



## **Education and Sport Development**

Department of Education and Sport Development  
Departement van Onderwys en Sport Ontwikkeling  
Lefapha la Thuto le Tihabololo ya Metshameko  
**NORTH WEST PROVINCE**

### **PROVINCIAL ASSESSMENT**

### **GRADE 12**

### **ECONOMICS**

### **PAPER 1 MARKING GUIDELINES**

### **JUNE EXAMINATION 2019**

**MARKS: 150**

**This marking guideline consists of 19 pages.**



**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE CHOICE:**

- 1.1.1 B - capital ✓✓
- 1.1.2 C - foreign ✓✓
- 1.1.3 D - depression ✓✓
- 1.1.4 A - ensure equal opportunity for all members ✓✓
- 1.1.5 A - tax ✓✓
- 1.1.6 C - mass production ✓✓
- 1.1.7 B - revaluation ✓✓
- 1.1.8 D - free trade ✓✓

(8 x 2) (16)

**1.2 MATCHING ITEMS:**

- 1.2.1 I - when the national accountants add together the spending of the four major sectors of the economy ✓
- 1.2.2 E - are used to analyze the changes in a series of data over a certain period of time ✓
- 1.2.3 G – attempts made certain people to influence government to their own advantage ✓
- 1.2.4 F – compares a country's export prices with its import prices by means of indexes ✓
- 1.2.5 D – a situation where one country has a relative comparison in the production of goods and services ✓
- 1.2.6 B - Individuals are interested in obeying rules than the efficient delivery of goods and services to the people ✓
- 1.2.7 A - Makes provision for regional cooperation and African states ✓
- 1.2.8 C - An official ban on trade or other activities with a particular country ✓

(8 x 1) (8)

**1.3 GIVE THE TERM: no abbreviations / acronyms or examples**

- 1.3.1 Autonomous consumption ✓
- 1.3.2 Multiplier effect / Multiplier ✓
- 1.3.3 Exogenous explanations ✓
- 1.3.4 Medium Term Expenditure Framework ✓
- 1.3.5 Import substitution ✓
- 1.3.6 Reserves account ✓

(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****2.1 Answer the following questions****2.1.1 Name any TWO instruments of monetary policy.**

- Interest rates✓
- Cash reserve requirements✓
- Open market transactions✓
- Moral susuassion / persuasion✓
- Exchange rate policy✓
- Inflation targeting✓ (2 x 1) (2)

**2.1.2 Why injections are important in the economy?**

Are the additional funds to the circular flow that increase the quantity of money in the economy✓✓ e.g. government expenditure, investments and revenue for exports (1 x 2) (2)

**2.2 DATA RESPONSE:****2.2.1 When did South Africa reach its highest GNI?**

Jan 2018✓ (1)

**2.2.2 Name ONE method that can be used to calculate the GDP.**

Production method✓  
Expenditure method✓ (1)

**2.2.3 Describe the concept *Gross National Income*.**

Is the total remuneration for the factors of production received by people of South African nationality in a given period✓✓ (2)

**2.2.4 How would the GNI @ market prices be calculated?**

GNP = GDP plus primary income from the rest of the world minus primary income to the rest of the world / GDP plus nett primary income ✓✓  
(Accept any other correct and relevant response) (2)

**2.2.5 Explain the importance of measuring national account aggregates.**

- Are an important source of information regarding the health of an economy✓✓



- They enable planners and policy makers to set realistic goals and make policy recommendations√√
- Are used to indicate the economic activity within a country√√
- Are an important yardstick to measure economic activity from one year to the next√√
- Are an important indicator to compare prosperity levels among countries√√
- Are used to determine the standard of living in a country√√

Any (2 x 2) (4)

## 2.3 DATA RESPONSE:

### 2.3.1 What measures the potential growth of the economy?

Trend line√ (1)

### 2.3.2 Which business cycle indicator is represented by two prosperity segments in the diagram above?

Leading indicator√ (1)

### 2.3.3 Describe the concept *business cycle*.

- Successive periods of growth (expansion) √ and decline (contraction) √ in economic activities
- Is a time series showing repeated increasing√ and decreasing√ economic activity  
(Accept any other correct and relevant response) (2)

