



LIVE: FINAL EXAM PREPARATION

03 NOVEMBER 2014



Lesson Description

In this lesson we:

- Work through selected examination questions covering:
 - Macroeconomics
 - Economic Pursuits



Exam Questions

Question 1

(Adapted from Exemplar 2014, Paper 1, Question 1.3)

Give ONE term for each of the following descriptions. Write only the term next to the question number

- 1.1 A small initial change in spending produces a proportionately larger increase in national income
- 1.2 The sale of state-owned enterprises to the private sector
- 1.3 Goods used as inputs to produce other goods and services
- 1.4 An increase in the capacity of the population to produce more goods and services
- 1.5 It consists of people between the ages of 15 and 60/65 who are willing to work for an income
- 1.6 Return of land to their original owners after confiscation by the government

(6 x 1) (6)

Question 2

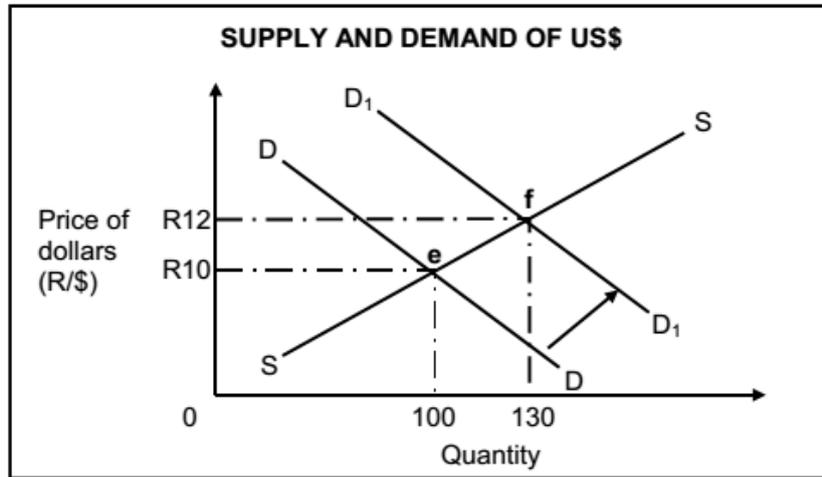
(Adapted from Exemplar 2014, Paper 1, Question 4.4 & 4.5)

- 2.1 Explain leading and lagging business cycle indicators. (2 x 4) (8)
- 2.2 Explain the TWO social indicators used for children under the age of five. (2 x 4) (8)

Question 3

(Adapted from Exemplar 2014, Paper 1, Question 4.2)

Study the graph below and answer the questions that follow.



- 3.1 At what point on the graph does the equilibrium for foreign exchange originally occur? (2)
- 3.2 What happens to the value of the rand when DD shifts to D1D1? Motivate your answer. (4)
- 3.3 How can the Central Bank of South Africa intervene in the market to influence the exchange rate? (4)

Question 4

(Adapted from Exemplar 2014, Paper 1, Question 3.4)

Briefly explain the integrated manufacturing strategy in South Africa. (4 x 2) (8)

Question 5

(Adapted from Exemplar 2014, Paper 1, Question 3.5)

How can the repo rate be used to stimulate aggregate demand? (4 x 2) (8)

Question 6

(Adapted from Exemplar 2014, Paper 1, Question 4.1)

Answer the following questions:

- 6.1 Name TWO problems of public sector provisioning. (2 x 1) (2)
- 6.2 What effect will low labour productivity have on inflation? (2 x 1) (2)



Question 7

(Adapted from Exemplar 2014, Paper 1, Question 4.3)

Study the extract below and answer the questions that follow.

SPECIAL ECONOMIC ZONES TO EMPLOY REGIONAL STRENGTHS

The announcement that 10 potential special economic zones have been identified in conjunction with the provinces could be a game-changer for South African manufacturers. Such zones are intended to bring mainstream economic activity to poor and isolated parts of South Africa by leveraging the commercial potential of the particular regions.

This will include industry clustering, or targeted development. Upington, in the Northern Cape, is a natural home for solar energy research and development. Saldanha Bay will service the growing oil and gas industry on Africa's west coast, while expanding iron ore exports.

The Department of Trade and Industry is devising a draft of regulations that will see the country's industrial development zones (IDZs) in Richards Bay, East London and Coega, near Port Elizabeth, taken into a new special economic zones framework. This envisages zones including free ports, free trade zones, and sector development zones.

