basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P1

MARKING GUIDELINES

MAY/JUNE 2026

MARKS: 150

These marking guidelines consist of 23 pages.

Copyright reserved

PRINCIPLES FOR MARKING ECONOMICS – SC/NSC MAY/JUNE 2026

The following marking principles have been developed to standardise marking in all provinces.

MARKING

- ALL questions and responses in candidates' scripts MUST be marked, irrespective of whether it is correct or incorrect.
- Where responses are in excess of what the instruction required, the following should apply
  - In section A, where candidates give TWO responses, the first response should be marked.
  - In section B, (2.1.1, 3.1.1 and 4.1.1) mark the first TWO responses and indicate ***EXTRA*** for responses that are in excess of what the question required.
  - In section B data response questions that require specific number of responses, (E.g. 2.2.1 and 2.2.2) mark the first response and indicate ***EXTRA*** for responses that are in excess.
  - In section B and C (choice questions), indicate ***EXTRA*** on questions in excess of the required number.
- Where the maximum marks have been allocated for a particular question, mark all the responses and indicate the maximum marks for the question inside the margin.
  For example; - ***max 2 or max 8 or max 10***
- A clear, neat tick must be used:
  - If ONE mark is allocated, ONE tick must be used: ✓
  - If TWO marks are allocated, TWO ticks must be used: ✓✓
  - The tick must be placed at the FACT that a mark is being allocated for.
  - Ticks must be kept SMALL, as various levels of moderation may take place.
- Incorrect answers must be marked with a clear, neat cross: ×
  - Use one cross on every incorrect response in questions where candidates are required to give more than one response.
  - A zig zag line may be drawn on the right-hand side of paragraphs with incorrect responses to indicate that the responses were read.
  - Try NOT to underline the candidates' responses
- For the following action words, ONE-word answers are acceptable: **list**, **name**, **state**, **identify**
- For the following action words, a FULL sentence must be written: **describe**, **explain**, **evaluate**, **analyse**, **suggest**, **differentiate**, **distinguish**, **define**, **discuss**, **why**, **how**
- The following action words need to be read within their context to determine whether a ONE-word answer or FULL sentence is required: **provide**, **what**, **tabulate, identify** and **give**
- Where candidates are required to draw a graph, mark the graph according to a marking grid provided in the official marking guideline.
- Where candidates are required to do calculations, the final answer would not necessarily be awarded full marks. **3 marks** are awarded for the **calculations** and **1 mark** for the **final answer**.

NOTE THE FOLLOWING

- If the numbering is incorrect or left out, as long as the sequence of answers to questions is followed candidates can be credited
- Where there are spelling errors, award the marks provided the meaning is correct.
- Pay attention to the sense of responses, which may be stated in a different way.
- In multiple-choice questions where a letter is the accepted response, but the learner writes the actual answer- award marks.
- There will be addendum to the marking guidelines for the marking of certain questions.

TOTALLING AND TRANSFERRING OF MARKS

- The sub-total for each sub-question must be recorded on the right-margin
  - Question1 in Section A has **THREE** sub-sections and **THREE** sub-totals should be recorded on the right margin.
  - Questions in Section B have **FIVE** sub-sections and **FIVE** sub-totals should be recorded on the right margin.
  - Sub-totals must be written legibly and leave space for moderated marks on the right margin
- The total mark for each question should be recorded on the top left margin next to the question number
- Transfer totals per question to cover page of answer book

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 C – market ✓✓
1.1.2 A – depression ✓✓
1.1.3 D – accountability ✓✓
1.1.4 D – appreciation ✓✓
1.1.5 A – transfer duty ✓✓
1.1.6 B – globalisation ✓✓
1.1.7 C – manufacturing ✓✓
1.1.8 B – life expectancy ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 G - money received by the households without rendering any productive service ✓

1.2.2 E - caused by businesses adapting their inventory levels over a 3–5-year period ✓

1.2.3 A - an increase in the quantity of goods and services produced in a country ✓

1.2.4 H - facilitates the buying and selling of different currencies of the world ✓

1.2.5 I - a complete ban on the importing of specific goods from a particular country ✓

1.2.6 C - buying and selling of government securities to influence the supply of money ✓

1.2.7 B - involves a cash incentive to promote the development of South African labour force to gain new expertise ✓

1.2.8 D - statistical data used to evaluate the performance of a country in terms of the social well-being of its citizens ✓

