Economics

CLASS TEXT & STUDY GUIDE

Nazlie Mohamed

GRADE

10

CAPS

3-in-1

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CONTENTS

TOPIC 1

BASIC ECONOMIC CONCEPTS

'UNPACKING' ECONOMICS

DEFINING AND DESCRIBING ECONOMICS

Economics is a social science that studies how households, businesses and governments make choices about the scarce resources that are available to them to satisfy their needs and wants in the most efficient way.

THE BRANCHES OF ECONOMICS

Macroeconomics and **microeconomics** are the two main branches of economics.

MACROECONOMICS

Macroeconomics is the study of issues that affect the overall (whole) economy.

Examples of macroeconomics topics

- scarcity
- economic growth
- international trade
- business cycles
- exchange rates

MICROECONOMICS

Microeconomics is the study of the behaviour and decisions made by individual groups within the economy.

Examples of microeconomics topics

- demand
- market equilibrium
- market structures
- supply
- market failure

OTHER BRANCHES OF ECONOMICS

Macroeconomics and **microeconomics** are the two main branches of economics. There are other branches as well, e.g. **international economics**, **developmental economics** and **labour economics**, etc.

International economics is the study of the flow of goods and services and trade agreements between countries.

Developmental economics is the study of how best to stimulate **economic development** and **economic growth** in countries.

Economic development refers to an increase in the standard of living within the country whereas **economic growth** refers to an increase in the productive capacity within the country.

Labour economics is the study of the demand for and supply of labour and their employment conditions. It also studies how best to train and equip workers so that their productivity can improve.

Monetary economics is the study of the role of money and financial institutions in the economy.

Public sector economics is the study of the role of the government in economies and policies that can be implemented to improve their efficiency.

NOTE

*The **government** can also be referred to as the state or public sector.*

Environmental economics is the study of the state of the environment and the relationship between the economy and the environment.

DIFFERENT APPROACHES TO ECONOMICS

The **Classical approach** and **Keynesian approach** are the two main approaches in economics.

CLASSICAL APPROACH	KEYNESIAN APPROACH
Government intervention in the economy is not necessary	Government intervention in the economy is necessary
Markets are inherently stable and will self-regulate so no government intervention is necessary	Markets are not stable and government intervention is necessary
Based on the economist Adam Smith's school of thought	Based on the economist John Maynard Keynes's school of thought

OTHER APPROACHES TO ECONOMICS

Economists observe and analyse behaviour, study trends and gather and interpret factual information to develop economic principles.

There are three different approaches:

- In the **theoretical approach (deduction)** assumptions are made and conclusions are drawn. For example, it is assumed that when unemployment is low, political stability will be higher. However, there is no factual evidence to prove that the principles formed in this way are correct.
- In the **empirical approach (induction)** facts and data are gathered through observation so that trends can be formulated. For example, providing social welfare payments to citizens fosters an ethos of greater dependence on the government. A theory based on induction can be tested and proven.
- In the **combination approach**, the theoretical and empirical approaches are combined.

FLOWS

The **two flows** in the circular flow are **real flow** and **money flow**.

REAL FLOW

Real flow refers to the flow of goods and services between the various economic participants.

- Households sell their factors of production to businesses and the government on the factor market.
- Goods and services are bought and sold on the product market.
- The government provides public goods and services to households and businesses.
- Goods and services are bought from other countries (imports) and sold to other countries (exports).

MONEY FLOW

Money flow occurs when money is earned or paid between the various economic participants.

- Households earn an income for selling their factors of production to businesses and the government.
- Businesses earn an income from selling their goods and services on the product market to households and the government.
- The government earns an income from charging households and businesses for certain public goods and services.
- Foreign exchange is earned from selling exports and paid when buying imports.