A special corporate tax rate of 15% is proposed, well below the 28% currently applied. There was, however, a concern that the incentive would cause dislocation and would have 'distorting effects' on the economy.

[Source: www.bdlive.co.za]

- 7.1 Define the concept IDZ. (2)
- 7.2 Identify TWO new proposed economic regions. (2)
- 7.3 What is the main difference between an IDZ and an SEZ? (2)
- 7.4 What, in your opinion, would be the 'distorting effects' on the economy? (4)

Question 8

(Adapted from Exemplar 2014, Paper 1, Question 2.5)

Argue ONE case in favour of free trade and ONE case against protectionism. (2 x 4) (8)



Question 9

(Adapted from EC Sept 2014, Paper 1, Question 2.2)

DATA RESPONSE

Study the table below and answer the questions that follow.

Income Tax Tables 1 March 2013 – 28 February 2014

TAXABLE INCOME	TAX RATE
R0 – R165 600	18%
R165 601 – R258 750	R29 808 + (25% of the amount above R165 600)
R258 751 – R358 110	R53 096 + (30% of the amount above R258 750)
R358 111 – R500 940	R82 904 + (35% of the amount above R358 110)
R500 941 – R638 600	R132 894 + (38% of the amount above R500 940)
R638 60 and above	R185 205 + (40% of the amount above R638 600)

Tax rebates applicable to individuals are:

Primary Rebates	R12 080
Secondary Rebates (Persons 65 and older)	R6 750
Tertiary Rebates (Person 75 and older)	R2 250

[Source: SARS income tax tables – tax year 2013/2014]

- 9.1 Which scale of taxation is used in the above table? (2)
- 9.2 What is the marginal rate of taxation if a person earns R280 000? (2)
- 9.3 Mr Sokuthu (aged 50) earns R385 000 a year. Calculate the total tax amount for a year. (4)
- 9.4 Write down Mr Sokuthu's tax contribution as a percentage of his taxable income. (2)

Question 10

(Adapted from Exemplar 2014, Paper 1, Question 5)

International trade is the backbone of our modern commercial world as producers in various nations try to profit from an expanded market, rather than be limited to selling within their own borders.

- Discuss export promotion as part of South Africa's international trade policy.
- In your opinion, how successful is South Africa with the implementing of the above policy? Motivate your answer.

Question 11

(Adapted from Exemplar 2014, Paper 1, Question 6)

Supply-side policies focus on the ability of markets to supply enough goods and services to meet aggregate demand.

- Discuss this statement by focusing on effectiveness and efficiency of markets in the South African context.
- In your opinion, how successful is the South African government in providing for the basic needs of the poor?



Answers

Question 1

(Adapted from Exemplar 2014, Paper 1, Question 1.3)

- 1.1 Multiplier effect
- 1.2 Privatisation
- 1.3 Capital goods
- 1.4 Economic development
- 1.5 Economically Active Population
- 1.6 Land restitution

Question 2

(Adapted from Exemplar 2014, Paper 1, Question 4.4)

2.1

Leading:

Give consumers, businesses and the state a glimpse of the direction in which the economy might be heading. When these indicators rise, the level of economic activities will also rise a few months later. Examples of leading indicators are Job advertising space; inventory; and sales. (Any 2 x 2)

Lagging:

Lagging indicators won't change direction until after the business cycle has changed its direction. Examples of lagging indicators are hours worked in construction and total of commercial vehicles sold. (Any 2 x 2)

2.2

Infant mortality rates – the number of children younger than one year old who die in a year per 1 000 births during that year. In 2010 in SA it was 34 per thousand (Any 2 x 2)

Under five mortality rates – the number of children under five years old who die per 1 000 live births during that year. In SA it was 50 per thousand. (Any 2 x 2)

Question 3

(Adapted from Exemplar 2014, Paper 1, Question 4.2)

- 3.1 Point, e (2)
- 3.2 The value of the rand depreciates. As a result of the increase in the demand for dollars, the value of the rand decreases from R10 for one dollar to R12 for one dollar (4)
- 3.3 In case of devaluation of the rand, the Central Bank will sell foreign exchange. In case of revaluation of the rand, the Central Bank will buy foreign exchange. (4)

Question 4

(Adapted from Exemplar 2014, Paper 1, Question 3.4)

- The main focus was on developing the global competitiveness of the SA manufacturing enterprises (implemented by the DTI)
- It is a strategy that applies to all processes that transforms natural products into manufactured products
- It involve cross cutting issues such as technology, human resource development, access to finance and infrastructure
- It also concentrate on key input sectors like transport, telecommunications and energy
- The IMS prioritise certain growth sectors like tourism, agriculture, information technology and cultural industries