(8 x 1) (8)

1.3 GIVE THE TERM

1.3.1 Autonomous consumption / Autonomous expenditure ✓
1.3.2 Privatisation ✓
1.3.3 Terms of trade ✓
1.3.4 Land redistribution ✓
1.3.5 Infrastructure ✓
1.3.6 Economically active population ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MACROECONOMICS 40 MARKS – 30 MINUTES

2.1 **SHORT QUESTIONS**

2.1.1 **Name any TWO levels (spheres) of the government.**

- National/central✓
- Provincial/regional✓
- Local/municipalities✓ (2 x 1) (2)

2.1.2 **Why is the asset component subtracted when calculating net direct investment in the financial account of the Balance of Payments?**

Assets create a capital outflow when South Africans take money out of the country and invest it in other countries. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify an economic participant that owns the factors of production in the extract above.**

Households✓ (1)

2.2.2 **Give the formula for calculating the value of the multiplier in a two-sector economy.**

1/1-mpc✓ OR 1/mps✓ OR ΔY/ΔJ✓ (1)

2.2.3 **Briefly describe the term *multiplier effect.***

A small initial increase in spending produces a proportionately larger increase in the national income. ✓✓
(Accept any other correct relevant response) (2)

2.2.4 **Explain the relationship between marginal propensity to consume (mpc) and the value of the multiplier.**

The smaller the marginal propensity to consume (mpc) is the smaller the value of the multiplier / The bigger the marginal propensity to consume (mpc) is the bigger the value the multiplier. ✓✓
(Accept any other correct relevant response) (2)

2.2.5 **How can an increase in imports impact the South African economy**?

- An increase in imports represents a leakage as more funds will be flowing out of the economy.✓✓
- Local firms may lose revenue as consumers shift spending to imported goods, reducing income in the business sector. ✓✓
- Lower production by local firms can lead to reduced wages and job losses, reducing household income. ✓✓
- Declining business profits and household income can lead to lower tax revenue for the government. ✓✓
- When imports exceed exports, it can lead to a trade deficit, reducing the overall flow of income within the economy.✓✓
- An increase in imports lead to currency depreciation as high demand for foreign currency weakens the rand. ✓✓
- It can drive industrial growth and lower prices for consumers, but if left unbalanced, it can lead to job losses in local manufacturing. ✓✓
- Increased imports may lead to closure of some local industries as their products may not satisfy the needs and preferences of consumers. ✓✓
- Consumers will benefit from a wider range of goods and services which may often come at lower prices due to increased competition.✓✓
- Imports of capital goods can increase the production capacity of the business sector which increases economic growth.✓✓
- Increase in imports may encourage domestic firms to become more efficient through international competition. ✓✓
- Local businesses may have more access to imported production inputs at a lower cost leading to lower manufacturing costs. ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Identify the tax rate at which the government collects the maximum tax revenue in the graph above.**

50% / 50 ✓ (1)

2.3.2 **Name the main source of the government's tax revenue.**

Personal income tax ✓ (1)

2.3.3 **Briefly describe the term *fiscal policy*.**

The changes in taxation and government expenditure to influence the level of economic activity. ✓✓
(Accept any other correct relevant response) (2)

2.3.4 **How can government expenditure be used to encourage the production of goods and services?**

- The government may pay subsidies as financial assistance or support to promote production of certain goods and services. ✓✓
- Critical infrastructure grant may be used as an incentive to encourage investments in improving infrastructure. ✓✓
- Spending on research and development may help businesses to use new production methods and technology which improves productivity. ✓✓
- Funding education and training helps the state to build highly skilled work force which will improve productivity and enabling businesses to produce more goods and services. ✓✓
- Improve the provision of public goods and infrastructural services, such as public roads, to promote economic activity. ✓✓

(Accept any other correct relevant response) (2)

