MC > MR$ ✓✓ (2)

2.2.3 **Why is the demand curve of the individual producer horizontal (flat)?**

Producers are price takers – sell all quantities at the same price ✓✓ (2)

2.2.4 **Calculate the economic loss. Show ALL calculations.**

$15 \times 50 = 750$ total cost ✓
 $10 \times 50 = 500$ total revenue ✓
 Therefore economic loss = $500 - 750 = -250$ ✓✓
OR
 $R10 - R15$ ✓ = $-R5$ ✓
 $50 \times -R5$ = $-R250$ ✓✓ (4)

2.3 **Data response**2.3.1 **Which type of industries mentioned in the extract are said to be oligopolistic?**

- Pharmaceutical companies ✓
 - Smart phone companies ✓
- (2 x 1) (2)

2.3.2 **Define the term *oligopoly*.**

This is a market structure in which a small number of large sellers dominate the market ✓✓ (2)

2.3.3 **Why is it important for these companies to have trademarks for their products?**

- To protect the imitation of their products ✓✓
 - To stop others from entering their market ✓✓
- (2)

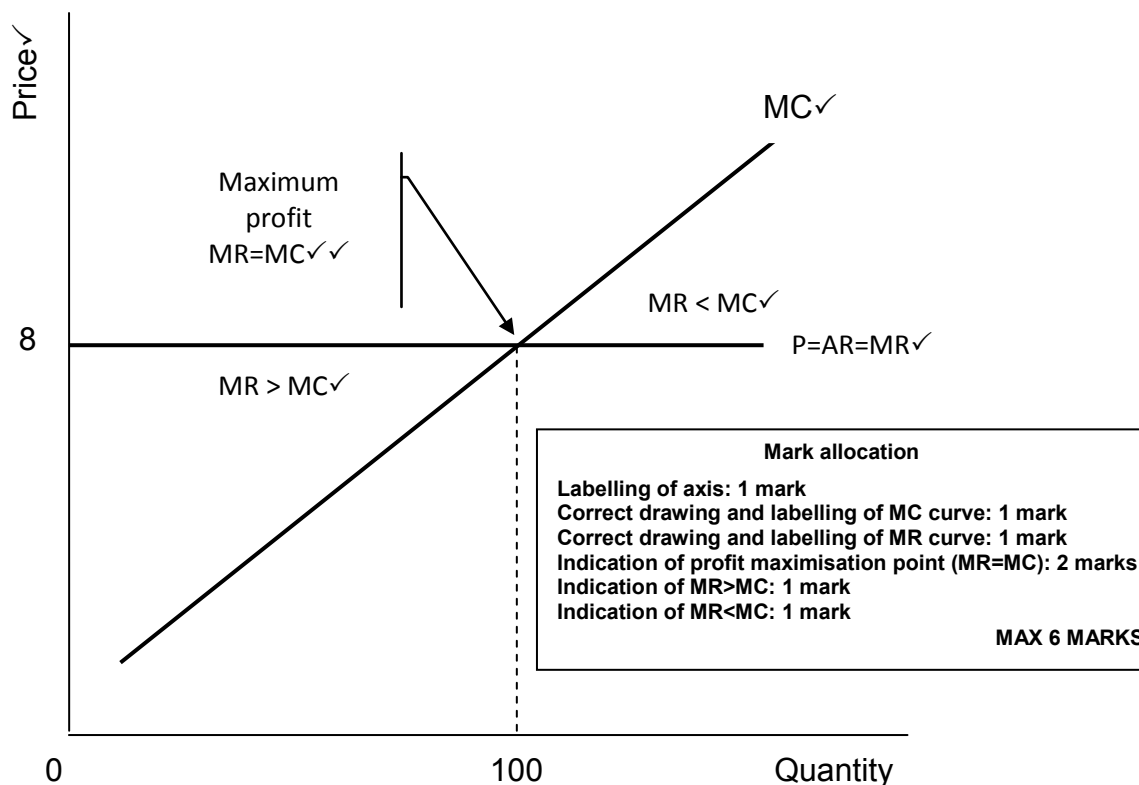
2.3.4 **How do cartels and price leadership differ in terms of the way prices are manipulated?**

- In price leadership the dominant firm set the price and the other firms often follow (tacit collusion) ✓✓
 - In a cartel the firms formally meet and agree on the price for their products (overt collusion) ✓✓
- (2 x 2) (4)

