TELEMATIC SCHOOLS PROJECT

2023 SUBJECT WORKBOOK
Grade 12

ECONOMICS

A joint initiative between the Western Cape Education Department and Stellenbosch University.

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INTRODUCTION AND TOPICS

INTRODUCTION

In two sessions we will explore two topics:

1. The Business Cycles
2. The Foreign Exchange Markets

Economic activity as shown by Real GDP fluctuates every year. These fluctuations are then referred to as Business Cycles. This is the first session which will be covered in this workbook.

The second and last session deals with Foreign Exchange markets where the values of currencies change due to various reasons. Graphical illustrations will be used to explain this.

Topics	Description
The Business cycle	**The business cycle shows the long run fluctuations of real GDP over time.**
The Foreign Exchange Market	A market where foreign currency is bought and sold through International trade

BROADCAST SESSIONS

Session	Date	Time	Topic
ENGLISH	**30/01/2023**	**16h00-17h00**	**Business Cycles**
AFRIKAANS	31/01/2023	16h00-17h00	Sakesiklusse
ENGLISH	**10/05/2023**	**16h00-17h00**	**Foreign Exchange Markets**
AFRIKAANS	11/05/2023	16h00-17h00	**Buitelandse Valutamark**

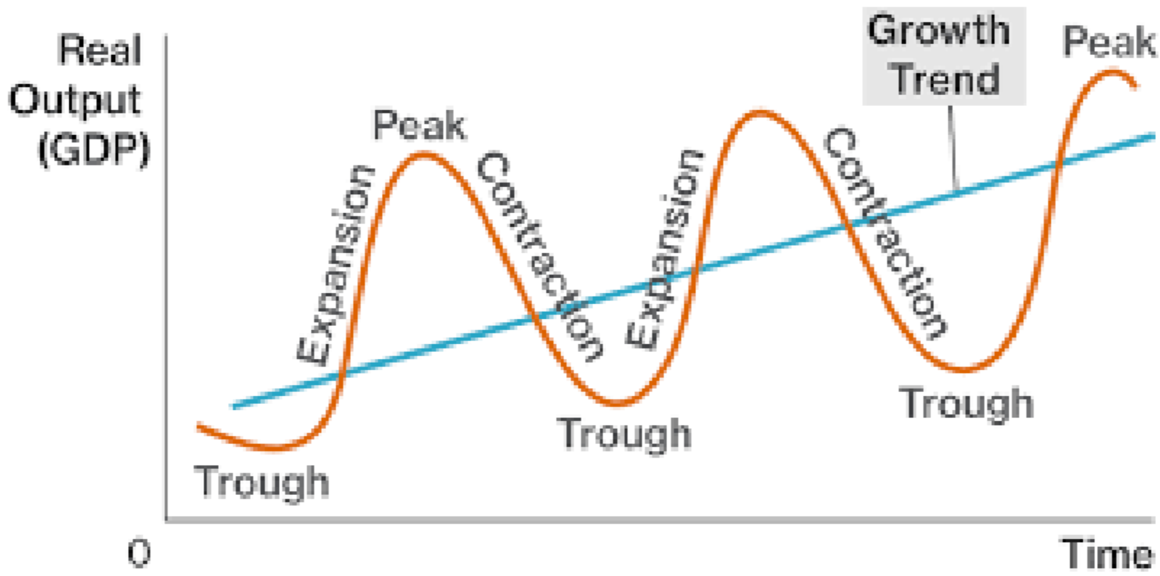
BUSINESS CYCLES TERMINOLOGY

Term	Definition
Economic indicator	**Used to measure trends in the economy, e.g. GDP**
Depression	Economic activity is at its lowest. Deepening of the recession
Recession	**A negative economic growth for at least two successive quarters**
Trough	Point where the economic contraction is at its lowest
Peak	**Point where the economic expansion is at its highest**
Phillips curve	Illustrates the relationship between unemployment and inflation

TAKE NOTE

The business cycle shows the long run fluctuations of real GDP over time.

Unpacking the definition:
- Real GDP is when inflation has been accounted for.
- GDP is used to measure economic growth which is directly linked to the levels of production.
- Fluctuations refers to the upswings and downswings.
- Time relates to the number of months or years.