2.3.5 **Why will high tax rates generate less tax revenue for the government?**

- When the tax rates are very high, individual taxpayers will be discouraged to work thus reducing the tax base and tax revenue for the government.✓✓
- High corporate tax rates may discourage the establishment of new businesses and expansion of existing businesses which will reduce government's tax base and tax revenue.✓✓
- High tax rates will encourage tax avoidance and tax evasion which reduces tax revenue.✓✓
- High tax rates can lead to 'brain drain' and emigration of high-income earners and high net worth individuals, resulting in less tax revenue for the government. ✓✓

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

2.4 **Briefly discuss the *natural resources* and *climatic conditions* as supply reasons for international trade.**

Natural resources

- Natural resources are not evenly distributed across all countries of the world. ✓✓
- Natural resources vary from country to country and can only be exploited in places where these resources exist. ✓✓
- South Africa has large deposits of gold while Nigeria has crude oil which they export to other countries. ✓✓
- The availability of natural resources creates a platform for specialisation and an opportunity to earn valuable export revenue. ✓✓ (2 x 2)

Climatic conditions

- Every country has a unique climate which allows it to grow specific crops.✓✓
- The unique climate promotes specialisation of production and empowers countries to produce at lower cost per unit.✓✓
- Climate conditions make it possible for some countries to produce certain goods at lower price than other countries.✓✓
- Brazil is the biggest producer of coffee and can export the product to other countries at lower prices ✓✓ (2 x 2)

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of facts) (8)

2.5 **Analyse the importance of the financial sector in a circular flow model.**

- The financial sector acts as an intermediary between savers and borrowers, helping to channel funds from households to firms.✓✓
- Financial institutions accept deposits from households as savings, which represents a leakage from the circular flow.✓✓
- The financial sector makes loanable funds available for households and businesses to borrow for investments, which are injections into the circular flow. ✓✓
- The financial sector provides loans and credit which support business expansion, job creation, and income generation for the economy.✓✓
- The financial sector provides credit to households which enables them to demand more goods and services, thus increasing consumption.✓✓
- In an open economy, foreign investments and capital flows are facilitated by the financial sector, allowing funds to move between countries. ✓✓
- The financial sector facilitates foreign exchange transactions which enables the importing and exporting of goods and services. ✓✓
- The financial sector supports balance of payments stability by influencing interest rates and capital inflows/outflows.✓✓

(Accept any other correct relevant response) (4 x 2)
(Allocate a maximum of 2 marks for mere listing of facts) (8)
[40]

QUESTION 3: ECONOMIC PURSUITS 40 MARKS – 30 MINUTES

3.1 SHORT QUESTIONS

3.1.1 **Name any TWO Spatial Development Initiatives (SDIs) in South Africa.**

- KwaZulu-Natal SDI ✓
- Platinum SDI ✓
- Wild Coast SDI ✓
- Fish River SDI ✓
- West Coast Investment Initiative ✓
- Coast to Coast Corridor ✓
- Phalaborwa SDI ✓
- Maputo Development Corridor ✓
- Lubombo SDI ✓
- Richards Bay SDI✓

(Accept any other correct relevant response) (2 x 1) (2)

3.1.2 **Why is it important to compile economic indicators in the economy?**

- Economic indicators are used to measure the overall economic performance and assist the government to formulate suitable policies to improve performance. ✓✓
- To establish the state of the economy and to assess how the economy is performing from time to time in order to assist policymakers to make informed economic decision. ✓✓
- To compare the country's economic performance with other countries in order to assess development progress. ✓✓
- To compare economic performance between different sectors or regions within a country. ✓✓

(Accept any other correct relevant response) (1 x 2) (2)

3.2 DATA RESPONSE

3.2.1 **Identify the benchmark criterion that promotes transparency in regional development in the cartoon above.**

Good governance✓ (1)

3.2.2 **Give the term that refers to the concentration of economic activities in a few urban areas.**

Industrial centralisation✓ (1)

3.2.3 **Briefly describe the term *regional development*.**

The process of improving the economic livelihood of specific areas or regions in a country to reduce inequalities. ✓✓
(Accept any other correct relevant response) (2)