NOTE

*The **Circular Flow** diagram on p. 19 illustrates **real flow** and **money flow** using solid and dashed arrows.*

- *Whenever goods and services and factors of production are bought and sold, a **real flow** occurs* ⟶
- *A real flow will have a corresponding action of a **money flow*** ←- - - -
- *When goods and services are sold to households a real flow* ⟶ *occurs and businesses earn an income* ←- - - -
- *Real flow and money flow occur in **opposite directions*** ⟶ ←- - - -
- *This is because one economic participant's expenditure is another economic participant's income.*

MODULE 1 QUESTIONS

SECTION A

Question 1

1.1 Indicate the most correct answer by writing only the applicable letter next to the corresponding number for each question, e.g. 1.1.6 A.

1.1.1 ... studies the role of the government in economies and policies that can be implemented to improve their efficiency.

A Labour economics B Monetary economics
C International economics D Public sector economics (2)

1.1.2 Which one of the following is present in both free and economic goods?

A price B value
C utility D scarcity (2)

1.1.3 A ... statement is one that is based on an objective fact.

A normative B positive
C economic D hypothesis (2)

1.1.4 Negative economic growth for at least two consecutive quarters is known as a ...

A recession B depression
C recovery D prosperity (2)

1.1.5 South Africa can best be described as having a(n) ... economy.

A one-sector B two-sector
C three-sector D four-sector (2)

5 × 2 (10)

1.2 Choose a description from Column B that matches the item in Column A. Write only the letter next to the question number, e.g. 1.2.7 F.

COLUMN A	COLUMN B
1.2.1 Labour	A reflects upswings and downswings in economic activity
1.2.2 Economies of scale	B have a price attached to them
1.2.3 Trend line	C provided by the state for society's use
1.2.4 Closed economy	D an inflow of money into the economy
1.2.5 Injection	E the mental and physical effort used in the production process
1.2.6 Public goods	F reduces the cost per unit due to high volumes of production
	G foreign trade is absent in this economy
	H indicates the general direction of the economy

6 × 1 (6)

1.3 Provide ONE term or phrase for each of the following descriptions. Abbreviations, acronyms and examples will not be accepted.

1.3.1 The process of exchanging goods or services for each other.

1.3.2 The individual/s responsible for combining the factors of production to start suitable business opportunities.

1.3.3 The value of the best alternative that has been sacrificed when making a decision.

1.3.4 The total value of all money earned by the permanent citizens of a country within a specific period of time.

4 × 1 (4)

TOTAL FOR SECTION A: 20

CONTEXT CLIP

THE EVOLUTION OF MARKETS

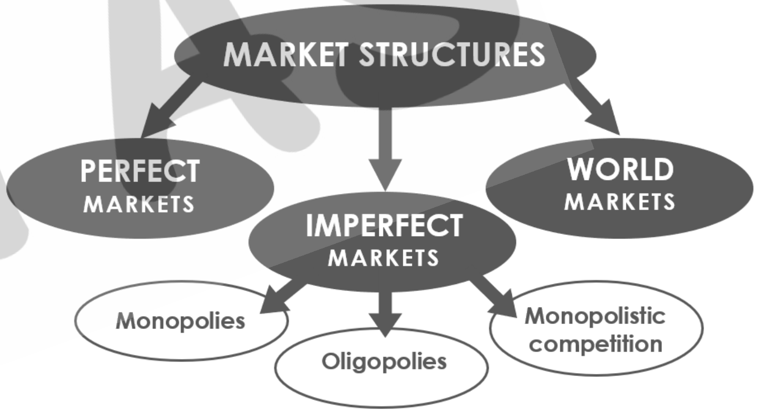
The face of **markets** has changed dramatically over the past decade. This is mainly due to the advancements in technology, easier methods of payment and more efficient modes of transport. Many consumers choose to shop online (e-commerce) as it saves time and is extremely convenient. Furthermore, many businesses have adapted their markets by providing and encouraging their consumer base to use their online shopping options, e.g. Checkers and Woolworths, while some businesses may only have online shopping options, e.g. Takealot and Superbalist. International trade has also revolutionised itself and has resulted in consumers deriving the benefit of having a much wider variety of goods from which to choose. In this regard, Amazon.com, the leading global e-commerce company, invested R4 billion in 2021 when setting up its headquarters in Cape Town. This new international online market will provide much-needed stimulation to the South African economy.