2.4 **What are the objectives of the Competition Act, 1988 (Act of 1998) in South Africa?**

- To afford all South Africans with equal opportunity to participate fairly in the economy ✓✓
 - To restrain particular trade practices such as price fixing ✓✓
 - To regulate the transfer of economic ownership in keeping with the public interest ✓✓
 - To establish independent institutions to monitor economic competition ✓✓
 - To create greater capability and environment for South Africans to compete effectively internationally ✓✓
- (Accept any other relevant answers) (Any 4 x 2) (8)

2.5 With the aid of a graph, explain why marginal cost must be equal to marginal revenue for profits to be maximised.



(Accept graphs for an imperfect market showing MC and MR curves)

The business maximises profit where $MC = MR$

- If the business produces less than the average revenue (AR), the marginal revenue obtained will be higher than the marginal cost. Therefore the business has room to improve its profit level ($MR > MC$).
- If the business produces above the average revenue (AR), the marginal revenue is lower than the marginal cost ($MR < MC$) therefore the business will make a loss per additional unit produce above the $MR = MC$ point.

(Maximum 6 marks for discussion)

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 Answer the following questions:****3.1.1 Name any TWO international agreements on sustainable development.**

- United Nations Conference on Environment and Development (Rio de Janeiro) ✓
 - The Montreal protocol on substance that depletes the ozone layer ✓
 - Convention on Biological Diversity ✓
 - World summit on sustainable development ✓
 - Habitat II Conference in Istanbul ✓
 - Framework Convention on climate change (COP17)✓
 - Kyoto Protocol ✓
- (Accept any other relevant response) (Any 2 x 1) (2)

3.1.2 What is the purpose of green tax?

To reduce the production of goods that has harmful effects on the environment.
(Accept any other relevant response) (1 x 2) (2)

3.2 Data response**3.2.1 Define the term ecotourism.**

This is the enjoyment of and appreciation of undisturbed nature ✓✓
(Accept any other relevant definition) (2)

3.2.2 Name any TWO World Heritage Sites in South Africa.

- Mapungubwe ✓
- Robben Island ✓
- Table Mountain ✓
- iSimangaliso Wetlands Park (Great St Lucia Wetlands Park ✓
- The Sterkfontein caves (Cradle of Humankind) ✓
- The Vredefort Dome ✓
- The Cape fynbos Region ✓
- uKhahlamba Drakensberg Park ✓
- Richtersveld Cultural and Botanical Landscape ✓ (Any 2 x 1) (2)

3.2.3 What message do you think is conveyed by the cartoon?

The animals are watching the eco tourist while it is often the other way round/the animals think that the tourists are concerned with pollution of the environment – and that is the reason why they are pushing the vehicle – in the mean time they are stranded without petrol ✓✓
(Accept any other relevant response) (2)

3.2.4 **Why is infrastructure development an important requirement for tourism?**

- Adequate and well-maintained physical and basic services, infrastructure are essential for tourists destinations ✓✓
- These are normally shared by residents and visitors alike ✓✓
- Government has prioritized economic infrastructure ✓✓ including ports, beaches, rivers and lake access to support tourism growth ✓
- Most economic corridors have tourism as an important focus- Public Private Partnerships (PPP) are sometimes used for the development of infrastructure ✓✓
- In addition to physical and basic infrastructure, tourists as well as residents require social infrastructure ✓✓ e.g. ambulance services, medicines, clinics, and hospitals, police protection and information services ✓

(Accept any other relevant responses) (2 x 2) (4)

3.3 **Data response**

3.3.1 **Identify the main problems that impact on the management of the environment.**

- Lack of knowledge ✓
 - Lack of environmental awareness ✓
- (Accept any other relevant response)

(2 x 1) (2)

3.3.2 **Define the term *environmental sustainability*.**

This is the ability of the environment to survive its use for economic activity ✓✓
(Accept any other relevant response)

(2)

3.3.3 **What role can education play in changing the perception of people on ecological issues?**

It makes people aware of the connection between their survival and the environment/People can learn to use the environment sustainably ✓✓
(Accept any other relevant response)

(2)