### 2.3.4 Explain briefly the negative impact of depression in the economy.

- Lack of investment is taking place√√
- Levels of production, employment, income and expenditure decrease even further√√
- The shortage of money supply causes a further decrease in spending√√  
(Accept any other correct relevant response) (2)

### 2.3.5 How can the central bank intervene to improve the countries' economic activities?

SARB can improve economic activities by:

- Decreasing the repo rate and banks will decrease the interest rates√√ At lower interest rates the supply of money and expenditure will increase, the economy will be stimulated



- By applying cash reserve requirement, decrease the percentage of cash that banks must keep as cash reserves√√
- applying open markets transactions where credit creation is encouraged to buy securities in the open market and money as a result flows into the banking system√√ (influencing credit creation by making it cheaper)
- applying moral suasion, banks will be persuaded to act in a manner that is desirable in terms of the economic conditions that prevail at the time√√
- Keeping inflation rate between 3-6% per year (inflation targeting) √√  
(Accept any other correct relevant response) (2 x 2) (4)

#### 2.4 Differentiate between *factor market* and *product market*.

##### FACTOR MARKET

- Is also known as resource or input market. √√
  - Is the market where services for factors of production such as natural resources, labour, capital and entrepreneurship are traded√√
  - The factor market includes the labour, property and financial markets√√
  - Households make these factors of production available to firms through this market√√
- Max (4)

##### PRODUCT / GOODS/ OUTPUT MARKET

- Also known as the goods or output market.
  - These are the markets for consumer goods and services√√
  - Goods are defined as tangible items, like food, clothes, cars, etc. that satisfies some human wants or needs√√
  - Buying and selling of goods that are produced in markets√√ e.g.
    - Capital Goods market for trading of buildings and machinery√√
    - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods√√
  - Services are defined as non-tangible actions and include wholesale and retail, transport and financial markets. √√
- Max (4)  
(2 x 4) (8)



**2.5 Evaluate the potential success of South Africa's fiscal policy in smoothing out fluctuations in the economy.**

- The expansionary fiscal policy can be effective in smoothing out fluctuations in the economy.
- The following fiscal policy instruments can stimulate a depressed (weakened) economy effectively:
- Increasing government expenditure with borrowed money (budget deficit) will lead to more job opportunities.√√
- An increase in government spending increases aggregate demand and expenditure, therefore the aggregate demand and employment will increase (the economy will move from contraction to expansion) √√
- Decreasing taxes – a decrease in personal income tax results to an increase in disposable income of households√√
- Consumers and producers will have a larger part of their incomes available to spend on goods and services√√
- A decrease in tax rate enables the economy to move from slump to recovery / boom because households will demand more goods and services with higher disposable income√√
- Increasing government spending and simultaneously decreasing taxes√√ there will be a strong effect as consumers and producers will have more to spend √√ demand increases substantially and employment increases

**(8)**  
**[40]**

**QUESTION 3**

3.1 Answer the following questions:

**3.1.1 List any TWO composition of the public sector.**

- Local government √
- Provincial government √
- National government√
- State owned enterprises√

Any (2 x 1) (2)

**3.1.2 What is the positive impact of specialization on international trade?**

- Countries will have the most competitive price / absolute advantage√√
- Products of high quality will be produced / comparative advantage√√  
(Accept any other correct relevant response) (1 x 2) (2)



### 3.2 DATA RESPONSE

3.2.1 **Which social service receives the largest amount in the national budget?**  
Education✓ (1)

3.2.2 **What does the acronym SONA stand for?**  
State of the nation address✓ (1)

3.2.3 **Briefly describe the term *national budget*.**  
The government's plan for revenue and expenditure for the coming fiscal year OR  
A document showing anticipated revenue and estimated expenditure✓✓ (2)

3.2.4 **What did the finance minister mean when he describes the 2019 national budget as a 'seed of renewal and growth'?**

- Seed of renewal and growth mean refocusing or redirecting public funds to the basic needs such as education✓✓
- Ensuring that school facilities are in good condition✓✓
- Emphasis that education is one of the key drivers to grow the economy✓✓
- More investment into education will lead to more economic growth✓✓  
(Accept any other correct relevant response) (2)