3.2.4 **Explain the benefit of investing in human capital.**

- Investment in human capital assures the government of more skilled labour force which will stimulate sustainable long-term economic growth. ✓✓
- The standard of living of the citizens may improve as skills development will help people to be employed or create employment. ✓✓
- Improving the productivity of a business which could lead to lower production unit cost which leads to economies of scale. ✓✓
- Investing in human capital through education, training yields high return and boost work force productivity. ✓✓
- A skilled work force drives innovation, and improves overall economic growth. ✓✓

(Accept any other correct relevant response) (2)

3.2.5 **Why is industrial development important in the economy?**

- The establishment of new industries will create new job opportunities which helps to reduce the level of unemployment.✓✓
- Foreign direct investment (FDI) will be attracted by incentives offered by the government and export-oriented industries may be established in demarcated areas.✓✓
- The production capacity of the economy will increase which will lead to high rates of economic growth.✓✓
- South African consumers will benefit by having a wider choice on goods and services produced by new industries.✓✓
- Industrial development makes South Africa less reliant on products from other countries through diversification. ✓✓
- Industrialisation promotes beneficiation by adding value to the raw materials before they are exported which helps to improve the trade balance. ✓✓

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

3.3 DATA RESPONSE

3.3.1 **Identify an economic indicator that measures price changes over a period of time in the graph above.**

Inflation rate ✓ (1)

3.3.2 **Name the money supply indicator that consists of bank notes, coins and short-term deposits only.**

M2 ✓ (1)

3.3.3 **Briefly describe the term *repo rate*.**

The rate at which the South African Reserve Bank lends money to commercial banks. ✓✓
(Accept any other correct relevant response) (2)

3.3.4 **Explain the impact of a decrease in labour productivity on businesses.**

- Businesses may incur higher average costs of production as workers produce less output given the same resources. ✓✓
- Higher production costs directly cause a decline in overall profitability of businesses. ✓✓
- Businesses with lower labour productivity may lose market share to competitors as they find it difficult to sell at competitive prices.✓✓
- Businesses may become less competitive which may create negative sentiment amongst investors. ✓✓

(Accept any other correct relevant response) (2)

3.3.5 **Why do international organisations such as the World Bank require standardisation of economic indicators?**

- Standardisation of indicators across different countries enables for significant comparisons between economies. ✓✓
- Standardisation of indicators helps to set quality standards for data collection and reporting across the world. ✓✓
- Countries are able to track progress over time on key development goals like poverty reduction. ✓✓

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

3.4 **Briefly discuss *housing* and *urbanisation* as social indicators.**

Housing

- A significant percentage (over 84%) of South Africans are living in formal dwellings. ✓✓
- Approximately 12% of the population lives in informal houses, which are mostly squatter settlements on the periphery of cities and towns. ✓✓
- A smaller percentage (about 4%) of South Africans are living in traditional homes in rural villages. ✓✓
- Many South African citizens are poor and cannot afford property. ✓✓
- The government supplies housing subsidies and the private sector provides housing loans. ✓✓
- The government built a significant number (about 2.7million) of low-cost houses over the past years, but there is still a backlog (over 2 million houses). ✓✓
- Adequate housing can facilitate labour mobility within the economy and help the economy adjust to adverse shocks. ✓✓ (2 x 2)

Urbanisation

- Urbanisation occurs because people move from rural areas (countryside) to urban areas increasing the proportion of people living in towns and cities.✓✓
- South Africa is urbanising rapidly with a significant proportion (about 67%) of households already living in urban areas. ✓✓
- The proportion of households living in urban areas is expected rise (to over 70% by 2030) which will increase demand on basic infrastructure requirements. ✓✓
- Urbanisation is measured/caused by natural growth of the urban population, rural-urban migration and the establishment of new towns. ✓✓ (2 x 2)

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of facts) (8)

3.5 **Analyse the importance of private-public partnerships (PPPs) in implementing spatial development initiatives in South Africa.**

