

Economics

CLASS TEXT & STUDY GUIDE

Nazlie Mohamed

GRADE

12

CAPS

3-in-1





Grade 12 **Economics** 3-in-1 CAPS

CLASS TEXT & STUDY GUIDE

This Grade 12 Economics 3-in1 study guide uses detailed explanations to improve your understanding of the core concepts. The topic-based questions and consolidation tests aim to equip and hone the necessary skills required to master examinations.

Key Features:

- Comprehensive notes
- Step-by-step guide to drawing and explaining graphs
- Topic-based questions and consolidation tests
- Detailed answers

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THIS CLASS TEXT & STUDY GUIDE INCLUDES

- 1 Comprehensive Notes
- 2 Topic-based Questions and Consolidation Tests
- 3 Detailed Answers with Explanations

ANSWERS
in a separate
booklet

E-book
available 



CONTENTS

<i>About this book</i>	<i>i</i>
<i>Exam guidelines.....</i>	<i>i</i>
<i>General tips for the examination.....</i>	<i>iii</i>
<i>Tips for mastering the content</i>	<i>iii</i>

MODULE 1: MACROECONOMICS 1

Topic 1: Circular-flow model.....	2
Topic 2: Business cycles.....	19
Topic 3: Public sector.....	37
Topic 4: Foreign exchange markets	57

MODULE 1: CONSOLIDATION TEST 78

MODULE 2: MICROECONOMICS 81

Topic 5: Perfect markets.....	82
Topic 6: Imperfect markets.....	102
Topic 7: Market failure.....	127

MODULE 2: CONSOLIDATION TEST 145

MODULE 3: ECONOMIC PURSUITS..... 148

Topic 8: Protectionism and free trade.....	149
Topic 9: Economic growth and development.....	163
Topic 10: Regional development.....	176
Topic 11: Economic and social indicators.....	190

MODULE 3: CONSOLIDATION TEST 204

MODULE 4: CONTEMPORARY ECONOMIC ISSUES 207

Topic 12: Inflation.....	208
Topic 13: Tourism	226
Topic 14: Environmental sustainability.....	240

MODULE 4: CONSOLIDATION TEST 255



1 CONVERSION OF DOMESTIC TO NATIONAL FIGURES

Domestic figures account for the production and income within the borders of the country whereas **National figures** account for the production and income of the citizens of the country.

We would therefore do the following calculation when converting the GDP to the GNP:

	R BILLIONS
Gross Domestic Product (GDP) at market prices	1 701
+ Primary income from the rest of the world	+ 37
– Primary income to the rest of the world	– 75
Gross National Income (GNI) at market prices	1 663

NOMINAL FIGURES VS REAL FIGURES

- When the GDP is measured over a particular time frame, the prices of goods and services at that time are used.
- This is known as the Nominal GDP and could also be referred to as GDP at market or current prices.
- The nominal value of production is calculated by multiplying the volume of final goods and services by their prices.
- Inflation is determined by the Consumer Price Index (CPI).

The **CPI** is an index that measures the price of a fixed basket of consumer goods and services over a period of time.



- The CPI essentially measures the cost of living in a country.
- It is necessary to include inflation when calculating the GDP as it provides a more accurate indication of economic activity within the country.
- Real GDP (constant prices) refers to GDP where the effect of inflation on the nominal GDP has been taken into account.
- Sometimes you are required to convert (calculate back) the GDP calculations.
- All that conversions mean is that the inverse (opposite) of the sign is used to calculate the GDP.

Worked Example: GDP conversions

(based on the income method on page 10)

GROSS DOMESTIC INCOME		R BILLIONS
.....	Compensation of employees	(D) 885
+	Net operating surplus	410
+	Consumption of fixed capital	104
.....	Gross Value Added (GDP) at factor cost	(C) 1 399
+	Add: Other taxes on production	+ 256
–	Less: Other subsidies on production	– 78
.....	Gross Value Added (GDP) at basic prices	(B) 1 577
+	Add: Taxes on products	+ 136
–	Less: Subsidies on products	– 12
.....	Gross Domestic Product (GDP) at market prices	(A) 1 701
+	Add: Primary income from the rest of the world	+ 87
–	Less: Primary income to the rest of the world	– 93
	Gross National Income (GNI) at market prices	1 695

▶ GNI at market prices	1 695
+ Primary income to the rest of the world	+ 93
– Primary income from the rest of the world	– 87
= GDP at market prices	= 1 701 (A)
▶ GDP at market prices	1 701
+ Subsidies on products	+ 12
– Taxes on products	– 136
= GDP at basic prices	= 1 577 (B)
▶ GDP at basic prices	1 577
+ Other Subsidies on production	+ 78
– Other Taxes on production	– 256
= GDP at factor cost	= 1 399 (C)
▶ GDP at factor cost	1 399
– Consumption on fixed capital	– 104
– Net operating surplus	– 410
= Compensation of employees	= 885 (D)

THE MULTIPLIER

INTRODUCTION

Earlier in the topic we discussed how important injections are to the economy. If we compare developed countries to their underdeveloped counterparts the stark difference between them would be in the levels of aggregate spending, i.e. in developed countries, there is aggressive spending because households have far more disposable income, whereas in less developed countries, far less spending takes place because households have less disposable income.

