

Economics

CLASS TEXT & STUDY GUIDE

Nazlie Mohamed

GRADE

12

CAPS

3-in-1



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

CLASS TEXT & STUDY GUIDE

This Grade 12 Economics 3-in-1 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

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1 CIRCULAR-FLOW MODEL

THE OPEN ECONOMY CIRCULAR-FLOW MODEL



Macroeconomics is the study of the economy as a whole, where economists study aggregates/totals.

CONCEPTS RELATED TO THE CIRCULAR-FLOW



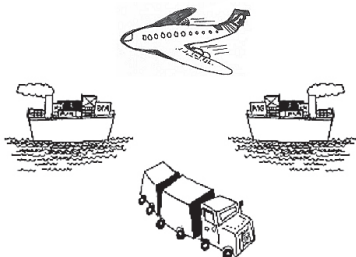
The **circular-flow model** is a simplified economic model that describes the interdependence of an economy's participants. It illustrates the relationship between production, expenditure and income in the economy.

A closed economy will have a simpler circular-flow model than an open economy.

A **closed economy** is one where there is no international trade relations with other countries. A closed economy therefore excludes the foreign sector as an economic participant.



An **open economy** is one where there are international trade relations with other countries. An open economy therefore includes the foreign sector as an economic participant.



The circular-flow model is represented visually by circular-flow diagrams.

The circular-flow diagram that follows represents an **open economy** and illustrates the relationship between households, businesses, government and the foreign sector as economic participants. The financial sector, although not an economic participant, plays a significant role within the circular-flow because it has a relationship with all the above-mentioned economic participants.

CIRCULAR-FLOW MODEL OF A FOUR-SECTOR ECONOMY (OPEN ECONOMY)

In the diagram that follows:

- The solid lines ——— represent **real flows**, in the form of the factors of production and the products and services that are bought and sold.
- The dashed lines - - - - - represent **money flows**, in the form of payments, salaries, wages, loans, investments and taxes.

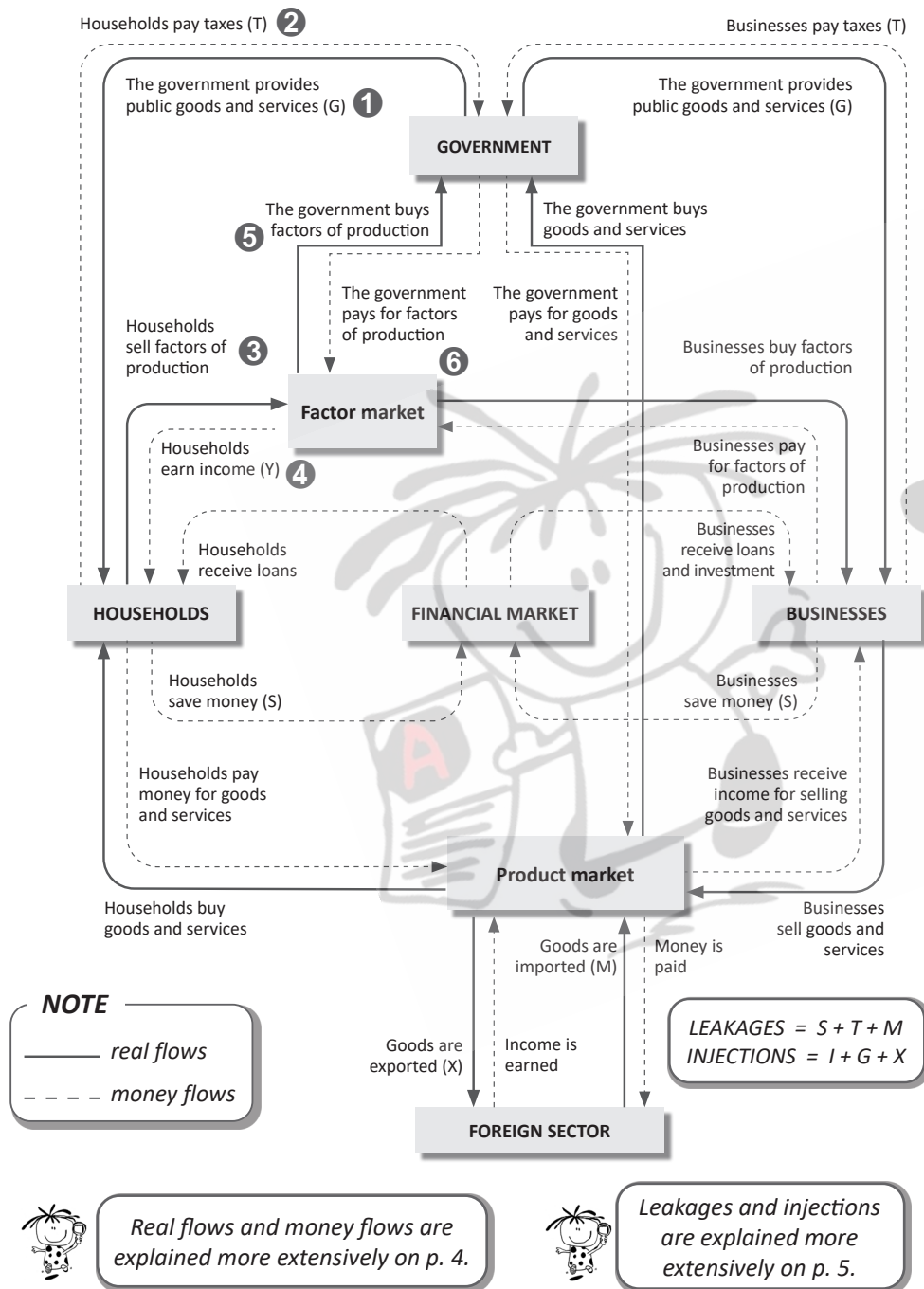
For every real flow there is a money flow that moves in the opposite direction.