- PPPs bring private investment and funding to complement public sector budgets, especially for large-scale infrastructure. ✓✓
- The private sector offers technical knowledge, innovative solutions, and advanced technologies that can improve the quality and efficiency of spatial development. ✓✓
- PPPs allow for the sharing of financial, technical, and operational risks between the public and private sectors, making large projects more feasible and manageable. ✓✓
- Performance-based contracts and private sector management expertise lead to more efficient project execution and better cost management. ✓✓
- PPPs ensure that private partners are held accountable for not meeting specific standards and benchmarks. ✓✓
- PPP projects, such as large-scale infrastructure, inject significant resources into a region and create opportunities for local businesses. ✓✓
- PPPs can be used to develop sustainable business models for allocating funds, integrating technologies, and improving data governance for better urban planning and management. ✓✓
- PPPs encourage job creation by attracting private investment and fostering entrepreneurship.✓✓
- PPPs may strengthen good governance and accountability through shared responsibilities and performance-based agreements. ✓✓
- Supports socio-economic inclusivity by integrating businesses into community upliftment initiatives. ✓✓
- Enables skill development and knowledge transfer from private enterprises to public entities and local workforce.✓✓
- Stimulates foreign direct investment by creating a conducive business environment backed by government support.✓✓
- Enhances environmental sustainability through joint efforts in green infrastructure, waste management, and conservation projects.✓✓
- Accelerates urban and rural development by aligning corporate interests with national and regional strategies.✓✓
- Improves resilience against economic and social challenges by leveraging the strengths of both sectors.✓✓
- Facilitates funding and resource sharing between government and private sector, reducing financial burdens on public institutions.✓✓

(Accept any other correct relevant response) (4 x 2)
(Allocate a maximum of 2 marks for mere listing of facts) (8)
[40]

QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS
40 MARKS – 30 MINUTES

4.1 SHORT QUESTIONS

4.1.1 Name any TWO categories of consumer goods.

- Durable✓
- Semi-durable✓
- Non-durable✓
- Services✓ (2 x 1) (2)

4.1.2 How will a progressive personal income tax system influence income distribution?

There will be an improvement in income distribution as more tax collected from higher income earners can be used to finance social development / Progressive income tax system reduces the income gap between the rich and the poor as higher-income earners pay higher tax rates than lower-income earners. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

4.2 DATA RESPONSE

4.2.1 Identify a term that relates to gifts and donations in the table above.

Current transfers ✓ (1)

4.2.2 Name the commodity that is recorded separately in the current account of South Africa.

Gold ✓ (1)

4.2.3 Briefly describe the term *Capital Transfer Account*.

A Capital Transfer Account is a net amount which includes all financial claims and liabilities by migrants, transactions and grants relating to the ownership of fixed assets and debt forgiveness. ✓✓
(Accept any other correct relevant response) (2)

4.2.4 Explain the impact of an increase in export prices on South Africa's trade balance.

- Export earnings from total exports would increase resulting in an improvement in the trade balance.✓✓
- There may be a decrease in the demand for exports due to higher export prices which will have a negative effect on the trade balance.✓✓
(Accept any other correct relevant response) (2)

4.2.5 **Use the information in the table above to calculate the value of net lending to or borrowing from the rest of the world (A). Show ALL calculations.**

Net Lending/Borrowing = Current account balance + Capital transfer account balance	
Trade balance (goods)	103 385 ✓
Balance on services, income and current transfers	-215 490 ✓
Capital Transfer Account	236 ✓
Net lending to or borrowing from the rest of the world (**A**)	**-111 869** ✓

(Allocate only 2 marks/ticks for mere addition of all the figures from the table) (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the growth and development initiative that provides temporary employment for unskilled labour in the cartoon above.**

EPWP✓ (1)

4.3.2 **Name the government initiative that aimed at halving unemployment and poverty by 2014**.

Accelerated and Shared Growth Initiative for South Africa / AsgiSA✓ (1)

4.3.3 **Briefly describe the term *economic development*.**

The improvement in the standard of living for a country's population over a period of time / Economic development is measured in terms of increases in per capita real GDP. ✓✓
(Accept any other correct relevant response) (2)

4.3.4 **Explain a shortcoming of the National Skills Development Strategy regarding employment levels.**

- Skills training does not always guarantee job opportunities due to skills mismatches and demands of the labour market. ✓✓
- Despite training initiatives, many beneficiaries struggle to find permanent jobs. ✓✓
- The South African economy is not growing fast enough to absorb newly trained job seekers.✓✓