The multiplier concept was founded by the economist John Maynard Keynes; economists therefore use the symbol K to denote the multiplier.

CONCEPTS RELATING TO THE MULTIPLIER

The multiplier in a two-sector model

The **multiplier** effect/process refers to a situation where a small increase in aggregate spending causes a disproportionately larger increase in aggregate income.



The **value of the multiplier** is the number by which the change in initial spending must be multiplied to determine the change in income. The symbol (K) is used to denote the multiplier.



The multiplier is derived from the marginal propensity to consume (mpc).

The **marginal propensity to consume (mpc)** refers to the proportion of additional income that households choose to spend on consumer goods and services.

The **marginal propensity to save (mps)** refers to the portion of additional income that households choose to save.



Autonomous consumption refers to the portion of income that the consumer has available to spend for their needs and wants.

CALCULATING THE MULTIPLIER

The following formulae are used to calculate the multiplier:

$$K = \frac{1}{1 - mpc}$$

$$K = \frac{1}{mps}$$

$$K = \frac{\Delta Y}{\Delta E}$$

When we examine the multiplier in a two-sector model, we only consider the spending of households and investment spending by businesses.

Worked Example

Linda Abrahams has been employed as a Grade R teacher's assistant. She earns R6 000 a month.

Economists use decimal numbers to express the value of the mpc + mps.

Linda's mpc

The R5 400 that Linda spends is referred to as the **mpc**. Linda spends 90% of her income and as a decimal number it is written as **0,9**.

Linda's mps

The R600 that Linda saves is referred to as the **mps**. Linda saves 10% of her income and as a decimal number it is written as **0,1**.

mpc	+	mps	=	Y
R5 400	+	R600	=	R6 000
(0,9)	+	(0,1)	=	1

The following calculations of the multiplier are based on Linda's example on the previous page:

Using the formula:

$$K = \frac{1}{1 - mpc}$$

$$= \frac{1}{1 - 0,9}$$

$$= \frac{1}{0,1}$$

$$= 10$$

The value of the multiplier is therefore 10.

OR

Using the formula:

$$K = \frac{1}{mps}$$

$$= \frac{1}{0,1}$$

$$= 10$$

The value of the multiplier is therefore 10.



When applying the formula, simply replace/substitute the letters *mpc* with the actual *mpc*.

NB: $1 - mpc$ is the **same** as the *mps*.



When applying the formula, simply replace/substitute the letters *mps* with the actual *mps*.

Conclusions that can be drawn from calculating the multiplier

- The value of the multiplier is derived from the **mpc** or **mps**.
- The multiplier is derived from the marginal propensity to consume.
- The **size** of the multiplier depends on the proportion of the income that is spent.

mpc

- The **larger** the *mpc*, the **greater** the value of the multiplier.
- The **smaller** the *mpc*, the **smaller** the value of the multiplier.
- Therefore, there is a positive/direct relationship between the *mpc* and the value of the multiplier.

mps

- The **smaller** the *mps*, the **greater** the value of the multiplier.
- The **greater** the *mps*, the **smaller** the value of the multiplier.
- Therefore, there is a (an) negative/indirect relationship between the *mps* and the value of the multiplier.
- The multiplier will always be more than 1.

The following leakages occur:

- Savings (S) – marginal propensity to save = **mps**
- Taxes (T) – marginal rate of taxation = **mrt**

The multiplier in a three-sector model

In a three-sector economy the effects of taxation as a leakage are also taken into account:

$$K = \frac{1}{(mps + mrt)}$$

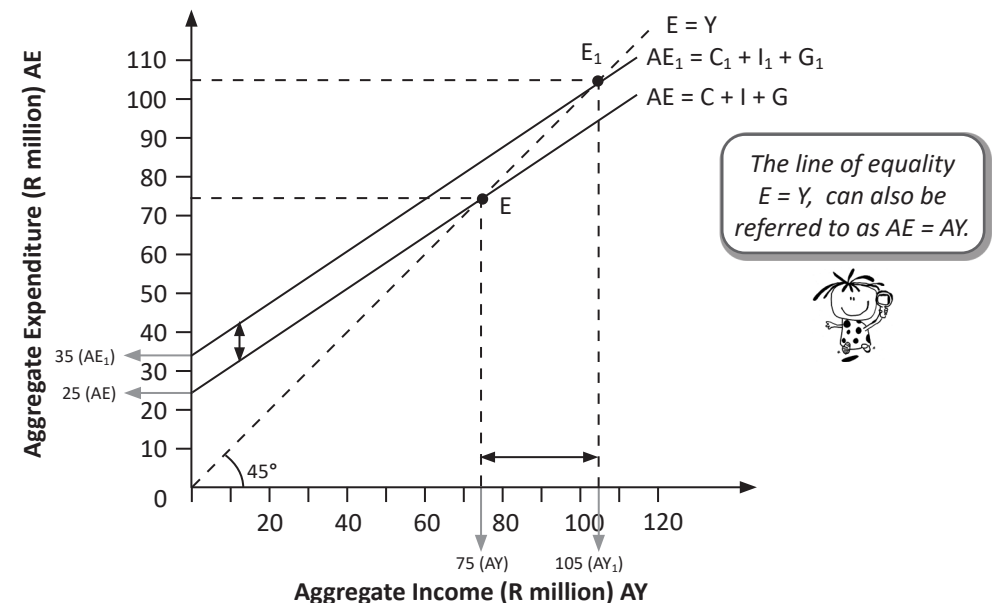
The multiplier in a four-sector model

In a four-sector economy the effects of taxation and imports as leakages are taken into account:

$$K = \frac{1}{(mps + mrt + mpm)}$$

Changes to injections in the economy, i.e. Investment (I), Government Expenditure (G) and Exports (X) will change the income in the economy.

GRAPHICAL REPRESENTATION OF THE MULTIPLIER



We can use the following formula to calculate the multiplier when Income (Y) and Expenditure (E) are provided:

$$K = \frac{\Delta Y}{\Delta E} \text{ or } \frac{\Delta Y}{\Delta J}$$

$$= \frac{30 (105 - 75)}{10 (35 - 25)}$$

$$= 3$$



In a two-sector economy $E = J$.

OR

$$K = \frac{Y}{E} \text{ or } \frac{Y}{J}$$

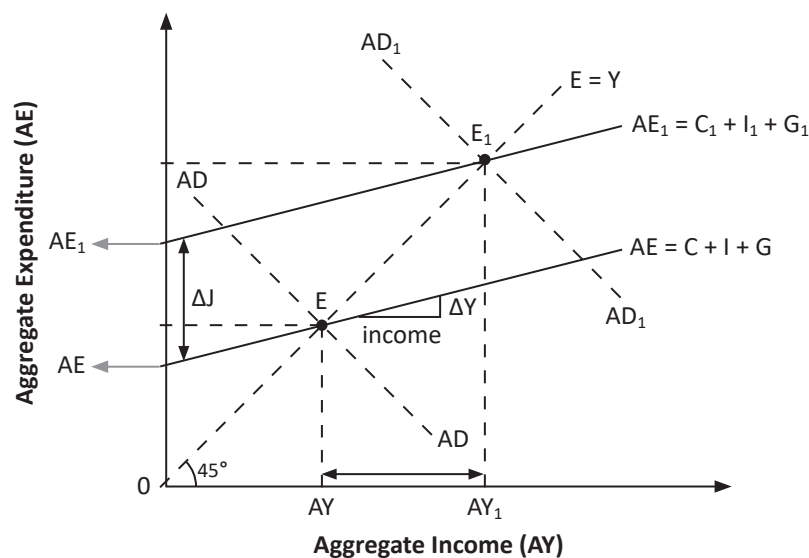
$$= \frac{75}{25} = \frac{105}{35}$$

$$= 3 = 3$$



$\Delta Y > \Delta E$ which proves the theory of the multiplier effect that 'an increase in spending of R10 causes a disproportionately larger increase in aggregate income of R30'.