3.3.4 How can the government intervene to ensure environmental sustainability?

- Charging the consumers and producers for the use of the environment ✓✓
- Levying environmental taxes on output or consumption ✓✓ where external environmental costs are generated
- Subsidizing economic activities that reduce environmental damage ✓✓ e.g. production of unleaded petrol ✓
- Granting property rights to common goods such as air ✓✓
(Accept any other relevant response) (2 x 2) (4)

3.4 What are the benefits of tourism to households?

- Spending by tourists means income to the households in the form of salaries and wages through **employment** (growth) in the tourism industry ✓✓
- They earn **income** directly from the tourism industry as tour operators, for example and indirectly as employees in financial institutions, transport enterprises, working in the hotel industry ✓✓
- Tourism can also bring increased income for crafts people ✓✓ e.g. curio producers, interpreters ✓
- They will be able to buy more goods and services and this will also increase the income of those who produce and distribute these goods and services ✓✓
- Most of the **infrastructure** that is created for tourists is also available for use by local people, e.g. roads, hotels, telephones, water and electricity ✓✓
- The Tourism Hospitality and Sport Education and Training Authority (THETA) offers learnerships for a number **skills** required in tourism, such as tour guides, travel agents and chefs ✓✓
- Higher education institutions offer eight different kinds of travel and tourism programmes ✓✓
- Tourism also exposes people to different foreign cultures and this impacts on cultural and social knowledge and enjoyment ✓✓
(Accept any other relevant response) (Any 4 x 2) (8)

3.5 **How would you advise the Minister of Finance to curb (reduce) inflation?**

- Increase direct taxes will lead to a decrease in disposable income, therefore this will lead to decrease in spending and inflation ✓✓
- Increase in indirect taxation such as VAT will lead to increase in prices and decreased demand ✓✓
- A decrease in government spending will lead to less money injected in to the economy ✓✓
- This will lead to a decrease in the total demand of goods and services and therefore inflation will decrease ✓✓

(Accept any other relevant response)

(4 x 2)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 Answer the following questions:****4.1.1 List any TWO examples of merit goods**

- Education ✓
 - Primary health care ✓
- (Accept any other relevant response) (2 x 1) (2)

4.1.2 How can tourism contribute to government revenue?

- Tourism levy ✓✓
 - Taxes from goods bought ✓✓
 - Income tax from people employed in this sector ✓✓
 - Tax on business profits ✓✓
- (Accept any other relevant response) (1 x 2) (2)

4.2 Data response**4.2.1 What message is depicted in the picture?**

- The cost and benefits of solar energy ✓✓
 - Benefits of solar energy outweigh costs ✓✓
- (Accept any other relevant response) (2)

4.2.2 Name any private cost associated with the provisioning of solar energy.

- Installation costs of solar panels ✓✓
 - Cost of panels ✓✓
 - Labour cost ✓✓
 - Transport cost ✓✓
 - Purchasing of properties to erect solar panels.(solar farms) ✓✓
- (Accept any other relevant response) (1 x 2) (2)

4.2.3 Why is South Africa suitable for the generation of solar energy?

The abundance of sunshine/favourable weather conditions/
climate ✓✓ (1 x 2) (2)

4.2.4 How would the use of solar energy benefit our country?

- Less pollution/cleaner air ✓✓
 - Reduced medical issues ✓✓
 - Reduce the pressure on Eskom to generate electricity / Less load shedding ✓✓
 - Saving on maintenance cost which could lead to lower electricity prices ✓✓
 - Lower the cost of living ✓✓
- (Accept any other relevant response) (2 x 2) (4)

4.3 **Data response**4.3.1 **Identify TWO countries that are members of BRICS?**

- China ✓
 - India ✓
- (2 x 1) (2)

4.3.2 **Define the term *tourism*.**

Activities of people travelling to and staying in places outside their usual environment for no longer than one consecutive year for leisure, business and other purposes which are not related to an activity remunerated from within the place visited ✓✓ (2)

4.3.3 **Determine the percentage change of Chinese tourists to South Africa between 2011 and 2012.**

55,9% / 56% ✓✓ (2)

4.3.4 **In your opinion, why is South Africa a preferred tourist destination?**

- It has many beautiful sceneries, e.g. Robben Island, Mapungubwe, Sterkfontein ✓✓
 - The stable political atmosphere ✓✓
 - Humility of South Africans (Ubuntu) ✓✓
 - Favourable exchange rate ✓✓
- (Accept any other relevant response) (2 x 2) (4)