3.2.5 **How will the literacy rates improve the economy of South Africa?**

- Literacy rate is the ability of an individual to read and write with understanding✓✓
- If majority of citizens are literate, they will be able to obtain better job opportunities✓✓
- Dependency rate to government will decrease – people will be able to provide their own basic needs / government spending on social services will decrease✓✓  
(Accept any correct relevant response) (Any 2 x 2) (4)

### 3.3 DATA RESPONSE

3.3.1 **According to the extract, what was the deficit in the current account in 2018?**  
4.8%✓ (1)

3.3.2 **What negative impact did the deficit on current account have on the value of the rand?**  
Depreciation✓ (1)



**3.3.3 Briefly describe the term *balance of payments*.**

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

(Accept any other correct relevant response) (2)

**3.3.4 Explain the significance of the balance on the current account.**

It gives an indication whether a country is living within its means√√  
(Indicating a surplus or a deficit)

(2)

**3.3.5 How can a surplus on the balance of payments affect the South African economy positively?**

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

- reaching the production potential of the country√√
- building the reserves of the country due to a surplus√√
- investing more in infrastructure√√
- increased value of the rand√√
- attracting more foreign direct investment√√
- reducing the tax burden due to less money borrowed to pay off public debt√√
- stimulating economic growth and create job opportunities√√

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

**3.4 Briefly explain *natural resources* and *climatic conditions* as supply reasons for international trade.**

**Natural resources**

- Natural resources are unevenly distributed in the world√√
- They vary from country to country and can only be exploited in places where these resources exist√√
- E.g. South Africa is rich in iron ore, gold, coal and platinum whereas China does not have them and it therefore imports these minerals from South Africa√

Max (4)

**Climatic conditions**

- These conditions make it possible for some countries to produce certain goods at a lower price than other countries √√
- E.g. Brazil is the biggest producer of coffee√
- Countries have different climatic conditions and are therefore able to produce different products√

(Accept any other correct relevant response)

Max (4)  
(2 x 4) (8)





### 3.5 How does efficiency contribute to poor public sector provisioning?

Efficiency can contribute to poor public sector provisioning if:

- Inefficient provisioning: Public servants fail to deliver services to the public because of bureaucracy, incompetence and corruption
- resources are not allocated in such a way that no one can be made better off without making someone else worse off / Pareto efficiency is not achieved
- there is bureaucracy√ - the official rules and procedures are insensitive to the needs of their clients √√
- Incompetence√ - the lack of skill or ability to do a task successfully/ if someone may have improper qualifications/or an attitude of apathy√√
- Corruption exist√ - the exploitation of a person's position for private gain by taking bribes, committing fraud, nepotism√√
- Not using taxpayer's money to ensure optimal allocation of resources√√ e.g. if student's tuition fees are not subsidized on merit instead allocation is based on corruption or nepotism√
- Not protecting industries of strategic importance√√ E.g. the textile industry that are labour-intensive for they create more job opportunities√
- Lack of monitoring, especially budget related to social services to avoid nepotism and corruption√√
- relevant structures and policies are not in place to take care of the environment directly√√ e.g. by increasing the number of security staff to protect animals e.g. rhinos to become extinct √
- Taking care of the environment indirectly through programmes to make the communities aware of the state of the environment √√ e.g. more environmental programmes on TV and grass root level√
- Human rights must be honoured to ensure cooperation at all levels of government √√

(Accept any other correct relevant responses)

(A maximum of 2 marks to be allocated for examples)

(8)

**[40]**



**QUESTION 4**

4.1 Answer the following questions:

4.1.1 List any TWO types of exchange rate.

- Free floating✓
  - Fixed✓
  - Managed✓
- (Any 2 x 1) (2)

4.1.2 What positive impact do economies of scale have in free trade?

- Businesses will be able to produce and sell in larger quantities at reduced costs OR
  - The total output will increase✓✓
- (Any 1 x 2) (2)

**4.2 DATA RESPONSE**

4.2.1 What type of economy is represented by the above diagram?

Closed economy✓ (1)