(Accept any other correct relevant response) (2)

4.3.5 **Why is the National Development Plan important to achieve economic development in South Africa?**

- The NDP aims to create a more equitable society by focusing on housing, healthcare and social security in order to reduce poverty and address historical inequalities. ✓✓
- The NDP helps to achieve inclusive economic growth by ensuring economic participation of previously disadvantaged groups. ✓✓
- The NDP promotes private investments which helps to reduce the high levels of unemployment, especially among the youth.✓✓
- Improves the quality of education, training and skills development to build a productive workforce. ✓✓

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

4.4 **Discuss the unequal standards of living between the countries in the North (developed) and those in the South (developing).**

- Countries in the North, such as the United States, Germany and Japan, have significantly higher per capita income, advanced technology and stable financial systems.✓✓
- Countries in the South, such as Nigeria, India and Brazil, often face lower per capita income, largely due to economic instability, reliance on primary industries and income inequality. ✓✓
- Life expectancy in Northern countries is much higher, often exceeding 75 years, because of better healthcare, nutrition and living conditions. ✓✓
- Many countries in the South struggle with shorter life expectancy, often below 65 years, due to poverty, inadequate healthcare systems, malnutrition and higher disease prevalence. ✓✓
- Education systems in the North are well-funded, widely accessible and have high literacy rates, with many people completing secondary and tertiary education. ✓✓
- In the South, educational opportunities are often limited, with higher dropout rates, inadequate infrastructure, and lower literacy levels, especially in rural areas. ✓✓
- Economic constraints and political instability further hinder access to quality education in many developing nations. ✓✓

(Accept any other correct relevant response) (4 x 2) (8)
(Allocate a maximum of 4 marks for mere listing of facts)

4.5 **How can the South African government use the national budget to promote the socio-economic rights of its citizens?**

- Providing healthcare services for all, particularly the poor and disadvantaged by providing treatment for diseases, immunisations, etc. in rural and underserved areas. ✓✓
- Providing funds to schools, teacher salaries, learning materials and scholarships to help reduce educational inequality. ✓✓
- Investing in skills development programs to equip citizens with the skills needed for employment and economic participation. ✓✓
- Increasing social welfare programmes, which include child grants, pensions, disability grants and unemployment benefits. ✓✓
- Funding affordable housing projects and thereby addressing the housing backlog and improving the living conditions of low-income and previously disadvantaged groups. ✓✓
- Investing in basic services such as clean water, sanitation and electricity to ensure that citizens have access to basic infrastructure that supports their right to a safe and healthy environment. ✓✓
- Creating jobs and economic empowerment programmes to reduce unemployment and increase economic participation. ✓✓
- Supporting food security programs, particularly for vulnerable populations through nutrition programs, food assistance and community-based initiatives to ensure that people, especially children, have access to sufficient and nutritious food. ✓✓
- Developing basic infrastructure such as roads, electricity, water supply and sanitation, particularly in underserved and rural areas.✓✓

(Accept any other correct relevant response) (4 x 2)
(A maximum of 2 marks may be allocated for mere listing of facts) (8)
[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MACROECONOMICS 40 MARKS – 40 MINUTES

- **Discuss in detail the features underpinning the forecasting (prediction) of business cycles. (26 marks)**
- **Analyse the measures that can be used to stimulate aggregate supply in the economy. (10 marks)**

INTRODUCTION
Business cycles can be described as successive periods of contraction and expansion of economic activities/Forecasting is the process of making projections about the changing conditions of future events that may significantly affect the economy.✓✓
(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.✓✓
- Leading indicators peak before a business cycle has reached a peak. ✓✓
- Leading indicators help economists to predict what the economy will be like in the future. ✓✓
- When leading indicators rise, the level of economic activities will also rise in a few months' time.✓✓
- When leading indicators decline it means that the level of economic activity will decline in the near future.✓✓
- The examples of leading indicators include the number of residential plans passed, number of job advertisements, number of new companies registered, etc.✓

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 coincident indicators while an upswing is shown as an increase.✓✓
- 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. ✓✓
- The examples of coincident indicators are usage of capacity in manufacturing, registered unemployment, real GDP, etc. ✓