Real flows with their corresponding money flows

The numbers in the table below correspond with the circular-flow on p. 3.

REAL FLOWS		MONEY FLOWS	
①	the government provides public goods and services to households	②	households pay taxes to the government
③	households sell their factors of production to businesses	④	households earn income in exchange for their factors of production
⑤	the government buys factors of production	⑥	the government pays for factors of production

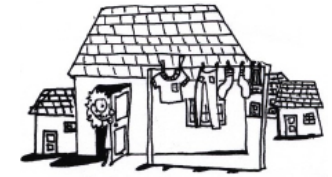
Circular-flow model of a four-sector economy (open economy)



THE FOUR ECONOMIC PARTICIPANTS

Households

Households are the primary economic participants who are the owners of the factors of production.



- Households own the factors of production, namely capital, entrepreneurship, land and labour.
- They sell their factors of production on the factor market and, in return, earn interest, profit, rent and salaries/wages.
- They then use this income (remuneration) to buy goods and services from businesses to satisfy their needs and wants.
- Households decide what goods and services to buy, where and how to buy them.

Businesses

Businesses/firms/producers buy the factors of production and use them to produce goods and services.



- Businesses purchase the factors of production from households on the factor market.
- They use these factors of production to produce goods and services which are sold in the product market.
- Businesses decide what goods and services to produce as well as where and how to sell them.
- In return, businesses earn revenue/income from the economic participants.



TOPIC-BASED QUESTIONS

SECTION A

Question 1

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

1.1.1 An American correspondent working for its CNN office in Johannesburg would form part of ...

- A South Africa's GNP and the USA's GDP
- B the USA's GNP and South Africa's GDP
- C only South Africa's national income figures
- D only the USA's national income figures as he is an American citizen (2)

1.1.2 If the mps is 0,6, then the multiplier for the economy will be:

- A 2,5
- B 1,67
- C 1,6
- D 2 (2)

1.1.3 A timber farmer sells wood to a carpenter to the value of R100 000. The carpenter processes it into furniture to the value of R400 000. The furniture is then sold to Mr Price Home for R700 000. Mr Price Home sells it to the public for R1 300 000. The contribution to South Africa's GDP would be:

- A R2 500 000
- B R600 000
- C R1 300 000
- D R1 200 000 (2)

1.1.4 Due to increasing obesity in the country, the government decides to influence the price of fizzy cooldrinks by levying an additional 20% on the product and then an additional 15% for VAT. If the basic price of a can of fizzy drink is R9,00, the market price is:

- A R10,80
- B R7,20
- C R12,15
- D R12,42 (2)

1.1.5 Which sector contributes the most towards South Africa's GDP?

- A Primary sector
- B Secondary sector
- C Tertiary sector
- D Informal 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 J.