4.4 **Briefly discuss the demand curve of the monopolist.**

- Monopolist demand curve has a negative slope/downward sloping from left to right (accept graphical representation) ✓✓
- Slope is inelastic (steep) ✓✓
- The demand curve is also the market demand curve ✓✓
- The shape of the curve indicates that there is an inverse relationship between price and quantity demanded ✓✓
- This means as price increase quantity demanded will decrease/price decrease quantity demanded will increase ✓✓ (Any 4 x 2) (8)

4.5 Explain why markets fail to protect the environment.

- **Lack of knowledge** ✓ Consumers do not always realize that they cause environmental damage by using certain products ✓✓ e.g. aerosols, certain plastics etc. ✓ particularly when the effects build up over a long period of time ✓✓
- **Externalities** ✓ Affected individuals carry the indirect costs of pollution and not the businesses that cause pollution ✓✓ No one owns the environment, e.g. air, water and as a result no one can enforce property rights over it ✓✓ It is therefore very difficult to stop a person from polluting the air because it does not belong to an individual ✓✓
- **Non-excludability of the environment** ✓ This is a common resource and not privately owned ✓✓ e.g. air and oceans ✓ There is no incentive to economize on the environment ✓✓
- **Negligence** ✓ People are prepared to carry on with practices that harm the environment for their own benefit and with no responsibility towards the future generations ✓✓
(Accept any other relevant explanation)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate	Max. 26
Additional part: Give own opinion/Critically discuss/ Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/ Calculate/Deduce/Compare/Explain/Distinguish/Interpret/ Briefly debate	Max. 10
Conclusion: Any higher-order conclusion should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MICROECONOMICS

Market failure is a common feature of free market economies.

- **Discuss the causes of market failure in detail.** (26 marks)
- **With the aid of a graph (PPC) explain how productive efficiency can be achieved in the market.** (10 marks)

INTRODUCTION

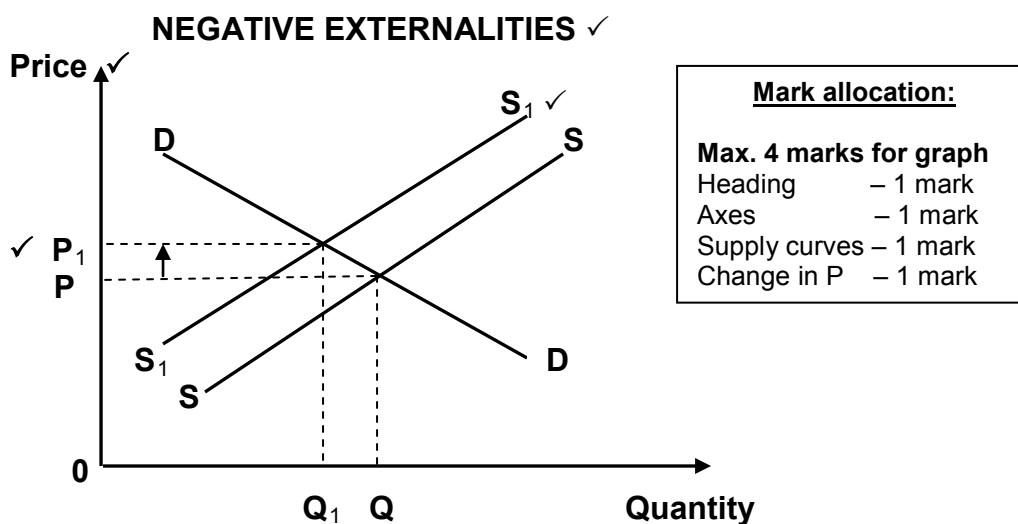
Market failure means that the best available or optimal production outcome has not been achieved/ it is the failure of markets to achieve optimum resource allocation ✓✓
(Max. 2)

BODY**MAIN PART****Externalities** ✓

- these are known as spill-over effects to third party ✓✓
- These are those costs and benefits that convert private costs and benefits into social costs and benefits ✓✓

Concepts:

- **Private costs:** internal costs are known as private costs ✓✓
They are the usual costs that consumers incur when they buy goods ✓✓ e.g. the price a person pays for a house, R280 000 ✓
- **Private benefits (internal benefits):** these are benefits that accrue to those who buy the goods and those who produce the goods ✓✓
- **Social costs:** this is the cost of goods and services to those who create them and to society at large ✓✓
Private costs plus external cost are equal to social costs ✓✓
- **Social benefits:** external benefits and private benefits are equal to social benefit ✓✓
As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure ✓✓

**Public goods:** ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted ✓✓
- Markets can only form under certain conditions and when these conditions are absent, markets struggle to exist ✓✓
- Public goods are not provided for by the market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price ✓✓
- Community and collective goods together are known as public goods ✓✓
- **Community goods:** these are goods such as defence, police service, prison services, street lighting, flood control, storm water drainage and lighthouses ✓✓
- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerage systems, waste removals, water reticulation and refuse removals ✓✓

Features of community and collective goods are:

- **Non-rivalry:** this feature means that consumption by one person does not in any way reduce the consumption by another person ✓✓
- e.g. lighthouse or street lighting ✓

- **Non-excludability:** this feature refers to the fact that consumption of a good cannot be confined to those who have paid for it, so there can be free-riders ✓✓
- People can enjoy the product without paying for it ✓✓
- e.g. radio and television in South Africa have many free riders ✓

Merit and demerit goods: ✓

- These are related to the desirability of use ✓✓
- **Merit goods:** Some goods are highly desirable for the general welfare of the people of a country and are often not highly rated by the market ✓✓
- If people have to pay market prices for them, relatively little would be consumed ✓✓
- In this sense, the market fails to detriment of the economy and society ✓✓
- e.g. health care services, education, skills training, safety, inoculations, car seat belts etc. ✓
- **Demerit goods:** Items such as cigarettes, alcohol and non-prescriptive drugs are examples of demerit goods ✓
- In a free market economy, these goods are over-consumed ✓✓
- Some consumers may be unaware of the true costs of consuming them that is their negative externalities ✓✓
- Government can ban their consumption or reduce it by means of taxation (e.g. excise duties) and by providing information about their harmful side effects ✓✓

Imperfect competition: ✓

- In market economies, competition is often impaired by power ✓✓
- Power often lies to a greater extent with producers than with consumers ✓✓
- Most business operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost ✓✓
- They can also prevent new businesses from entering the industry, thereby preventing full adjustment to changes in consumer demand occurring ✓✓

Lack of information: ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information ✓✓

Immobility of the factors of production: ✓

- Most markets do not adjust rapidly to changes in supply and demand ✓✓
- While this may be partly due lack of information, it is also true that resources are very often not mobile ✓✓
- **Labour:** They may take time to move into new occupations and geographically to meet the changes in consumer demand ✓✓

- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will ✓✓
- They last for many years, but cannot be moved to fit a change in demand ✓✓
- **Technological applications change production methods:** Technology used in the production may change, e.g. the use of robots rather than labour in mines ✓✓
- However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and work patterns ✓✓