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. ✓✓
- The examples of lagging indicators include the number of commercial vehicles sold, real investment in machinery, unit labour costs in manufacturing, etc.✓

COMPOSITE INDICATORS✓
- Composite indicators summarise a group of indicators of the same type into a single value.✓✓
- The composite indicator 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✓
- An amplitude 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.✓✓
- The amplitude shows two things:
  - **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✓✓

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.✓✓

LENGTH/DURATION OF A CYCLE✓

- Length of a cycle 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.✓✓
- The contraction in the growth of output may overshoot the level where it should naturally stop. ✓✓

MOVING AVERAGES✓

- Moving averages are calculated along the time series data 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 effects of sharp fluctuation in the business cycle✓✓

(Accept any other correct relevant response) (Max 26)
(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART

Analyse the measures that can be used to stimulate aggregate supply in the economy.

- Lower corporate taxes to increase profits will encourage investment and expansion of businesses. ✓✓
- Reduced production costs will increase the aggregate supply of goods and services to make them available at all price levels. ✓✓
- Provide incentives in the form of cash allowances and subsidies to enhance export promotion and decentralization of businesses to decrease total costs. ✓✓
- Investing in infrastructure such as transportation, communication and energy will improve efficiency and reduce production costs. ✓✓
- Reduction of tariffs and import duties will lower the cost of imported raw materials and capital goods. ✓✓
- Reduction in taxes will motivate workers to produce more, leading to a higher production output and aggregate supply. ✓✓
- Deregulation and simpler tax regulations can decrease administrative costs for businesses and encourage them to produce more output. ✓✓
- Labour productivity can be enhanced through better education, training and health services leading to more goods and services that can be produced✓✓
- Promote infrastructure development (e.g. transport, energy) to reduce time and resource wastage. ✓✓
- Enhanced labour market flexibility by reforming labour laws and reducing barriers to hiring. ✓✓
- Strong financial markets to improve access to credit for businesses to expand their operations. ✓✓
- Encourage research and development to boost innovation and technology which will result in increased quantity and better-quality products. ✓✓
- Decrease interest rates to reduce the cost of borrowing which will encourage businesses to invest and expand production. ✓✓

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

CONCLUSION
The country can be enabled to prepare suitable policies to deal with different changes in the economy reflected by the indicators and features/Policy makers should closely watch all the indicators because external factors are very significant for South African business cycles✓✓
(Accept any other correct relevant higher order, conclusion) (Max 2) [40]

QUESTION 6: ECONOMIC PURSUITS 40 MARKS – 40 MINUTES

- **Discuss in detail export promotion as South Africa's international trade policy. (26 marks)**
- **Evaluate the impact of an increase in import tariffs on the South African economy. (10 marks)**

INTRODUCTION
Export promotion involves providing incentives to encourage local businesses to produce goods for export/When the government pays incentives to encourage production of goods and services that can be exported ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY: MAIN PART

Methods of export promotion

(a) **Export incentives** ✓
- The purpose of export incentives is to encourage exports by giving financial assistance to exporting companies ✓✓
- Financial assistance to exporting businesses enables them to compete effectively in international markets so that they can export larger volumes✓✓
- The government may supply information on export markets, research on new markets, offer concessions on transport charges, export credit, etc. in order to stimulate exports ✓✓

(b) **Export subsidies** ✓

Direct subsidies ✓
- Direct subsidies result in government expenditure because they provide direct financial support to domestic exporters ✓✓
- Direct subsidies are cash payments such as cash grants to export exhibitions and market research and subsidies for training and employing personnel ✓✓
- The purpose of direct subsidies is to reduce the cost of production and increase competitiveness in the exporting markets ✓✓

Indirect subsidies ✓
- Indirect subsidies occur when the government does not earn certain types of income✓✓ e.g. tax revenue. ✓
- The government often refunds companies certain taxes to promote exports ✓✓
- Indirect subsidies may include refunds on import tariffs and general tax rebates on profits earned from exports or on capital invested to produce export goods ✓✓

(c) **Trade neutrality** ✓
- The government may provide subsidies that are equivalent to import duties paid by exporters when importing production inputs ✓✓
- Trade neutrality can be achieved through trade liberalization ✓✓