COLUMN A	COLUMN B
1.2.1 Multiplier	A allows for all errors and omissions in GDP calculations
1.2.2 Gross National Product (GNP)	B foreign trade is absent in this economy
1.2.3 Foreign exchange market	C a small change in spending causes a disproportionately larger change in income
1.2.4 Market prices	D currencies are traded on this market
1.2.5 Residual item	E a simplification of the interaction between the various economic participants
1.2.6 Closed economy	F goods and services produced by the citizens of the country
	G final prices paid by consumers
	H the final value of all goods and services produced within the borders of the country

6 × 1 (6)

1.3 Provide the correct economic term for each of the following descriptions. Abbreviations, acronyms and examples will not be accepted.

1.3.1 Financial incentives provided by the government to producers to ensure that goods and services are more affordable.

1.3.2 Outflows of money from the economy.

1.3.3 The proportion of additional income that households choose to spend on consumer goods and services.

1.3.4 National income figures that have taken inflation into account. 4 × 1 (4)

TOTAL FOR SECTION A: 20



2 Cash reserve requirements



Cash reserves are kept at the SARB in order to protect the liquidity, solvency and safety of banks as well as the economic participants who have invested their money in them.



Liquidity refers to how easily cash can be accessed when required by economic participants.

Solvency refers to the ability of an economic participant to settle their debt.

- The Banks Act (No 94 of 1990) states that banks are obligated by law to keep 3,5% of their deposits as cash reserves at the SARB.
- The SARB is permitted by the Banks Act to occasionally change the cash reserves requirement as required within the economy.
- If the economy is in a downswing and in need of stimulation, the SARB can decrease the cash reserve requirement so that banks have more money available to lend. This will effectively increase the money supply and, thereby, spending within the economy.
- If on the other hand, the economy needs to be slowed down (contracted) and spending needs to be curbed, the cash reserve requirement can be increased so that banks have less money available to lend. This will effectively decrease the money supply and thereby spending within the economy.