EXPLAINING THE MULTIPLIER EFFECT IN A GRAPH

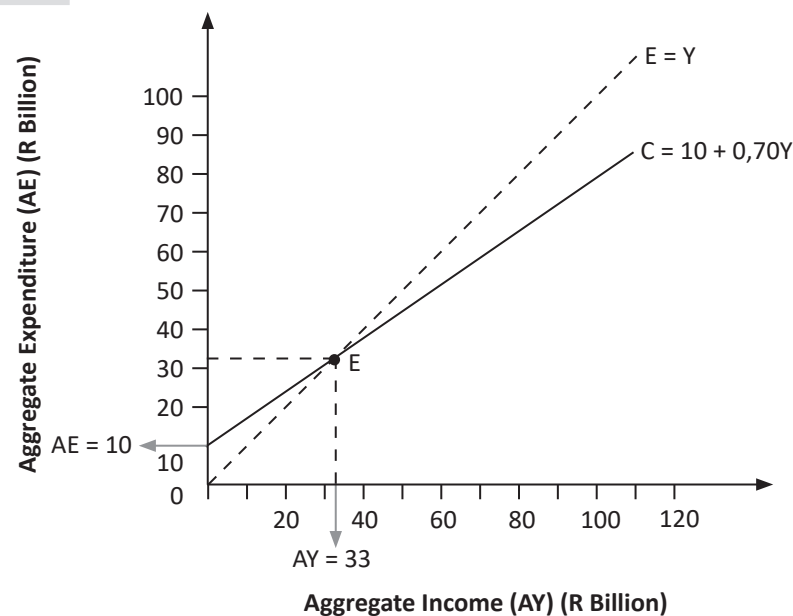


- Aggregate expenditure (AE) is depicted on the vertical axis while aggregate income (AY) is depicted on the horizontal axis.
- $E = Y$ (Expenditure = Income); it is represented by a 45-degree line, which is known as the line of equality.
- E depicts the original equilibrium point and the original aggregate income is depicted by AY.
- The original aggregate expenditure is depicted by AE.
- Aggregate expenditure increases causing the curve to shift to AE_1 .
- The shift from AE to AE_1 causes the total spending at each level of income to increase from AY to AY_1 .
- Aggregate demand increases to AD_1 causing the new equilibrium to be at E_1 .
- Based on the graph above, it is clear that a small change in spending causes a disproportionately larger change in income.

Worked Example 1

Illustrate and explain a Keynesian 45 degree-model of a two-sector economy, where the investment into the economy is R10 billion and the marginal propensity to save (mps) is 0,30.

Solution



Explanation

- Calculation: $K = \frac{1}{mps}$
 $= \frac{1}{0,3}$
 $= 3,3$
- The multiplier describes a situation where a small change in spending causes a disproportionate change in the level of aggregate income.
- Therefore, an investment of R10b will result in a change in aggregate income of R33b ($R10b \times 3,3$).

Worked Example 2

Use the information below to answer the questions that follow.

$$C = 5 + 0,60Y$$

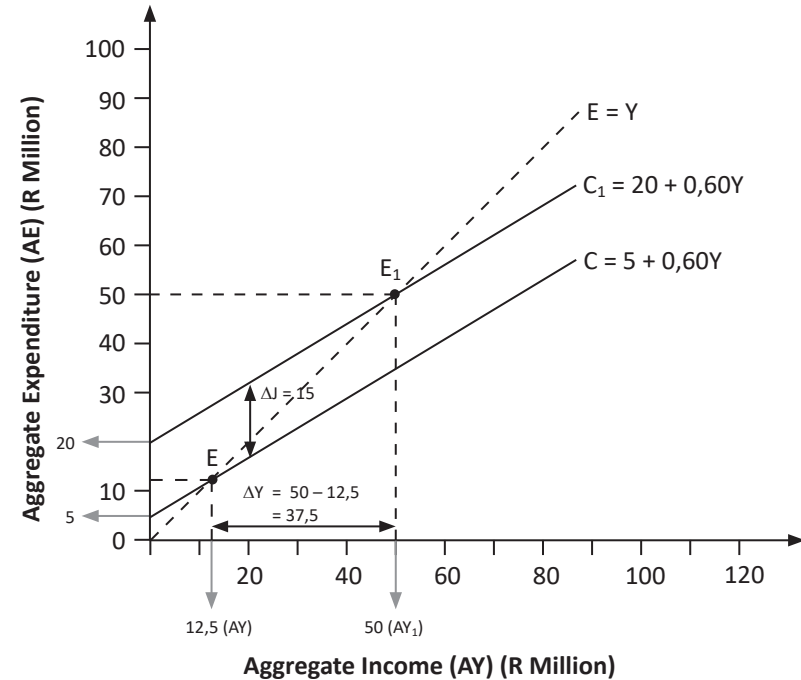
- Calculate the value of the multiplier, based on the consumption function above.
- Use the above consumption function to draw a Keynesian 45 degree-model of a two-sector economy.
- An investment of R15m has occurred in the economy. Indicate the new consumption curve and the new equilibrium formed.
- Use the formula $K = \frac{\Delta Y}{\Delta J}$ to calculate the value of the multiplier (based on your answer to Question 2.2 and Question 2.3).

Solutions

$$\begin{aligned} 2.1 \quad K &= \frac{1}{1 - mpc} \\ &= \frac{1}{1 - 0,60} \\ &= \frac{1}{0,40} \\ &= 2,5 \end{aligned}$$



2.2 & 2.3



$$\begin{aligned} 2.4 \quad K &= \frac{\Delta Y}{\Delta J} \\ &= \frac{37,5}{15} \\ &= 2,5 \end{aligned}$$



PUBLIC SECTOR FAILURE

Public sector failure occurs when the state has not managed an economy properly, resulting in the inefficient use and allocation of resources.