TYPES OF MARKETS

There are **THREE** main types of market structures:

- **Perfect markets**
- **Imperfect markets**
- **World markets**

The **market structure** refers to the way in which the market is managed based on the number of sellers and the nature of the good or service sold.



There are **SIX** main characteristics of perfect markets and imperfect markets:

1. Number of sellers
2. Nature of the product
3. Control over price
4. Entrance and exit to the market
5. Market information
6. Collusion

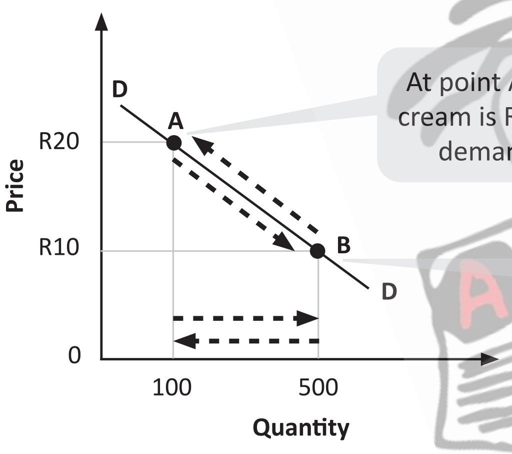
MOVEMENTS ALONG THE DEMAND CURVE AND SHIFTS OF THE DEMAND CURVE

MOVEMENTS ALONG THE DEMAND CURVE

A **movement** along the demand curve represents different price and quantity demanded combinations for a particular good or service.

When the price of a good or service increases, the quantity demanded decreases. Similarly, when the price of a good or service decreases, the quantity demanded increases.

Demand for ice cream



At point A the price of an ice cream is R20 and the quantity demanded is 100 units.

At point B the price of an ice cream decreased from R20 to R10, consequently the quantity demanded has increased from 100 to 500 units.

NOTE

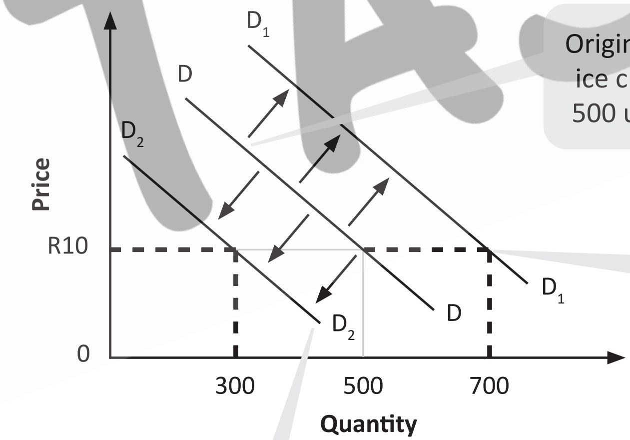
*A **movement** along the demand curve illustrates how the quantity demanded changes when the price changes. I.e. when the **price decreased** from R20 to R10 the **quantity demanded increased** from 100 to 500 units. Similarly, when the **price increased** from R10 to R20 the **quantity demanded decreased** from 500 to 100 units. This is referred to as a **change in the quantity demanded** and is purely **influenced by a change in price**.*

SHIFTS OF THE DEMAND CURVE

A **shift** of the demand curve occurs when factors other than the price cause the demand for a particular good or service to change.

When factors (other than the price) cause the demand for a good or service to increase, the demand curve shifts to the right. Similarly, when factors other than the price cause the demand for a good or service to decrease, the demand curve shifts to the left.

Demand for ice cream



Original demand curve for ice creams at R10 where 500 units are demanded.

Warm weather causes the **demand** for ice creams to **increase** from 500 to 700 units. This causes the **demand curve to shift to the right**.