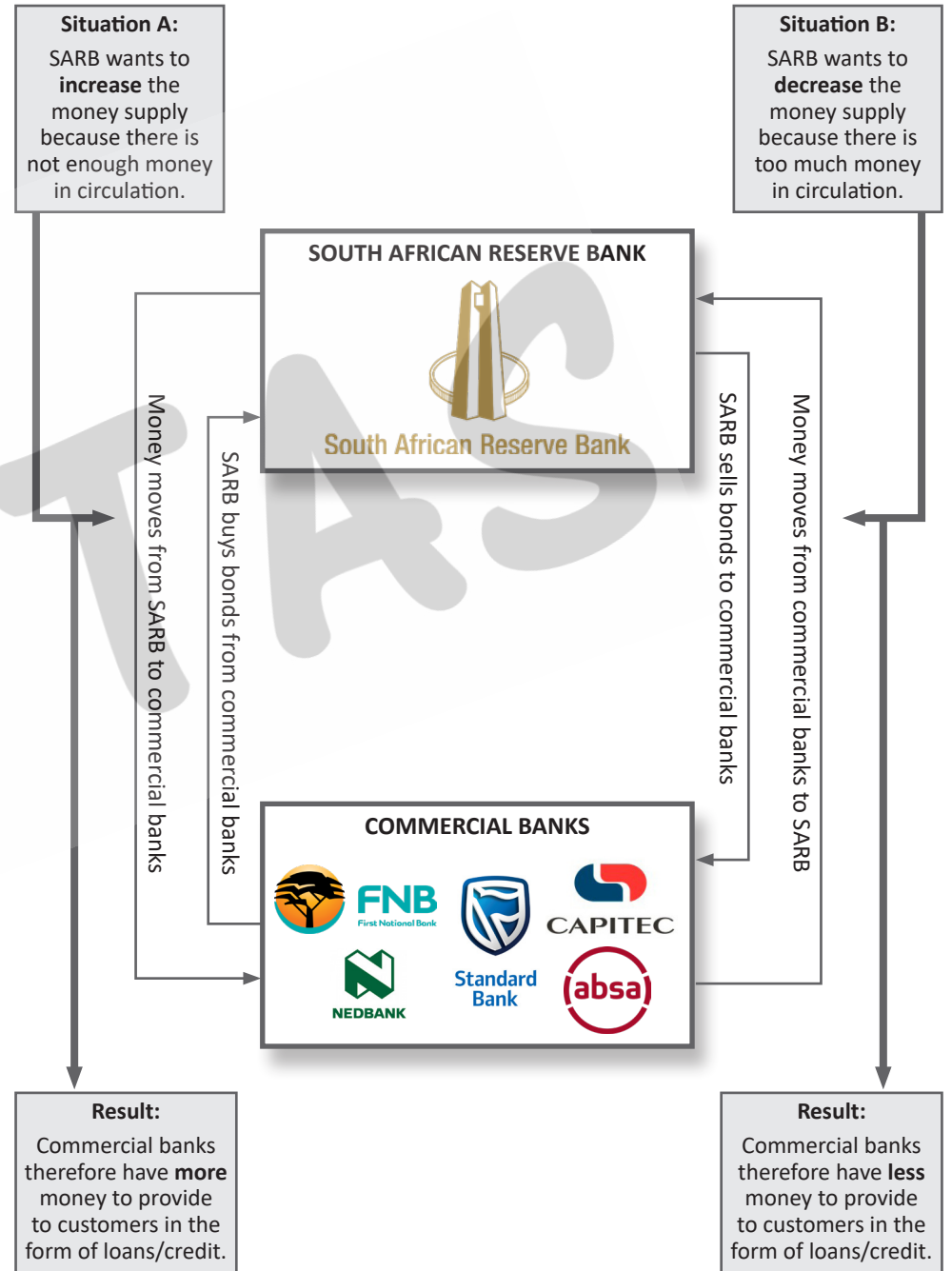
3 Open market transactions



Government securities are also known as government bonds. Government bonds is a debt-based investment whereby money is loaned by economic participants to the government at an agreed rate of interest.

- The SARB can increase or decrease the money supply in the economy by buying and selling government securities in the open market.
- If the economy is in a downswing, the SARB can buy government securities in the open market, thereby increasing the money supply within the economy.
- If on the other hand, the economy is in an upswing and needs to be slowed down, the SARB can sell government securities in the open market, thereby decreasing the money supply within the economy.

Open market transactions diagram



MODULE 1: CONSOLIDATION TEST



Test your knowledge now that you have completed Module 1 and note the layout of the test. Once you have completed it and compared your answers against the suggested answers, take note of the mistakes that you have made and rectify them before moving on to the next module.

SECTION A

Question 1

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

1.1.1 The money market and capital market are components of this market.

- A goods market B factor market
C financial market D foreign exchange market (2)

1.1.2 If the marginal propensity to consume (mpc) is 0,85 in a 2-sector economy, the value of the multiplier will be ...

- A 1,2 B 1,7
C 6,7 D 6,5 (2)

1.1.3 The Reserve Bank uses the ... policy to influence aggregate money supply.

- A fiscal B monetary
C supply-side D budgetary (2)

1.1.4 The government is responsible for ... sector provisioning.

- A private B financial
C foreign D public (2)

1.1.5 The exchange rate system used by South Africa is called the ... exchange rate system.

- A free floating B managed floating
C fixed D pegged (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 J.