4.2.2 Which statement refers to the real flow in the diagram above?

Purchases of goods and services✓ (1)

4.2.3 Briefly describe the concept *circular flow model*.

A model that shows how the economy works and the relationship between income, production and expenditure✓✓ (2)

4.2.4 Why is the household an important sector in the circular flow model?

- Households own the factors of production both directly and indirectly.
  - These factors of production are used in the production process
  - They contribute to the economy by buying goods and services
  - And paying taxes to the government, such as PAYE, VAT, etc
  - They save some of their money which is later channeled to firms as loans to enable firms to buy capital goods✓✓
- (Accept any other correct relevant response) (2)

4.2.5 How do financial institutions contribute to the economy?

- They act as links between the participants that have surplus funds and those that need funds✓✓
  - They ensure that savings are channeled back into the circular flow in the form of investments✓✓
- (Accept any other correct and relevant response) (2 x 2) (4)



### 4.3 DATA RESPONSE

#### 4.3.1 Which state macro-economic objective is illustrated in the above cartoon?

Economic equity✓ (1)

#### 4.3.2 Provide ONE example of social security grants.

Old age, child support, disability, etc✓ (1)

#### 4.3.3 Briefly describe the concept *full employment*.

It is when all the people who want to work, who are looking for work should be able to find work or create work for themselves✓✓ (2)

#### 4.3.4 Why does exchange rate stability remain a priority for the government?

- Depreciation and appreciation of the currency create uncertainties for producers and traders✓✓
  - It remains a priority of the government to limit uncertainties that will keep the economy effective through fiscal and monetary policy✓✓
  - It is the backbone of all these state objectives for it used to attract foreign direct investment and foreign capital✓✓
  - More FDI and foreign capital will lead to increased employment and price stability✓✓
- (Accept any correct relevant response) (2)

#### 4.3.5 How can the implementation of empowerment laws address the social and economic imbalances?

The implementation of empowerment laws will address the social and economic imbalances by:

- Using progressive income tax system to ensure a fair income redistribution (the rich do not get richer and the poor poorer)
  - Using taxes to finance social goods and services such as housing, education and primary health-care
  - Paying cash grants such as old-age, disability and child support grants.
  - Implementing Black Economic Empowerment (BEE) that gives black people (African, Coloureds and Indians) South African citizens economic privileges that are already available to Whites
  - improving poor people skills, knowledge and self-perception where local associations organise their economic activities, such as farming cooperatives, or microfinance groups.
- (Accept any other correct relevant response) (2 x 2) (4)



#### 4.4 Discuss South African Development Community (SADC) as South Africa's trade protocol.

- South Africa joined the SADC in 1994, and the SADC has 14 member states ✓✓
- The SADC's main objective is to work together to reconstruct and develop the region's social and economic framework /
- The main **objectives** of Southern African Development Community (SADC) are to achieve economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa, and support the socially disadvantaged through Regional Integration ✓✓
- The member countries have a FTA and are in the process of implementing its protocols on trade ✓✓
- The goal was to develop the region into an economic and monetary union ✓✓
- By 2012, 99% of intra-SADC trade were duty-free (no import duties charged) ✓✓  
(Accept any other correct relevant response) (4 x 2) (8)

#### 4.5 How would you advise the Governor of the South African Reserve Bank to reduce the deficit on the balance of payments?

The Governor of the SARB should reduce the deficit on the balance of payments by:

- Borrowing money from the IMF ✓✓
  - Implementing import substitution where previously imported goods are produced domestically ✓✓
  - This strategy will diversify local manufacturing, speed economic growth and boost employment ✓✓
  - Implementing export promotion through subsidies and incentives ✓✓
  - Export markets are bigger than domestic markets and have more trading opportunities. This will increase aggregate supply and reduce prices. Exports are promoted through cheaper prices ✓✓
  - increasing interest rates – at higher interest rates spending on imports will decrease ✓✓
  - increasing import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls. (Trade liberalization) ✓✓
  - implementing the policy of exchange control which allows central banks to ration foreign exchange ✓✓
  - reducing foreign reserves, SARB to correct deficits if we adopted a managed floating exchange rate ✓✓
  - changes in exchange rate, i.e. currency depreciation/devaluation makes imports expensive (reduction) and exports cheaper for foreign countries (increase exports) ✓✓
  - increasing tax which reduces disposable income and demand on imports will decrease ✓✓
- (Accept any other correct relevant response)  
(Allocate a maximum of 4 marks for the mere listing of facts/examples) (8)