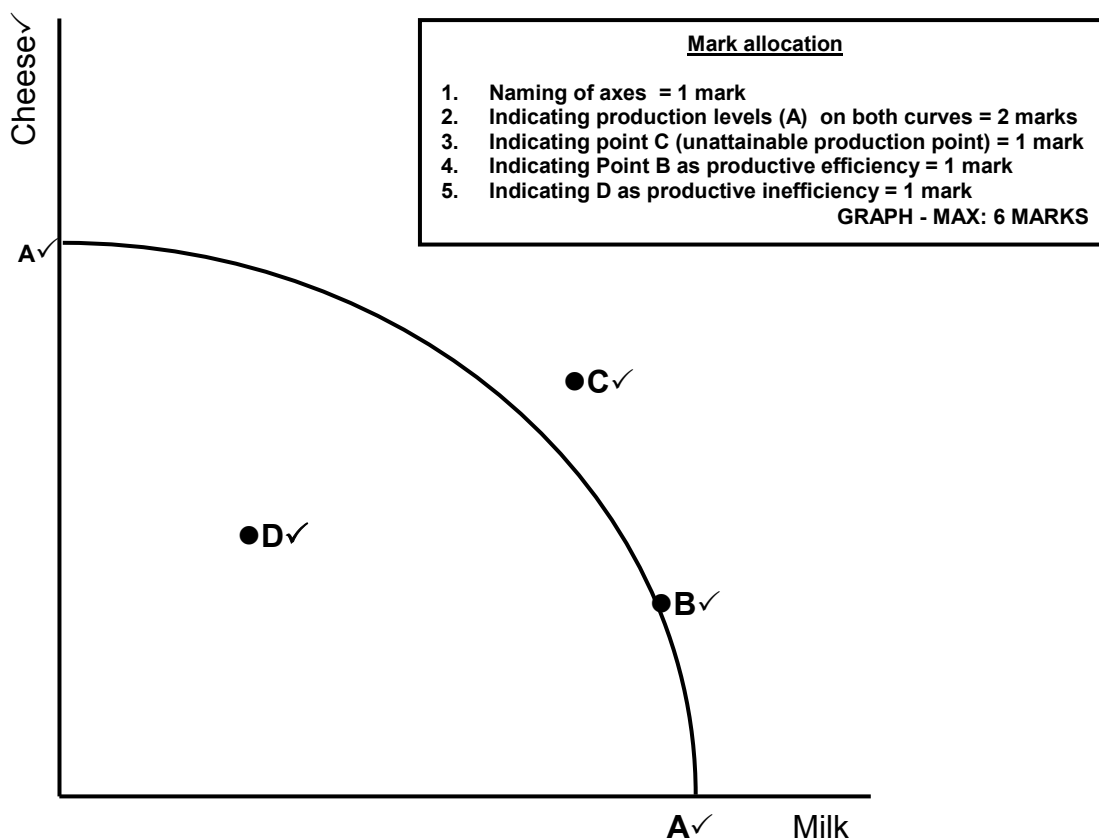
Imperfect distribution of income and wealth: ✓

- Perhaps the most important shortcoming of market systems is that it is neutral in the issue of income distribution ✓✓
 - If the initial distribution is unequal, the final distribution will be too ✓✓
 - For this reason, it is often argued that the market fails ✓✓
- (Allocate a maximum of 8 marks for headings / sub-headings)
(Accept any other relevant response)

(Max. 26)

ADDITIONAL PART

Explain productive efficiency with the aid of a graph.



EXPLANATION

- D (a point to the left of the PPC curve) is inefficient – resources are wasted ✓✓
- C (a point to the right of the PPC curve) not possible because of scarcity (lack of resources) ✓✓
- B (a point on the PPC curve) is efficient – production is maximized – no wasted resources ✓✓

(Accept the explanation of a trade-off if two points appear on the PPC) (Max 6)

CONCLUSION

Although the government cannot fulfil the supply of all community goods, there will always be a need to satisfy the aspirations of the entire society ✓✓
(Any other relevant conclusion) (Max. 2) [40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

Inflation is a constant challenge to the incomes of the workers and the society at large all over the world.

- **Examine in detail the consequences of inflation.** (26 marks)
- **Debate the merits (advantages) of the administered prices by the government.** (10 marks)

INTRODUCTION

This is a constant and significant increase in the general price level of goods and services in the country over a certain period of time, e.g. a year ✓✓ (Max. 2)
(Accept any other relevant response)

BODY**MAIN PART****Creditors and debtors** ✓

- Whereas borrowers (debtors) benefit from price increases, lenders (creditors) suffer due to price increases ✓✓
- This is because borrowers receive money with a relatively high purchasing power and they repay their loans with money with low purchasing power, unless interest rates are sufficient to prevent this occurrence ✓✓

Salary and wage earners ✓

- Price increases affect people whose incomes are relatively fixed (in other words, people whose incomes remain constant or do not increase at the same rate as prices do) ✓✓
- This group includes retired people, pensioners and the poor ✓✓
- As prices increase, their almost fixed incomes purchase less and less ✓✓
- However, there are individuals and entrepreneurs whose incomes often increase at a rate that is higher than the inflation rate and they do not suffer but gain from inflation ✓✓
- Globalization results in increased employment opportunities in the economy due to increased productivity, the need to produce more goods both for local and international markets rises in globalised economies ✓✓
- The demand for increased skilled labour becomes a need as a result, this demand for labour benefits the local labour market in increased employment opportunities and growth ✓✓

Investors and savers ✓

- Different types of investments are affected by inflation: Assets with fixed nominal values ✓✓
- These assets have a fixed nominal value and give a return if they are held until maturity ✓✓
- When they are paid, because their nominal values remain constant, the purchasing power of the nominal values decreases as prices increase (that is, their real value decreases) ✓✓