COLUMN A	COLUMN B
1.2.1 Market prices	A goods and services that improve the welfare of society but are undersupplied by the market
1.2.2 Repo rate	B costs paid by the producer to produce goods and services
1.2.3 Laffer curve	C official rules and regulations that compromise service delivery
1.2.4 Extrapolation	D a diagrammatic representation of the relationship between inflation and unemployment
1.2.5 Merit goods	E final prices paid by consumers for goods and services
1.2.6 Bureaucracy	F illustrates the disincentive to work as the tax rate increases
	G the interest rate at which the Reserve Bank lends money to commercial banks
	H predicting future economic trends based on past data

6 × 1 (6)

1.3 Provide the correct economic term for each of the following descriptions. Abbreviations, acronyms and examples will not be accepted.

1.3.1 Inflows of money into the economy.

1.3.2 Business cycles that last for 40 – 60 years.

1.3.3 Investments made in specific assets with a fixed future value that are paid on a specific date.

1.3.4 A plan of estimated revenue and expenditure which spans three years.

4 × 1 (4)

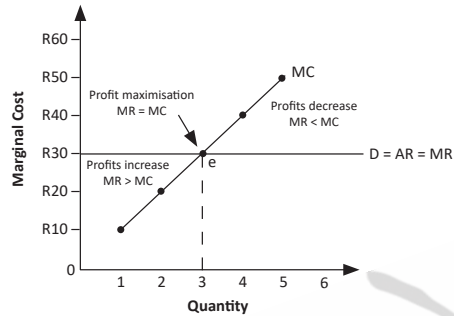
TOTAL FOR SECTION A: 20



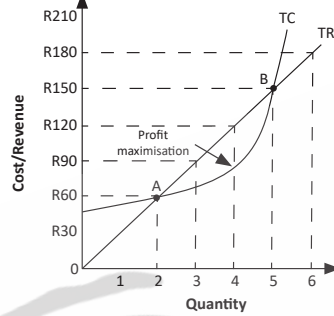
SUMMARY OF GRAPHS – PERFECT MARKETS

PROFIT MAXIMISATION GRAPHS

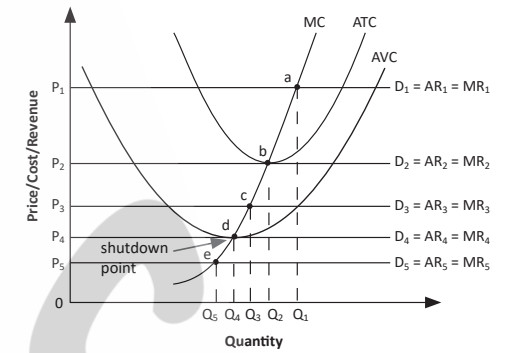
USING MARGINAL REVENUE AND MARGINAL COSTS