[40]

**TOTAL SECTION B: 80**



**SECTION C**

Answer only ONE of the two questions from this section in your ANSWER BOOK. Your answer will be assessed as follows:

**QUESTION 5**

**The government's primary aim with business cycle policies is to achieve the possible growth rates.**

- Discuss the demand-side and supply-side policies used by government to smooth out business cycles. (26)
- Use a well labeled graph to explain the effects of demand and supply policies on the price. (10)

**INTRODUCTION**

- The new economic paradigm in terms of the smoothing of business cycles discourages monetary policy makers from using monetary and fiscal policies to fine-tune the economy but rather encourages achieving stability through sound, long term decisions relating to demand and supply in the economy/
- Smoothing means to smooth out the painful part of economic down-fall that is part of the market economy√√  
Any other relevant description of smoothing/ new economic paradigm (Max.2)

**BODY: MAIN PART**

The new economic paradigm is embedded in the demand and supply side policies√√

**Demand-side policies**

- It focuses on aggregate demand in the economy√√
- When households, firms and the government spend more, demand in the economy increases√√
- This makes the economy grow but can lead to inflation√√

**Inflation:** √

- Aggregate demand increases more quickly than aggregate supply and this causes price increase√√
- If the supply does not react to the increase in demand, prices will increase√√
- This will lead to inflation (a sustained and considerable increase in the general price level) √√



**Unemployment:** ✓

- Demand-side policies are effective in stimulating economic growth. ✓✓
- Economic growth can lead to an increase in the demand for labour. ✓✓
- As a result more people will be employed and unemployment will increase. ✓✓
- As unemployment decreases inflation is likely to increase. ✓✓
- This relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓

**Supply-side policies** governments can arrange activities in the economy in a way that is cooperative to changes in demand ✓✓

**Measures for reduction of costs** ✓

- Infrastructural services ✓ such as reasonable charge and efficient transport, communication, water services and energy supply communication, transport and energy supply ✓✓
- Administrative costs ✓ include inspection, reports on applications of various laws, regulations and by-laws, tax returns and returns providing statistical information ✓✓  
It adds to costs. In SA businesses carry a heavy burden inspections and regulations - add to overall costs ✓✓
- Cash incentives ✓ includes subsidies for businesses to locate in neglected areas where unemployment is high ✓ and compensation to exporters for certain costs they incur in development of export markets like subsidies ✓ and compensation to exporters ✓

**Measures to improve efficiency of inputs** ✓

- Tax rates ✓ – low tax rates can serve as an incentive to workers that can improve the productivity and output. High rates of personal income tax are disincentives ✓✓ and shifts AS to the right - usually achieved with incentive schemes and measures such as tax rates ✓✓
- Capital consumption ✓ - replacing capital goods on a regular basis will create opportunities for businesses to keep up with technological development and better outputs ✓✓
- Human resource development ✓ where the quality of labour can be improved by improving health care, education and training which will increase the efficiency of businesses ✓✓
- Free advisory services ✓ to promote opportunities to export and establish business activities in foreign countries which includes weather forecasts, veterinary services and research ✓✓