Features

The public sector assumes many roles within the economy. Should they fail to deliver what is expected of them, it is regarded as inefficiency and ineffectiveness.

Public sector failure occurs when the following features are present:

- **Ineffectiveness**

Earlier in the topic we examined the state's macroeconomic objectives. If a government consistently fails to achieve its objectives, e.g. controlling inflation or decreasing unemployment, then the public sector is not being effective in terms of achieving its objectives.

Ineffectiveness occurs when state policies have failed to accomplish their intended outcome. The state has researched, developed and implemented policies but it has been unable to reach the desired goal of the policy that has been implemented. The state is therefore incapable and incompetent in achieving its desired outcomes of implemented policies.

- **Inefficiencies**

When the public sector is not efficient in the allocation and use of resources, it will result in wastage. For example, when textbooks do not arrive at schools, but have been paid for by government, it will be regarded as an inefficient allocation of state resources.

Inefficiencies occur when the state has not used their allocated resources for optimum benefit to economic participants within the country. The state has therefore wasted its resources. Unlike the private sector, the state is not motivated to maximise their profitability. This could lead to wastage in the allocation and use of resources as well as decreased productivity.

Reasons for public sector failure

Public sector failure occurs due to the following reasons:

- 1 Management failure
- 2 Apathy
- 3 Lack of motivation
- 4 Bureaucracy
- 5 Politicians
- 6 Structural weaknesses
- 7 Special interest groups



Civil servants are individuals who are employed by the government.

1 Management failure

Government departments often underperform due to:

Lack of training and experience

- This occurs when civil servants are employed to perform a certain role, but they do not have the correct or necessary training, skills, and experience to do the required job efficiently.
- This promotes a waste of state funds and resources as civil servants will be remunerated for roles that they are not qualified to perform.
- This impedes productivity within the workplace and promotes a culture of incompetence.

The link to typical problems experienced through public sector provisioning:

efficiency

- E.g. the state employs a civil servant in the capacity of an accountant but the employee does not have the required qualifications and is therefore under-qualified for this role.
- This is therefore linked to **efficiency** as a problem of public sector provisioning (page 41).

Poor leadership

- This occurs when employees who are employed in managerial positions are not able to motivate, mentor and lead their staff complement.
- Employees take their lead from their superiors and if their superiors do not lead by example, it will stunt higher levels of productivity.
- Employees could therefore easily become demotivated within the workplace and complacent in their roles.
- Poor leadership promotes inefficiency within the workplace and results in a wastage of resources.

The link to typical problems experienced through public sector provisioning:

accountability

- E.g. a state judge continually arrives late for court sessions due to tardiness; this in turn causes a backlog of court cases. However, the judge is not taken to task.
- This is therefore linked to **accountability** as a problem of public sector provisioning (page 40).

2 Apathy

- This occurs when civil servants are disinterested, lack enthusiasm and are incompetent in their roles.
- Lack of accountability and apathy are usually closely linked within the workplace. When civil servants are apathetic, their productivity levels decrease resulting in poor service delivery.
- Civil servants continue to be fully remunerated for roles in which they are inefficient. This promotes wastage of state resources and a culture of incompetency and inefficiency.

The link to typical problems experienced through public sector provisioning:

efficiency

- E.g. a ward councilor receives the approval for the building of new communal toilets at the local park, but the building of the toilets are delayed because the required paperwork was never submitted to the building contractor.
- This is therefore linked to **efficiency** as a problem of public sector provisioning (page 41).

3 Lack of motivation

- Civil servants do not get evaluated, acknowledged or rewarded for excellent service by their clients, whereas their private sector counterparts do.
- Furthermore, private sector employees are often incentivised through bonuses, awards, etc. for excellent service whereas public sector employees are not.
- Civil servants are only evaluated against compliance and procedures but this could easily cause them to become demotivated and disengaged.
- Customer service is also not regarded as a priority.
- This creates the perception that civil servants are less committed and efficient in comparison to their private sector counterparts.

The link to typical problems experienced through public sector provisioning:

efficiency and assessing needs

- E.g. when calling a private medical aid facility, clients are often encouraged at the end of the call to complete a survey to evaluate the service, helpfulness and willingness to assist that they have received from the service provider. However, state departments have no mechanisms with which to evaluate the service that the public has received.
- This is therefore linked to **efficiency and assessing needs** as problems of public sector provisioning (page 41).