SUMMARY

BUSINESS CYCLES

PHASES OF THE BUSINESS CYCLE

There are 4 phases:

Recovery
Prosperity
Recession
Depression

REASONS:

EXOGENOUS/ MONETARIST APPROACH

- Believe market is stable
- Invisible hand theory
- Outside factors influences
- Government should not intervene in the market

ENDOGENOUS/ INTERVENTIONISTS

- Believe market is unstable
- Government intervention needed
- Fiscal and monetary policies

TYPES OF BUSINESS CYCLES

- Kitchen cycles: last between 3 to 5 years caused by adapting inventory levels in businesses.
- Jugler cycles: last from 7 to 11 years and are caused by changes in net investments by government and businesses.
- Kuznets cycles: last between 15 to 20 years, caused by changes in activity in the building and construction industry.
- Kondratieff cycles: last longer than 50 years, caused by technological innovations, wars and discoveries of new deposits of resources e.g. gold.

NEW ECONOMIC PARADIGM

- The new economic paradigm explains the shift governments have employed. Instead of fine tuning the economy, they are more focused on inflation targeting.
- The SARB has set inflation for SA between 3 and 6 percent.
- Ensuring stability of prices is another macroeconomic objective.
- Government uses demand-side and supply side policies to achieve its objectives of ensuring that output increases and maintaining price stability.

DEMAND SIDE POLICIES

- The fiscal policy is more successful in stimulating a depressed economy and the monetary policy is more effective when 'dampening' an overheated economy that has inflation rising.
- The demand-side policies are there to mainly stimulate demand, but we need to bear in mind that supply also needs to be stimulated to avoid inflation setting in.
- Tools of the fiscal policy: government spending and taxation
- Tools of the monetary policy: interest rates, cash reserve requirements, moral persuasion and open market transactions

SUPPLY SIDE POLICIES

- Improving efficiency of markets
- Improve efficiency of inputs
- Reduction of costs

WORKSHEET

BUSINESS CYCLES

Question 01

Explain how fiscal policy can be used to try to improve the supply side of an economy.

Answer 01

An example would be spending on education. This will shift the AD curve to the right (note multiplier effect), but also shift the aggregate supply curve to the right as workers become more productive and unit labour costs fall. This AD curve will shift further to the right as exports increase as they become more competitive in foreign markets. *The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.*

Question 02

How can the government use fiscal policy to stimulate the economy?

Answer 02

- Raising government spending (G) with borrowed money (budget deficit) / Aggregate expenditure and demand will increase, and employment is likely to increase
- Decreasing taxes - consumers and producers have a larger part of their incomes available to spend on goods and services or investment/ aggregate expenditure increases and employment increases
- Increase in government spending and at the same time reduction of taxes will cause government to spend more and consumers and producers will also spend more which will lead to increased investment and employment.

SESSION 1 | BUSINESS CYCLES

CLASS DISCUSSIONS

BUSINESS CYCLES

Choose the most correct answer from the options provided.

1 Factors that originate from inside the domestic economic system are referred to as …
A exogenous.
B production.
C indigenous.
D endogenous.

2 In business cycles estimating something known from information that is unknown, is called …
A amplitude.
B extrapolation.
C trend.
D moving average.

3 The peak of a business cycle is characterised by a …
A stable inflation rate.
B high unemployment rate.
C low output.
D high demand for credit.

4 An increase in the productive capacity of the economy over a specific period of time is called …
A economic development.
B economic growth.
C globalisation.
D contraction.