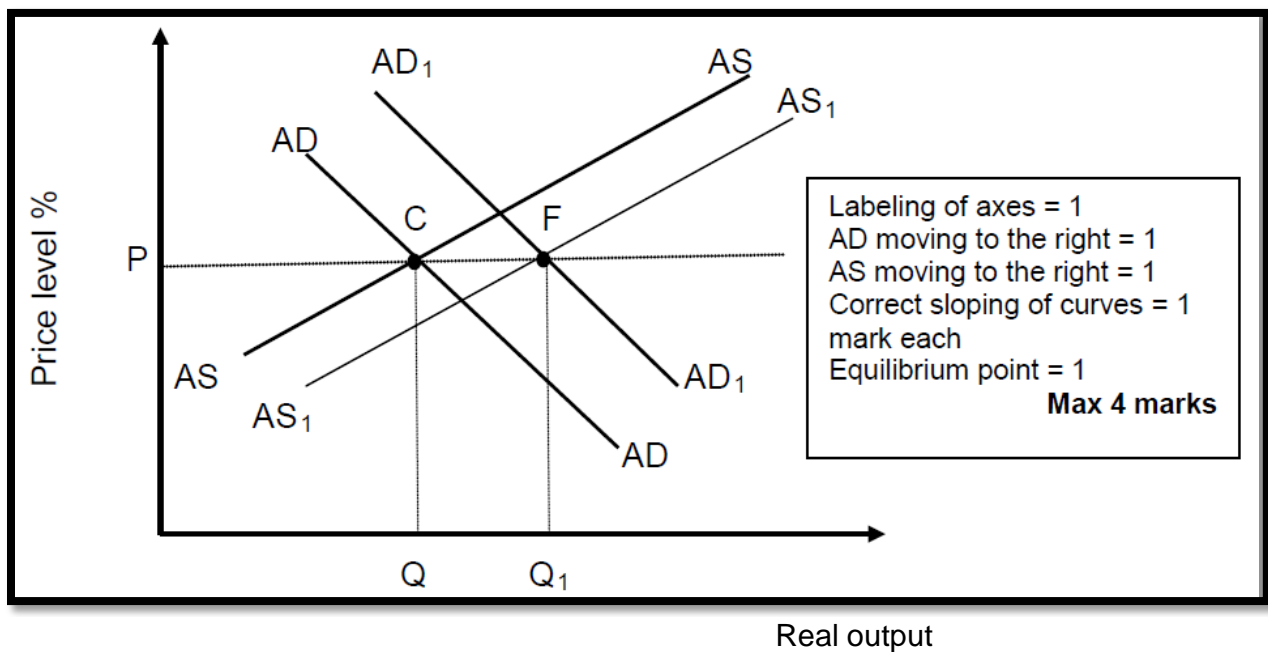
### Measures for improving the efficiency of markets√

- Deregulation√ where laws, by-laws, regulations and other forms of government controls are removed to make markets free√√
- Competition√ is encouraged to establish new businesses, invite foreign direct investment and remove power imbalances√√
- Leveling the economic playing fields√ because private businesses cannot compete with public enterprises due to legislative protection√√

Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.

If facts are listed without explanation, allocate a maximum of 13 marks)

### ADDITIONAL PART



### The effects of demand-side and supply-side policies based on the graph:

- Inflation:√ aggregate demand (AD) and aggregate supply (AS) are in equilibrium at point C√√
- Aggregate demand is stimulated so that it moves to AD<sub>1</sub> and aggregate supply responds promptly and relocates at AS<sub>1</sub> - a larger real output becomes available without a price increase√√
- Supply is sticky and fixed in the short term√√
- Therefore, if aggregate demand increases to AD<sub>1</sub> and aggregate supply does not respond (remain constant), intersection is at point F. Real production and prices increase, in other words with more inflation √√

- The aggregate demand curve locates at any position to the left of  $AS_1$  inflation prevails√√
  - The solution is to create conditions which ensure that supply is more flexible through the use of supply-side measures√√
  - If the cost of increasing production is completely flexible, a great real output can be supplied at any given price level√√
  - unemployment√ Demand-side policies effective in stimulating economic growth√√ increases demand for labour√√ reduces unemployment√√ then inflation rises√√
- (Max 6)

## CONCLUSION

It is clear from the discussion above that it is critically important to manage the aggregate supply and demand to ensure stability in the economy  
Accept any other correct relevant fact

(Max 2)  
**[40]**

## QUESTION 6

One of the main aims of developing countries is to create economic growth by expanding their industrial sector.