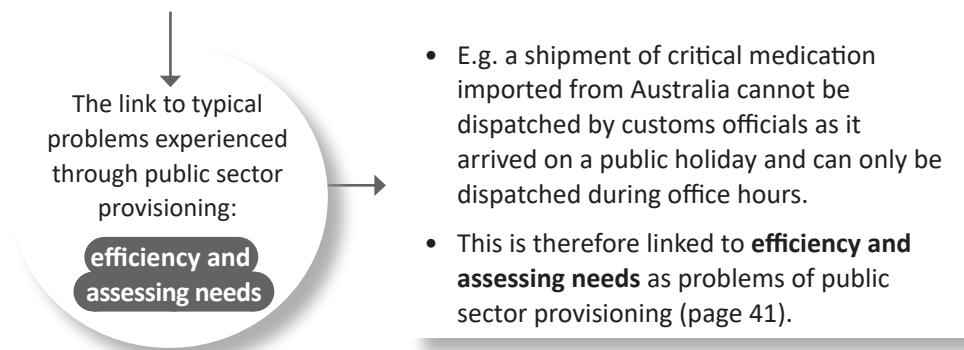


*NB: Please be encouraged to use other examples of typical problems experienced through public sector provisioning in context of **reasons for public sector failure**.*



4 Bureaucracy

- This occurs when there are too many rules, regulations and procedures that need to be followed by civil servants.
- While it is important to have rules and regulations in place and to obey them, bureaucrats often tend to be more invested in obeying the rules, rather than the efficient delivery of public goods and services.
- This results in poor service delivery and the perception that civil servants are desensitised to the needs of the public.
- Civil servants may feel overwhelmed by the rules and regulations in place resulting in complacency and demoralisation.

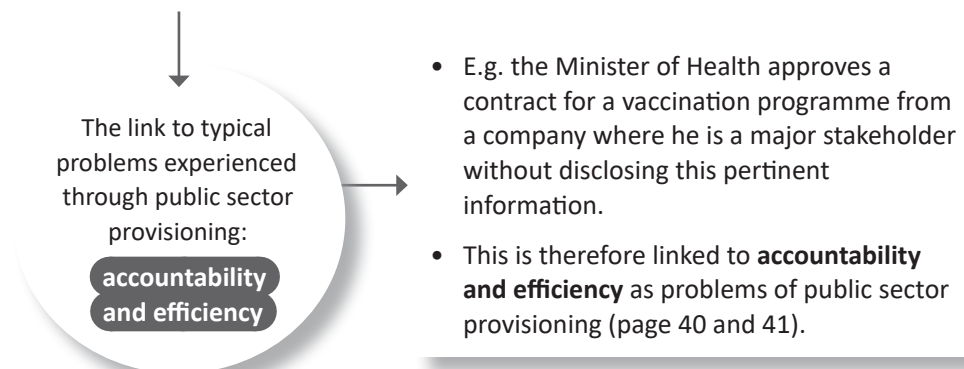


Rules and regulations are often referred to as 'red tape'.

5 Politicians

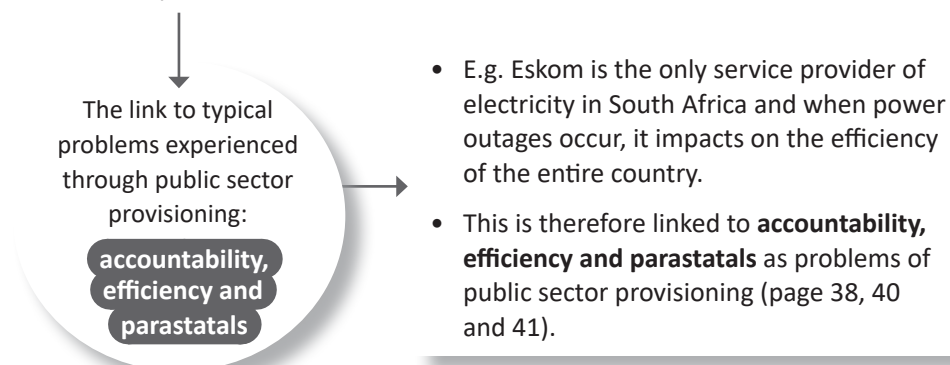
- In order to secure their political careers, politicians may be tempted to act in their own personal interests rather than the interests of the public.
- They could therefore promote and endorse projects and policies to secure votes for their re-election.
- These projects and policies could lead to misallocation or wastage of resources because they serve the interests of the politician rather than the public.
- Similarly, politicians may promote their own personal interests through corruption, cronyism and nepotism.

- They could be influenced to favour certain service providers who tender for projects by receiving 'kickbacks'.
- Therefore, when politicians serve their own interests rather than the interests of the general public that they were elected to serve, it promotes a culture of distrust and disillusionment amongst the public.



6 Structural weaknesses

- When the state is the only service provider of a good or service and there is an undersupply thereof, it compromises the efficiency of the entire economy.
- Furthermore, if the good or service provided is one that is critical to the optimum functioning of the economy and there are problems with its provisioning, all role players within the economy will be compromised.
- This will have far-reaching negative consequences, most specifically by hampering economic growth.
- The above situation will deter potential investors from investing in an economy which they could consider 'flawed' due to its structural weaknesses.