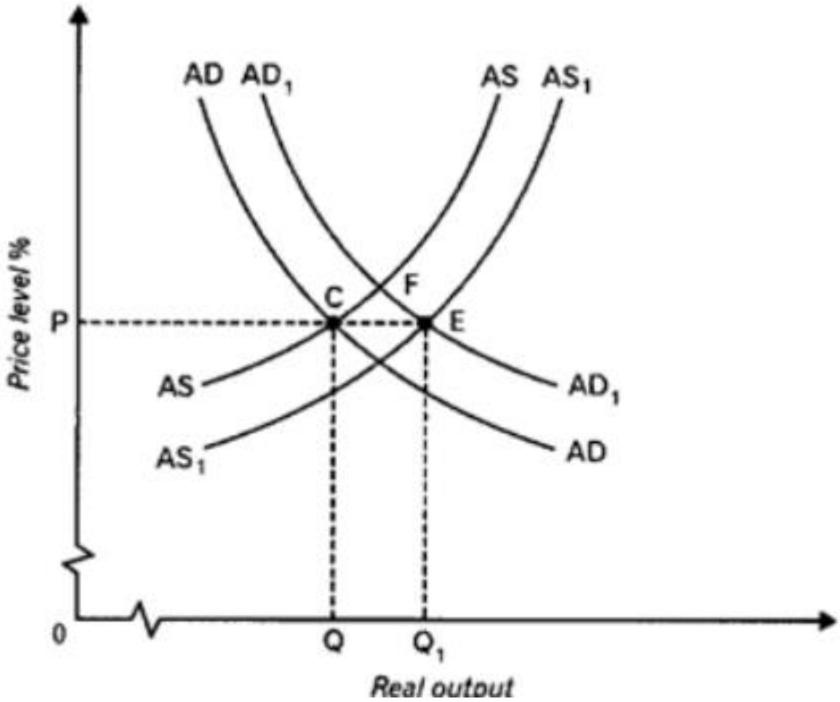
5 An indication of long-term growth in the economy is referred to as the …
A amplitude.
B trend line.
C length.
D trough.

RECAP OF TODAY'S CLASS

We discussed the following aspects with regard to Business cycles:

- Definition
- Phases
- Reasons
- Types
- New economic paradigm

NB: Know the AS/AD model graph



FOREIGN EXCHANGE MARKETS TERMINOLOGY

Term	Definition
EXCHANGE RATE	**The rate at which one country's currency is exchanged for that of another country**
BALANCE OF PAYMENTS	The difference between all the money entering and exiting the country over a defined period of time.
CURRENT ACCOUNT	The current account on the balance of payments measures the inflow and outflow of goods, services, investment incomes and transfer payments.
CAPITAL ACCOUNT	The capital expenditure and income is tracked by way of funds in the form of investments and loans flowing in and out of an economy.
FINANCIAL ACCOUNT	The financial account shows net acquisition and disposal of financial assets and liabilities.
TERMS OF TRADE	is the relationship between a country's expense from its imports and its profits from exports.

INTERNATIONAL TRADE:

- In Open Economies, countries trade with each other.
- Some countries are endowed with resources that others do not have.
- It is for this reason that trade (buying and selling) between countries takes place.
- Different currencies are used as mediums of exchange for this reason.
- These are governed by various exchange rate systems.
- These include the following:
  - Free-floating exchange rate system
  - Fixed exchange rate system
  - Managed floats or Controlled floats

REASONS FOR INTERNATIONAL TRADE

DEMAND REASONS

- Size of the population
- Income levels
- Change in the wealth of the population
- Preferences and tastes ,
- The difference in consumption patterns

SUPPLY REASONS

- Natural resources
- Climatic conditions
- Labour resources
- Technological resources
- Specialisation
- Capital

UNDERSTANDING THE FOREIGN EXCHANGE GRAPHS

- We will start with the explanation of supply and demand for different currencies as well as the reasons for the shifts of the curves.
- When the value of the currency of one country appreciates, the value of the other country depreciates.
- The exchange rate is the rate at which one country's currency can be exchanged for that of another country.
- For example, R15 for 1 US Dollar ($1:R15) .
  This means that South Africans pay R15 for every dollar purchased.

WHAT WILL HAPPEN TO THE RAND?

1. More Chinese travelling to South Africa.

   Demand increase Rand appreciates

2. A severe recession in China.

   Demand decrease Rand depreciates

3. Increase in price level in South Africa.

   Demand decrease Rand depreciates

4. Higher interest rate in South Africa.

   Demand increase Rand appreciates

ANALYSING FOREIGN EXCHANGE GRAPHS

GRAPH 1:

- Analysing demand for and supply of Rands.