Discuss export promotion in detail as part of South Africa's trade policy under the following subheadings:

- Methods (8)
- Advantages (8)
- Disadvantages (10) (26)

How successful is South Africa's protectionism policy in protecting local industries from foreign competition? (10)

## INTRODUCTION

- Export promotion involves providing incentives to encourage local businesses to produce goods for export√√
- When government pay incentives to encourage the production of goods that can be exported√√ (Accept any other correct relevant introduction) (Max 2)

## Methods of export promotion:

Incentives: √

- The government supplies information on export markets in order to stimulate exports√√
- Other examples are research on new markets, concessions on transport charges, export credit√





Subsidies: ✓

- Incentives which encourage exporters to increase the amount of their production ✓✓

It includes direct and indirect subsidies:

- Direct subsidies ✓: described as direct because it involves government expenditure ✓✓ e.g. cash payments to exporters, refunds on import tariffs and employment subsidies ✓ The aim is to increase the competitiveness of exporting company ✓✓ reduce cost of production ✓✓ as well as to explore and establish overseas markets ✓✓
- Indirect subsidies ✓: Regarded as indirect because it results in the government receiving less revenue ✓✓ e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes e.g. custom duties on imported goods used in the manufacturing process ✓✓ allows companies to lower their prices and enables them to compete in international markets ✓
- The challenge is that, the government should design incentives and subsidies in such a way that prices of export goods can't be viewed as dumping prices ✓✓

Trade neutrality: ✓

- Subsidies, equal in size to import duties, are paid ✓✓
- Neutrality can be achieved through trade liberalization ✓✓

**(Max 8)****Advantages of export promotion**

- No limitations - the size and scale of world markets is very large ✓✓
- Cost and efficiency of production – will be the basis of production according to the comparative advantage. ✓✓ Firms utilize the availability of factors of production optimally. Value is added to natural resources of the country ✓✓
- Increased domestic production leads to lower domestic prices, which benefit local consumers ✓✓ Expansion on exports will permit more imports and this may result in backward linkage effects that stimulate domestic production in related industries. The exports of gold could provide the foreign exchange to import other goods, such as capital goods, electronics and medicine ✓✓
- Exchange rates are realistic and there should be no need for exchange control quantitative restrictions ✓✓
- Economic growth - export promotion leads to export-orientated economic growth, i.e. (GDP increases) ✓✓
- Employment opportunities - improved income and skills will increase employment opportunities ✓✓
- Balance of payment equilibrium - exports provide more foreign exchange to pay for needed imports, such as oil ✓✓

**(Max 8)**

## Disadvantages of export promotion

### The real cost of production is hidden✓

- It reduces the total costs by subsidies and incentives✓✓
- The real cost of production is concealed by the subsidies✓✓
- The product may thus never be able to compete in the open market✓✓

### Lack of competition✓

- Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market✓✓
- Total potential trade is therefore reduced with subsidies rather than without subsidies✓✓

### Increased tariffs and quotas✓

- Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production✓✓
- Powerful overseas businesses can afford to offer similar products at much lower prices✓✓
- Compared to their production, the subsidized business's domestic market may be so small that it will destroy the business who received the subsidy✓✓

### Protection of labour-intensive industries ✓

- Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage✓✓
- Export promotion results in the protection of labour-intensive industries by developed countries✓✓

**(Max 10)**

Allocate a max of 8 marks for mere listing of facts/examples)

**ADDITIONAL PART** How successful is South Africa's protectionism policy in protecting local industries from foreign competition?

The South African government has been successful in protecting local industries from foreign competition by:

- Maintaining domestic employment and workers through import substitution and import restrictions (increase the demand for local products which may lead to an increase in the demand for labour).
- Raising government revenue through import tariffs, as a way of increasing the countries small domestic tax base.
- Diversifying the economy – many developing countries have a comparative advantage in the production of primary products. Protective measures such as import restrictions are implemented to ensure that a number of domestic



industries develop. Diversified industries are developed to cut out the risk of world fluctuations in prices and demand problems.

- Protecting strategic industries and economic self-sufficiency –strategic industries such as agriculture, iron and steel, chemicals (fertilizers), energy (fuels) and electronics are protected through protection measures.
- Corrections of balance of payments and stabilizing exchange rate – imports are reduced through protection measures to improve the balance of payments and exchange rate.

(Accept any other correct relevant response)

(Max 10)

**[40]**

**TOTAL SECTION C: 40**

**GRAND TOTAL: 150**