Cold weather causes the **demand** for ice creams to **decrease** from 500 to 300 units. This causes the **demand curve to shift to the left**.

NOTE

*A **shift** of the demand curve illustrates how **demand changes** even though the **price has not changed**. This is referred to as a **change in demand**.*

Factors that affect the shift of the demand curve, e.g. weather patterns, consumers' tastes, etc. are explained on p. 57.

BARTER, TRADE AND THE EMERGENCE OF MONEY

As societies developed and farming became more advanced, individuals became more specialised in specific skills or crafts. Specialised individuals were able to increase their production and this evolved into organised farming. Organised farming created a framework for the production of surplus products which could eventually be exchanged or bartered.

Barter refers to the process of exchanging goods or services for other goods and services in the absence of money.

E.g. if one farmer produced an excess of oranges and another an excess of potatoes, they could barter their surpluses thereby increasing their access to variety.

CONDITIONS FOR SUCCESSFUL BARTERING

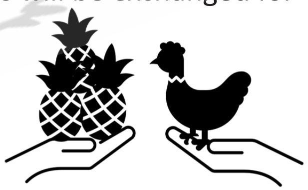
Successful bartering requires the presence of specific conditions:

Double coincidence of wants

Both parties must want what the other has to offer, i.e. the orange farmer must want potatoes and the potato farmer must want oranges.

Mutual agreement on how much to exchange

Both parties must be in agreement on the quantity that will be exchanged in the absence of money or scales, e.g. 100 oranges will be exchanged for 50 potatoes.



CHALLENGES OF BARTERING

Bartering posed challenges such as:

Absence of a double coincidence of wants

Bartering could not occur if one party did not want what the other had to offer, i.e. the potato farmer might want oranges but if the orange farmer did not want potatoes, then bartering could not occur.

Difficulty in reaching agreement on how much to exchange

If one good or service is more valuable than the other, it posed problems in reaching consensus on how much to exchange, i.e. if potatoes took longer to harvest and had more value than oranges, it would be difficult to accurately determine how many potatoes should be exchanged for oranges.

These challenges presented by the bartering process, were solved by the introduction of an acceptable means of exchange in the form of various kinds of money.

Money refers to any item that has value and can be used as an acceptable medium of exchange for the buying and selling of goods and services.

NOTE

Money is regarded as a medium of exchange because it facilitates the trade of goods and services, i.e. money is paid and in return goods and services are received.

Societies originally used items that were scarce and therefore had value as various kinds of money. They included cowry shells, beads, copper, lead ingots and metal items. Eventually, metal coins were introduced over time.

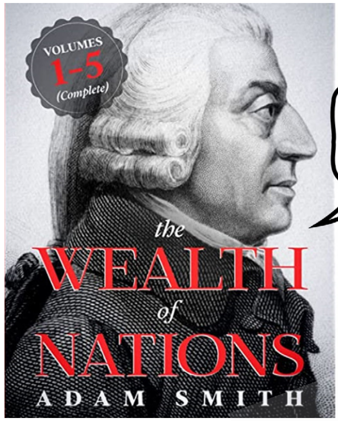
Coinage of Phanes

Ostrich beads

Roman copper coins

Cowry shells

THE EMERGENCE OF IDEAS ABOUT ECONOMIC POLICY



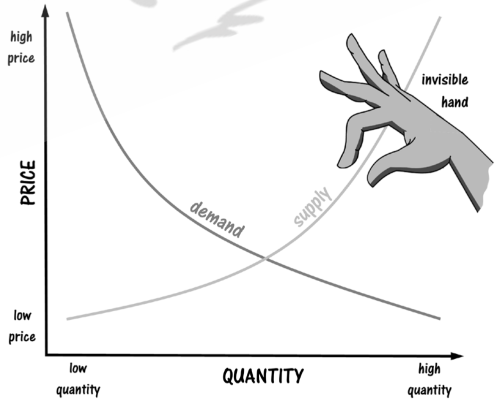
Adam Smith was an eighteenth-century Scottish economist who strongly promulgated free trade with no government intervention. This economic policy is known as the **market economy**, **free market economy** or **capitalism**. His book *The Wealth of Nation* was published in 1776 and explained that individuals were driven by self-interest. If they were given complete freedom of choice to produce and trade without any government intervention, it would actively encourage domestic and international trade. He also hypothesised that markets had the capacity to self-regulate through an economic force known as the 'invisible hand'.