Question 5

(Adapted from Exemplar 2014, Paper 1, Question 3.5)

- The SARB is using interest rates to manipulate the market
- The repo rate is the key interest rate. This is the rate at which the SARB lends money to banks for short periods of time
- The SARB will lower the interest rate if it wants to stimulate the demand for credit.
- Many people will be encouraged to buy more at lower interest rates.
- This will lead to a higher demand for goods and services

Question 6

(Adapted from Exemplar 2014, Paper 1, Question 4.1)

- 6.1 Accountability/Efficiency/Assessing needs/Pricing policy/
Parastatals/Privatisation
- 6.2 Low productivity – low production – negative effect on the
aggregate supply of goods and services – same/or growing
aggregate demand = rapid increase in general price level (demand inflation)

Question 7

(Adapted from Exemplar 2014, Paper 1, Question 4.3)

- 7.1 An IDZ is a purpose-built industrial estate which is closed off and situated in a specific area.
- 7.2 Upington, in the Northern Cape, is a natural home for solar energy research and development.
- Saldanha Bay will service the growing oil and gas industry on Africa's west coast, while expanding iron ore exports.
- 7.3 SEZ's currently get a special incentive, which is not applicable to the IDZ. A blanket corporate tax rate of 15%, well below the 28% currently applied.
- IDZ is located in a smaller area linked directly to a port, whereby an SEZ covers a wider area. The plan is to incorporate the IDZ into an SEZ.
- 7.4 Distorting effects – the current IDZ does not benefit from the special tax incentive scheme.
- The concern is that companies within the IDZ will close their operations and move over to the SEZ's to enjoy this incentive.
- This could mean dislocations and movement to other areas.
- Valuable investments will be lost in the area withdrawn.
- This will cause distortions in the production and output for that region.



Question 8

(Adapted from Exemplar 2014, Paper 1, Question 2.5)

- **Argument in favour of free trade:**
 - The free trade argument is persuasive. If each nation does what it does best, everyone will enjoy lower prices and higher levels of output.
 - Free trade leads to greater world production of traded goods, leading to an increase in economic welfare.
 - Free trade allows countries to specialise in economic activities in which they have a comparative advantage (economies of scale).
 - Free trade leads to mutual gains from international trade to all countries.
 - When there is free trade, more efficient distribution of resources is possible because each country specialises in its most effective production.
 - Free trade offers consumers greater choice. It allows consumers the choice of what to buy globally and not just from what is available locally.

Any 1 argument (2 x 2) (4)

- **Argument against protectionism:**
 - Once the protection measures are introduced it became problematic to remove those measures.
 - The local business never getting strong enough to confront the global arena on their own.

Any 1 argument (2 x 2) (4)

Question 9

(Adapted from EC Sept 2014, Paper 1, Question 2.2)

- 9.1 Progressive scale direct tax (2)
- 9.2 30% (2)
- 9.3 $385\ 000 - 358\ 110 = 26\ 890 \times 35\% \div 100 = 9\ 411,50$
- $82\ 904 + 9\ 411,50 = 92\ 315,50$ (4)
- 9.4 $92\ 315,50 \div 385\ 000 \times 100 = 23,9\%$ or 24% (2)

Question 10

(Adapted from Exemplar 2014, Paper 1, Question 5)

Introduction

Incentives or mechanisms to encourage domestic manufacturers to increase the exports of goods and services to foreign countries

(Max. 2)

Body

MAIN PART

Reasons for export promotion

- The country achieves significant export-led economic growth.
- Export promotion enlarges the production capacity of the country.
- Export markets are much bigger than local markets.
- More workers will be employed.
- Prices will be reduced.

Methods of export promotion

- Incentives: The government supplies information on export markets, research on new markets, concessions on transport charges, export credit, etc. in order to stimulate exports.
- Subsidies: These include direct and indirect subsidies:
 - Direct subsidies: Cash payments to exporters.



- Indirect subsidies: Refunds on import tariffs and general tax rebates.
- Trade neutrality: Subsidies equal in size to import duties are paid. Neutrality can be achieved through trade liberalisation.

Advantages of export promotion

- There are no limitations to size of scale since the market is very large.
- Production is based on cost and efficiency.
- There is increased domestic production.
- Exchange rates would be realistic.

Disadvantages of export promotion

- The real cost of production is reduced by subsidies and incentives.
- The lack of competition because of incentives and subsidies forces competitors out of the market.
- Export promotion results in increased tariffs and quotas by powerful overseas competitors.
- Export promotion results in the protection of labour-intensive industries by developed countries.