7 Special interest groups

Lobbying (rent-seeking) is a process where people or businesses send out a representative to influence high-level decision makers (such as the government or a regulatory body) on certain aspects that affect them.



- There are special interest groups such as trade unions and businesses who can influence the government to act to their advantage.
- This promotes inefficiency because a special interest group will improve their wellbeing at the expense of another group.
- We could therefore say that special interest groups ensure that pareto efficiency is not achieved, as one group improves their wellbeing at the expense of another.

The link to typical problems experienced through public sector provisioning:

efficiency

- E.g. trade unions could pressure the government to pass certain legislation to favour their members, but at the cost of long-term investment from potential investors.
- This is therefore linked to **efficiency** as a problem of public sector provisioning (page 41).



Effects of public sector failure

• Allocation of resources

The state is meant to ensure the optimal allocation and use of resources; when this does not happen, valuable resources are wasted. When the state fails to deliver goods and services, role players within the economy feel that their tax revenue is not being efficiently administered, leading to apathy and disgruntlement.

• Economic instability

Public sector failure erodes stability within the economy which will deter investors. Investment in a young democracy such as South Africa is critical to its growth but mismanagement, corruption, nepotism, etc. will not inspire confidence in potential investors.

• Distribution of income

The state uses a progressive rate of taxation in order to redistribute income and wealth in South Africa. When it fails to redistribute income effectively, it compromises the already marginalised part of the population even further, by increasing the income gap.

• Social Instability

When the state does not deliver the necessary public goods and services it causes extreme frustration and resentment amongst citizens. This can lead to civil unrest and violent protest action.



THE BALANCE OF PAYMENTS

As important as international trade is, so too is the accurate recording of all money that flows into and out of a country.

The **Balance Of Payments (BoP)** is the systematic record of all international trade transactions between one country and the rest of the world for a particular period of time, usually a year.



Every international transaction recorded in the BoP is recorded in a specific account. These transactions include income from exports, payments for imports, inbound and outbound investments, and buying and selling of assets on international markets.

By recording these flows, a government can keep accurate records of inflows (injections) and outflows (leakages). The BoP is compiled by the South African Reserve Bank (SARB) and published quarterly.

When money flows **into** the country, it is recorded as a **credit entry**.

When money flows **out** of the country, it is recorded as a **debit entry**.



When more money flows into the country than out of the country, the BoP will be in a surplus. This is the ideal position for a country to be in.



When more money flows out of the country than into the country, the BoP will be in a deficit. This is not the ideal position for a country to be in.



COMPOSITION OF THE BALANCE OF PAYMENTS (BOP)

The BoP consists of the following sub-accounts:

- **Current Account**
- **Capital Transfer Account**
- **Financial Account**

The above sub-accounts of the BoP are explained in detail in the notes that follow.

CURRENT COMPOSITION OF THE SOUTH AFRICAN BALANCE OF PAYMENTS (BOP) – 2019	
	(R MILLIONS)
1. Current Account	
Merchandise exports	1 235 964
Net gold exports	67 181
Service receipts	212 721
Income receipts	116 781
Less: Merchandise imports	1 263 824
Less: Payments for services	226 494
Less: Income payments	259 944
Current transfers (net receipts +)	–35 561
Balance on Current Account	–153 176
Memo item: Trade Balance	39 321
2. Capital Transfer Account	244
Net lending to (+) or borrowing from (–) rest of the world	–152 392
3. Financial Account	
Net direct investments	28 584
Net portfolio investments	129 743
Net financial derivatives	–5 439
Net other investments	–22 785
Reserve assets	–25 370
Balance on Financial Account	104 733
Memo item: Balance on Financial Account excluding reserve assets	130 103
Unrecorded transactions	48 199
Balance on Financial Account excluding reserve assets and including unrecorded transactions	178 302

Source: SARB Quarterly Bulletin, June 2021

Unpacking the Current Account and Capital Transfer Account

Description of key terms

The **Current Account** reflects the rand value of the goods and services that are imported or exported.

Merchandise exports are all the physical/tangible goods that have been exported to other countries.

Net gold exports refer to gold that was traded as a commodity between South Africa and foreign countries.

Service receipts refer to the total value of all money received for services rendered to other countries.

Income receipts refer to money earned by South Africans from foreign countries.

Merchandise imports are all the physical/tangible goods that have been imported from foreign countries.

Payments for services refer to the total value of all money paid for services rendered by foreign countries.

Income payments refer to money paid by South Africans to foreign countries.