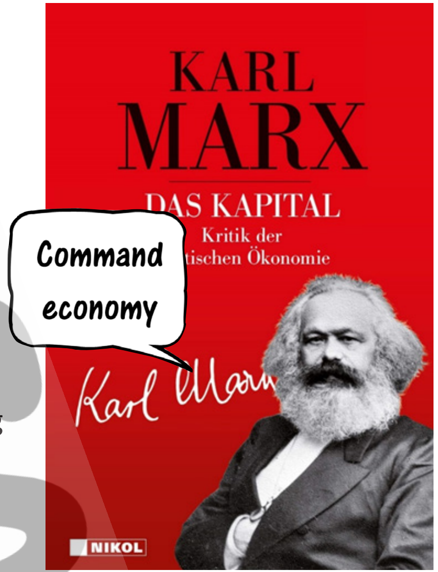
The invisible hand uses the market forces of demand and supply to self-regulate. When prices are too high, demand decreases. This will result in supply increasing thereby decreasing the price.

The biggest criticism of capitalism is that it created a large income divide. The owners of wealth were able to amass more wealth, but the working class (who were the vast majority of the population) did not earn a sufficient income to enjoy a decent standard of living.

NOTE

No taxes are paid in a capitalistic economy. This serves as a huge incentive as individuals will have more disposable income and businesses earn more profit. It compliments Adam Smith's theory of promoting self-interest.





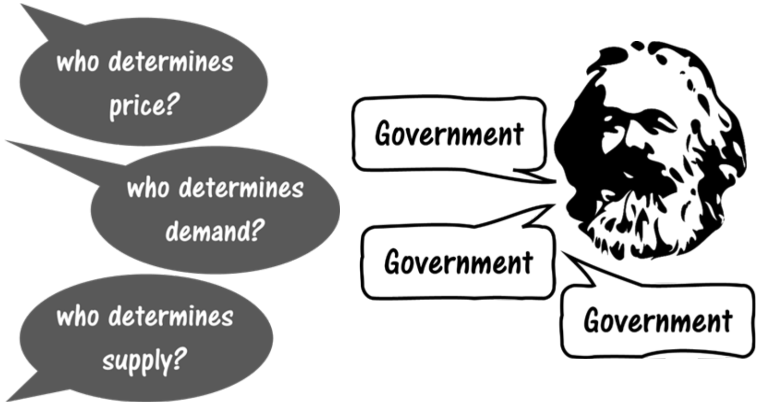
Karl Marx was a nineteenth-century German economist who strongly promulgated collective ownership of wealth by the population of the country and the government as the most important role player. This economic policy is known as the **centrally planned economy**, **command economy** or **socialism**. His book *Das Kapital* was published in 1867 and had 3 volumes.

Das Kapital explains that while capitalists hold and control the economic power in a country, it is at the expense of the working population who remain entrenched in poverty. He advocated that this dynamic be changed through central planning. The government would assume the roles of planning, producing and controlling within the economy.

There is no private sector within a socialistic economy and self-interest does not feature. The economic system aims to ensure that there is no, or very little, income divide, and thus no class structure created.

NOTE

Economic systems are studied extensively in the Grade 11 Economics syllabus.



TOPIC 1 | GROWTH, DEVELOPMENT AND GLOBALISATION

1.2 Choose a description from Column B that matches the item in Column A. Write only the letter next to the question number, e.g. 1.2.7 J.