(d) **Export processing zones (EPZs)** ✓

- An Export Processing Zone (EPZ) is a free trade enclave within a protected economy and is usually located near a harbour or airport✓✓
- Manufacturers are located in an EPZ to produce for export purposes, making use of imported inputs that are obtained free of all custom duties.✓✓
- Developing countries offer incentives to attract foreign investors to their EPZs ✓✓

Reasons/Advantages of export promotion

- There are no limitations to the size and scale since the world market is much bigger than domestic market✓✓
- Production is based on cost and efficiency considerations and is organised along the lines of comparative advantage ✓✓
- There is increased domestic production through the expansion of export production which will lead to lower domestic prices ✓✓
- Exchange rates would be realistic and there is no need for exchange control and quantitative restriction ✓✓
- Value can be added to the natural resources of the country by processing them into finished products with higher value✓✓
- Export promotion creates more employment opportunities for the South African labour force ✓✓
- Increase in exports may help to reduce Balance of Payment deficit ✓✓
- Export promotion enlarges the production capacity of the country and promote industrial development ✓✓
- Performance of manufacturing and service industries and international competitiveness of South African producers will improve✓✓
- Export promotion ensures efficient use of resources through improved innovation and competition ✓✓

Disadvantages of export promotion

- The real cost of production may not be reflected in the prices of the products as subsidies and incentives may reduce the total cost of production ✓✓
- There may be lack of competition because of incentives and subsidies allowing exporting businesses to charge very low prices, forcing competitors who could create sustainable businesses out of the market✓✓
- Developed countries often maintain high levels of effective protection for their labour-intensive industries in which developing countries already have comparative advantage ✓✓
- Withdrawal of incentives by the government may lead to the closure of affected companies ✓✓
- Export promotion may be regarded as dumping by other countries and they may retaliate with increased tariffs and quotas ✓✓
- Export promotion may be against the provisions of the World Trade Organisation, when goods are exported at prices below the real cost of production due to subsidies.✓✓

(Accept any other correct relevant response) (Max 26)
(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART

Evaluate the impact of an increase in import tariffs on the South African economy.

POSITIVES

- Tariff increases will generate additional government revenue which can be invested in infrastructure, education, and support the establishment of small and medium-sized enterprises. ✓✓
- A decrease in imports due to an increase in import tariffs may lead to a reduction in balance of payments deficit. ✓✓
- Tariff increases will protect local industries by making imported goods more expensive, allowing domestic producers to produce more goods and services. ✓✓
- Increased tariffs will support the growth of local businesses, particularly in manufacturing and agriculture, leading to job creation and industrial development. ✓✓
- Encourages local innovation and self-sufficiency by motivating businesses to develop local alternatives and invest in research and development. ✓✓
- Helps to build domestic supply chains, reducing reliance on international markets for goods and services. ✓✓

NEGATIVES

- Tariff increases will raise the price of imported goods, making essential raw materials and consumer products more expensive. ✓✓
- Production costs for industries that heavily rely on imports, such as manufacturing and automotive will increase. ✓✓
- If other countries impose retaliatory tariffs on South African exports, local businesses may struggle to compete in international markets, for example the agriculture and mining, which are major contributors to South Africa's economy. ✓✓
- Higher import costs can lead to increased consumer prices, contributing to inflation and low consumer spending.✓✓
- Tariff changes create uncertainty for businesses, making it harder for companies to plan investments and expansion due to lower investor confidence and reduced foreign direct investment.
- Economic instability caused by tariffs can weaken the South African rand, making imports even more expensive and increase inflation.✓✓
- Industries affected by higher costs and reduced competitiveness may cut jobs to maintain profitability which could increase the unemployment rate which is already a concern in South Africa.✓✓
- Increased tariffs may also disrupt trade relationships and reduce overall trade volumes, impacting long-term economic stability.✓✓

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

CONCLUSION

Export promotion may help the economy to achieve a significant export-led economic growth through mass production. ✓✓

(Accept any other correct relevant higher-order conclusion) **(Max. 2)** **[40]**

TOTAL SECTION C: 40
GRAND TOTAL: 150

Copyright reserved