CURRENT COMPOSITION OF THE SOUTH AFRICAN BALANCE OF PAYMENTS (BOP) – 2019		(R MILLIONS)
1. Current Account		
Merchandise exports		1 235 964
Net gold exports		67 181
Service receipts		212 721
Income receipts		116 781
Less: Merchandise imports		1 263 824
Less: Payments for services		226 494
Less: Income payments		259 944
Current transfer (net receipts +)		-35 561
Balance on Current Account		-153 176
Memo item: Trade Balance		39 321
2. Capital Transfer Account		244
Net lending to (+) or borrowing from (-) rest of the world		-152 392

Current transfers refer to money/goods and services entering or leaving the country without any tangible item received in return, e.g. donations, gifts and social aid.

Trade Balance refers to the net rand value of exports and imports only. It is calculated by the sum of merchandise exports and net gold exports, and subtracting merchandise imports.

Capital Transfer Account records international transactions regarding the ownership of fixed assets.

Net lending to (+) or borrowing from (-) rest of the world is the sum of the Balance on the Current Account and the Capital Transfer Account. It indicates the net financial resources that the economy makes available to the rest of the world if it is **positive**, or received from the rest of the world if it is **negative**.

Calculations: Current Account and Capital Transfer Account

CURRENT COMPOSITION OF THE SOUTH AFRICAN BALANCE OF PAYMENTS (BOP) – 2019	
	(R MILLIONS)
1. Current Account	
Merchandise exports	1 235 964
Net gold exports	67 181
Service receipts	212 721
Income receipts	116 781
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Less: Income payments	259 944
Current transfer (net receipts +)	-35 561
Balance on Current Account	(A) -153 176
Memo item: Trade Balance	(B) 39 321
2. Capital Transfer Account	244
Net lending to (+) or borrowing from (-) rest of the world	(C) -152 932



NB: The Trade Balance can also be referred to as the Trading Balance or Balance of Trade.



	R (millions)
Merchandise exports	1 235 964
Net gold exports	+ 67 181
Service receipts	+ 212 721
Income receipts	+ 116 781
Less: Merchandise imports	- 1 263 824
Less: Payments for services	- 226 494
Less: Income payments	- 259 944
Current transfers (net receipts)	- 35 561
(A) Balance on Current Account	-153 176

	R (millions)
Merchandise exports	1 235 964
Net gold exports	+ 67 181
Merchandise imports	- 1 263 824
(B) Memo item: Trade Balance	39 321

	R (millions)
Balance on Current Account	- -153 176
Capital Transfer Account	+ 244
(C) Net lending (+) or borrowing from (-) rest of the world	-152 932

Net gold exports are listed separately and not included in merchandise exports because of its:

- (i) significant contribution towards South Africa's BoP.
- (ii) historical significance in South Africa as a major export commodity.

Observations of the Current Account

The balance on the Current Account of –R153 176m indicates a **deficit**. This means that more money has flown out of South Africa than what has flown in and is not the ideal situation for a country to be in. Instead, South Africa should try and produce what it needs locally to create less dependence on imports.

-  A **positive** balance on the Current Account reflects that more money has entered the country for the exports of goods and services.
-  A **negative** balance on the Current Account reflects that more money has left the country for the imports of goods and services.



The **information in the Current Account** can be used to assess the stability of the economy. International investors will look at this data to see whether more goods and services are being imported than exported.

In 2020 – for the first time in many years – South Africa experienced a surplus on the Current Account.

Countries that have a large Current Account deficit

When countries are importing more goods and services than what they are exporting for a long time, it could be interpreted that the country is lacking in productive potential or a sign of high inflation.

However, a Current Account deficit could also be seen as a sign that a developing nation is investing in future production potential by importing machinery, expanding its infrastructure and upgrading its stock of capital.

Countries that have a large Current Account surplus

When countries are exporting more goods and services than what they are importing for a long time, it could be interpreted as a sign of high productivity.

However, it could also be a sign that the country is concentrating on meeting foreign demand rather than domestic demand, which could lead to lower living standards within the country. It could also be a sign of inflation targeting measures that are reducing domestic demand.

Capital Transfer Account

The **Capital Transfer Account** records international transactions regarding the ownership of fixed assets.



The following transactions are recorded in the Capital Transfer Account:

- **Grants** relating to the ownership of fixed assets.



E.g. a British charity sends a grant to Food Bank SA to buy a farm in the Western Cape.

- **Debt forgiveness** refers to writing off a portion of one or more loans.



E.g. The World Bank decides to write off a loan extended to South Africa for a dam built.

- The value of household and personal effects and financial claims and **liabilities of migrants**.



E.g. a Zimbabwean resident who has immigrated to South Africa sells all his assets in Zimbabwe and transfers this capital to South Africa.



The **information in the Capital Transfer Account** can be used to assess whether people are viewing a country as a desirable place to live, work and officially reside for tax purposes. It shows the effect of immigrants and emigrants moving their assets into and out of the country.