Assets with flexible market values ✓

- The holders of shares and fixed property usually gain by price increases because the nominal values of these assets tend to increase at least proportionately to the rate of inflation (that is, their market values are flexible) ✓✓
- Often the prices of these assets increase more rapidly than increases in the general price level ✓✓
- In this case, inflation creates wealth to the advantage of those holding such assets ✓✓

Tax payers ✓

- South Africa has a progressive personal income tax system ✓✓
- This means that marginal and average tax rates increase in harmony with the income level ✓✓
- The higher an individual's income, the greater the percentage of income he or she has to pay in tax ✓✓
- With inflation, taxpayers' nominal income (wages and salaries) rise even when their real income remain unchanged ✓✓
- Taxes are levied on nominal income and not on real income ✓✓
- Therefore, if the income tax schedule remains unchanged, inflation increases the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before ✓✓
- This phenomenon, known as bracket creep, leads to a redistribution of income from taxpayers to the government ✓✓
- Bracket creep results from a combination of inflation and progressive income tax ✓✓
- It has the same effect as an increase in the tax rate ✓✓

Industrial peace ✓

- Wage bargaining is often accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence, which affects society at large ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels), widespread civil unrest follows ✓✓

Inflation has a negative effect on economic growth ✓

- Inflation leads to increased uncertainty in the economy ✓✓
- This uncertainty discourages savings and investments especially in the long term ✓✓
- Which are necessary for economic growth – result: reduced economic growth ✓✓

Inflation affects the real money value and savings ✓

- Because inflation reduces the real value of money, it affects the real value of money saved in particular ✓✓
- This means that inflation, the rand buys fewer goods and services than before ✓✓
- It also means that the real money value saved is worth less at the end of the savings period than when the money was saved ✓✓
- e.g. if a consumer receives 5% interest on his/her savings account while the inflation rate is 8%, then the real rate of interest on the consumer's savings is -3% ✓

Inflation has an adverse effect on a country's balance of payments (BOP) ✓

- If a country's rate of inflation is higher than that of its trading partners, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market, which in turn leads to decreased exports ✓✓
- This has a negative effect on the country's balance of payments (BOP) ✓✓
- The loss of export competitiveness can also increase unemployment ✓✓

Inflation affects the redistribution of income in a country ✓

- The effects of inflation are uneven ✓✓
- While it does not clearly benefit anyone and certainly harms most, it also harms some less than others ✓✓
- Inflation also tends to redistribute income from low income groups to higher income groups ✓✓
- This is because people in the low income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients ✓✓

Inflation has social and political costs ✓

- When inflation continually causes rising prices, it makes people unhappy and can disturb relations between employers and the employees and between customers and traders or service providers ✓✓
- People in lower-income brackets feel severe effects of increases in the price of essential items such as bread, mealier meal, rental and transport costs ✓✓
- This can lead to social unrest and political unrest ✓✓

Inflation feeds on itself and causes further inflation ✓

- This is called the inflation spiral ✓✓
- e.g. higher wage demands cause producers to increase their prices to maintain their profits ✓
- This happens again and again, pushing prices further every time ✓✓
- If the government does not keep this wage price spiral in check, inflation may get out of control and become hyperinflation ✓✓

(Allocate a maximum of 8 marks for headings / sub-headings)

(Max. 26)

ADDITIONAL PART**Debate the merits (benefits) of administered prices by the government**

- These are prices regulated by the government ✓✓ e.g. home owners costs on water/household fuel (paraffin and electricity)/medical care (public hospitals)/communication (telephone calls, telephone rentals and installations)/postage, cell communications / transport (petrol) ✓
- Most of the administered prices are adjusted once a year which brings price stability ✓✓
- Regulated prices are restricted as to the extent to which prices may vary, depending on the government's objectives ✓✓
- Administered prices provide additional revenue to national treasury ✓✓
- It appears that some of these prices remain extremely robust over the short term ✓✓

(Accept any other relevant response)

(Max. 10)

CONCLUSION

If inflation is not controlled by the proper and effective instruments, it can have challenging problems to the economy in general ✓✓

(Accept any other relevant conclusion)

(Max. 2)

TOTAL SECTION C: 40
GRAND TOTAL: 150