(Max 26)

ADDITIONAL PART

The candidate can offer a positive or a negative argument.

- Positive/Negative (1 x 2)
- Arguments (2 x 2)
- Substantial evidence (2 x 2)

(Accept any other relevant answer)

(Max. 10)

Conclusion

Any relevant conclusion.

(Max. 2)

Question 11

(Adapted from Exemplar 2014, Paper 1, Question 6)

Introduction

The stimulation of supply means to increase the output, in terms of goods and services.

Body

MAIN PART:

There are various factors that promote the efficiency and effectiveness of resources:

• **Education and training**

The Sectorial Education and Training Authorities (SETA's) have been created to promote and facilitate work-related training for the different sectors of the economy.

The increase in the number of skilled workers will improve the productivity levels of workers. This will lead to an increase in output.

• **Fiscal policy**

High tax rates discourage individuals, leading them to work less and businesses to invest less.

In South Africa the tax rates for individuals and businesses have been systematically reduced. Tax incentives give industries an area to operate at lower costs. These additional funds can be used to increase production.

Individuals get tax rebates.

This will increase the disposable income levels of individuals. This will stimulate the demand for consumer goods and services.





- **Competition**

The promotion of competition services as an incentive for new businesses to enter the market.

The Competition Act is aimed at limiting the number of monopolies formed and reducing or eliminating the powers of monopolies.

In addition, the many barriers of international trade have been lifted over the years.

- **Deregulations**

The deregulation of regulated industries provide for greater competition in the market.

Many unnecessary laws and other barriers to competition in SA have been removed, although there are still some regulations, especially the informal sector that has to be revised.

- **Labour legislation**

In South Africa, the Labour Relations Act, the Employment Equity Act and the Basic Conditions of Employment Act provide a fair and equitable working environment.

Such a workplace atmosphere will motivate workers to not only improve the quality of their work but also strive towards self-development.

- **Small, medium and micro enterprises**

In South Africa, the government encourages the establishment of SMMEs through various financing and support structures.

Institutions such as Khula, the National Empowerment Fund, the Industrial

Development Corporations and Business Partners are in partnership with national government.

There are also free advisory centres available to provide information on topics such as managing and running SMMEs

- **Broad-Based Black Economic Empowerment Act (BBBEE)**

BBBEE is the economic empowerment of all black people, especially women, workers, youth, the disabled and people living in rural areas.

It is aimed at addressing historical imbalances of the past, through increasing the number of black people that can own, control and control the country's economy and decreasing income inequalities.

- **Research and Development**

An R&D strategy has been implemented by the government to improve national competitiveness.

The R&D Strategy has three pillars: innovation; science, engineering and technology (SET), human resources and transformation; creating an effective government system.

Examples are the CSIR and Mintek

- **Privatisation**

Many publicly owned businesses have been privatised or partly privatised.

Privatisation is essential in promoting competition in the market place.

It is also proven that private companies are more effective and efficient than state-owned businesses.

Examples are Telkom, Iscor



- **Infrastructure**

A well-developed infrastructure is the backbone of a growing economy. South Africa has one of the better-developed infrastructure in Southern Africa.

Transport: The South African transport network consists of highways, railways and ports.

Energy: Currently Eskom generates 95% of electricity in South Africa. It is one of the world's ten largest electricity suppliers in the world. It also exports to other countries.

Telecommunications: this is one of the fastest growing sectors in the SA economy. It offers fixed-line, wireless and satellite communication and has the most developed network on the African continent.

- **Cost of doing business**

It refers to cost of doing business, such as transport, communication and energy costs .

Other costs involve water, sanitation, vehicle and registration and labour markets.

ADDITIONAL PART:

In your opinion, is the South African government successful in meeting the basic needs of the poor? Motivate your response.

Yes/No

Almost 26% is regarded as absolutely poor in terms of international benchmark poverty line (\$1,25 per day)

1. Social security grants: old age pensions, child support grants, disability grants
2. Benefits in kind: free quota water (6 000 litres per household) and electricity (20 kWh) per household, school-feeding schemes
3. Housing: RDP houses
4. Sanitation: Access to clean water, energy, sewerage system
5. Primary healthcare: poor receive free hospitalisation and medicine. From certain income levels fees are staggered. Immunisation for all children is free.
6. Education: no-fee schools

Conclusion

Any relevant conclusion.

(Max. 2)