GRAPH 2:

- Analysing demand for and supply of Dollars.

It is very important to determine who demand and who supply the foreign currency in each of the graphs.

Always take the other currency over the currency you analysing, to calculate the price of the currency (exchange rate)

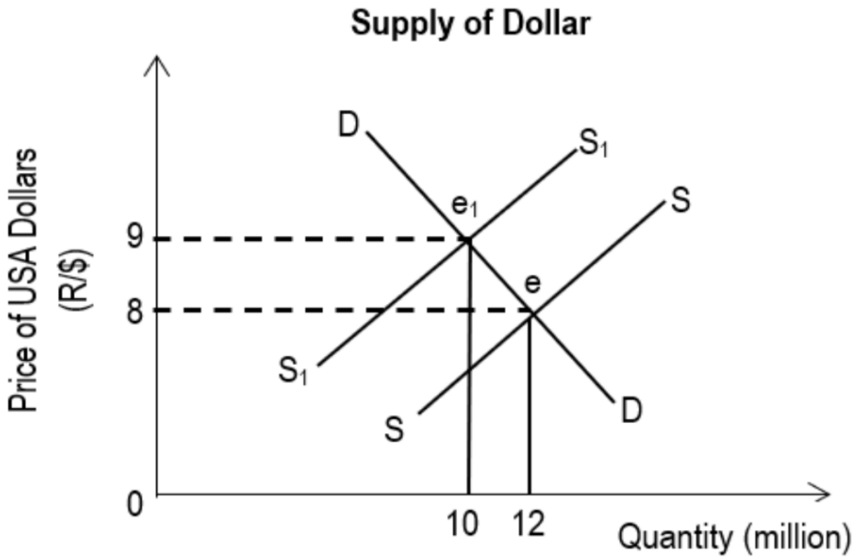
- **Graph 1**: SA supply and US demand the currency.

- **Graph 2**: SA is demand, and US supply the currency.

NB: Pay close attention to graphs drawn by presenter.

ACTIVITY – FOREIGN EXCHANGE GRAPH

Study the graph and answer the questions that follow.



- What is the equilibrium quantity at $1= R8,00?
- What is the result of a decrease in the supply of the dollar on the value of the rand?
- Briefly describe the term appreciation of a currency.
- What will the impact be of an overvalued currency on the Balance of Payments?
- Why do some countries prefer a fixed exchange rate?

WORKSHEET

FOREIGN EXCHANGE MARKETS

Question 01

Briefly discuss *income levels* and *preferences and taste as* demand reasons for international trade.

Answer 01

Income levels:

• Changes in income cause a change in the demand for goods and services

• Consumers' income for example may increase due to a decrease in tax, or increased employment of factors of production which may lead to increased consumption expenditure

• Higher income creates more needs, wants, and subsequently greater demand for a greater variety of goods even if it necessary to get the goods from abroad

• An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported

(Max 4)

Preferences and taste:

• Not all the goods wanted are produced in a country

• Consumer preferences and taste play a decisive role in demand of goods from foreign countries

• If consumers in China have a preference for tea and consumers in America have a preference for coffee, the relative prices of tea and coffee will differ between these countries

• This is influenced by international migration in terms of religion and lifestyles (Max 4)

WORKSHEET

FOREIGN EXCHANGE MARKETS

Question 02

How does an improvement in the terms of trade influence the balance on the current account?

Answer 02

- The terms of trade indicates the ratio of the index of export prices to import prices
- An increase in export prices / A decrease in import prices will improve the terms of trade.
- This will result to an improvement of exports compared to imports affecting the current account positively.
- This can lead to a reduction in the deficit or an increase in the surplus on the current account
- which will reduce the pressure on the reserves
- might however - over the long term - result in a decrease in sales volumes, depending on the price elasticity of demand in the foreign countries
- less income being generated by exports leading to a welfare loss

RECAP OF TODAY'S LESSON

FOREIGN EXCHANGE MARKETS

INCLUDES THE FOLLOWING CONCEPTS:

Reasons for international trade

Balance of Payments

Foreign exchange graphs

Terms of trade