COLUMN A	COLUMN B
1.2.1 Guilds	A an economic system where the state is the most important role player
1.2.2 Industrialisation	B rare and valuable commodities that are used for trade in a particular geographic area
1.2.3 Socialism	C people leaving one country to settle permanently in another
1.2.4 Emigration	D the number of people in a country who are willing and able to work
1.2.5 Indigenous money	E replacing manual production with technological production
1.2.6 Labour force	F people entering a country and permanently settling in a particular country
	G associations of craftspeople who specialised in certain trades
	H the number of people between the age of 15 and 60 living in a country

6×1 (6)

1.3 Provide ONE term or phrase for each of the following descriptions. Abbreviations, acronyms and examples will not be accepted.

1.3.1 A traditional form of living whereby people move from place to place to satisfy their needs.

1.3.2 The unrecorded sector of the economy.

1.3.3 Standardised goods that are produced on a large scale using mechanisation.

1.3.4 The difference between the birth rate and death rate in a country for a specific period of time. 4×1 (4)

TOTAL FOR SECTION A: 20

SECTION B

Question 2

2.1 Answer the following questions.

2.1.1 Name any TWO types of economic systems. 2×1 (2)

2.1.2 How does a low birth rate compromise an economy? 1×2 (2)

2.2 Study the cartoon below and answer the questions that follow.

2.2.1 Which country first colonised the Cape of Good Hope? (1)

2.2.2 Which continent dominated colonialism in Africa? (1)

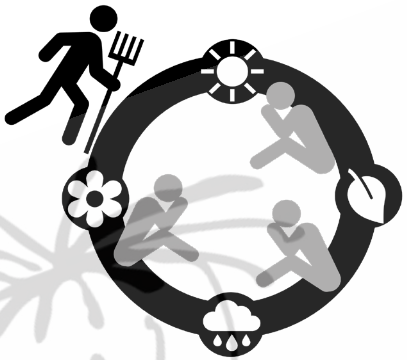
2.2.3 Briefly describe the term *colonialism.* (2)

2.2.4 How was the infrastructure in South Africa impacted on when it was under colonial rule? (2)

2.2.5 What economic benefits did the colonisers derive through the process of colonisation? 2×2 (4)

SEASONAL UNEMPLOYMENT

Seasonal unemployment refers to an involuntary form of unemployment as a result of labour that is only demanded during certain periods/seasons.



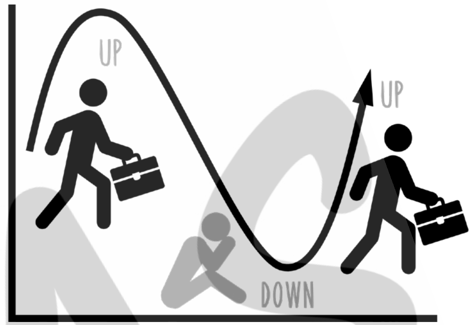
The agriculture and services industries are typical examples where seasonal unemployment occurs, e.g. someone who works on a strawberry farm will be employed during the strawberry season and will be seasonally unemployed when the season ends.

Similarly, local tourism will be particularly high in the December period in South Africa and seasonal employment will increase in restaurants, hotels and other tourism sites. Once the tourism season ends, employees will be seasonally unemployed. Seasonally unemployed individuals know that their unemployment is temporary and that once the season/period draws to an end, their employment will end too.

✓ Seasonal unemployment is normal and is not of serious concern to the economy.

CYCLICAL UNEMPLOYMENT

Cyclical unemployment refers to unemployment that is caused by periodic changes (upswings and downswings) within the business cycle of the country.



All economies experience business cycles. In periods of economic growth (upswing) the demand for goods and services increases, causing a simultaneous increase in the demand for labour.

Similarly, in periods of contraction (downswing) the demand for goods and services decreases, causing a simultaneous decrease in the demand for labour. Once the cycle of contraction has completed, growth within the economy will once again resume, resulting in cyclically unemployed employees finding employment.

✓ or ✗ Cyclical unemployment is normal but becomes of serious concern when an economy remains in the contraction phase for long periods of time.