USING TOTAL REVENUE AND TOTAL COST

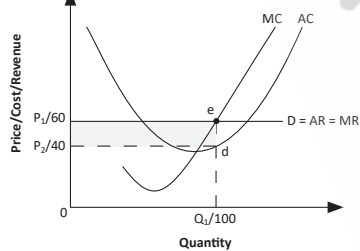


SHUTDOWN GRAPH

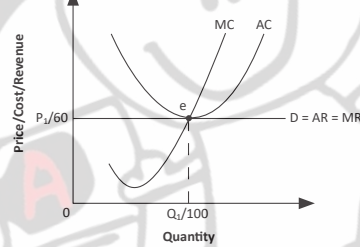


SHORT-RUN EQUILIBRIUM POSITIONS

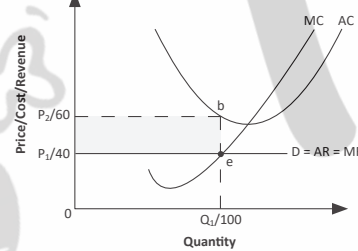
ECONOMIC PROFIT



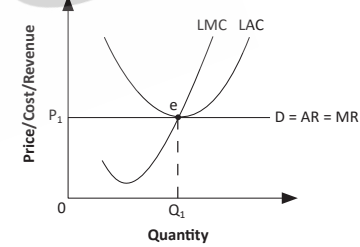
NORMAL PROFIT



ECONOMIC LOSS



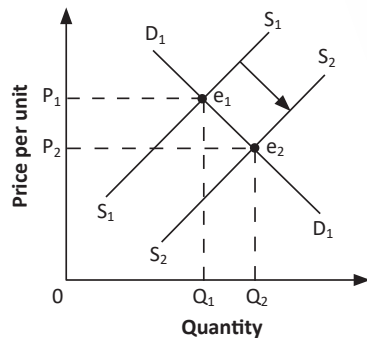
NORMAL PROFIT



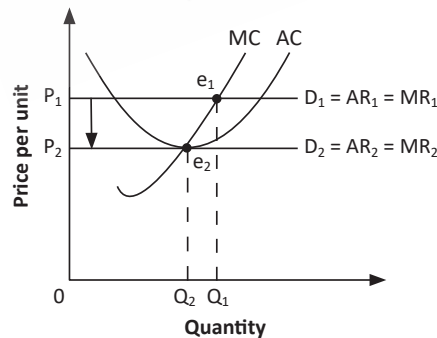
LONG-RUN EQUILIBRIUM POSITION

ENTRY OF NEW FIRMS

THE INDUSTRY

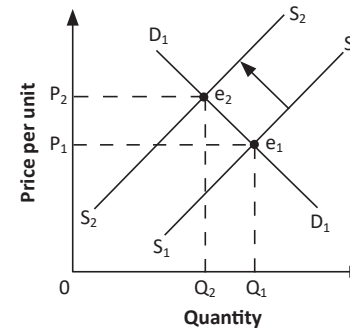


THE INDIVIDUAL FIRM

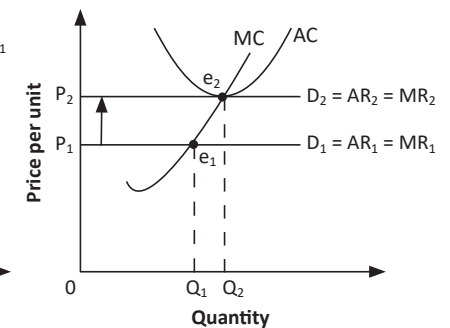


EXIT OF FIRMS

THE INDUSTRY



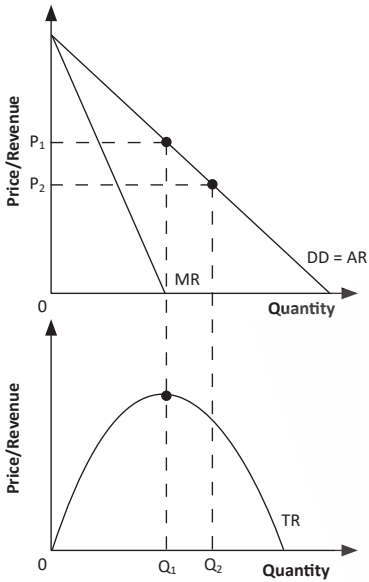
THE INDIVIDUAL FIRM



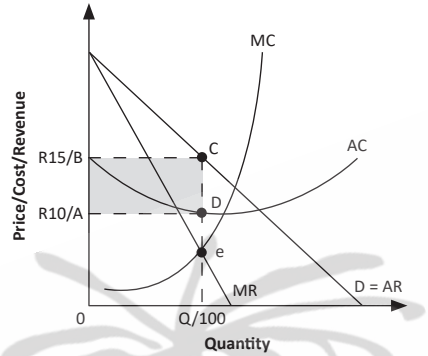
SUMMARY OF GRAPHS – IMPERFECT MARKETS

MONOPOLY

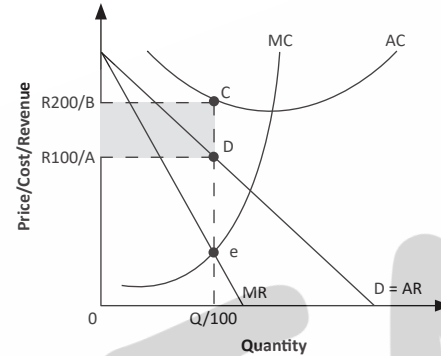
THE RELATIONSHIP BETWEEN THE DEMAND (AR) CURVE & MARGINAL REVENUE (MR) CURVE



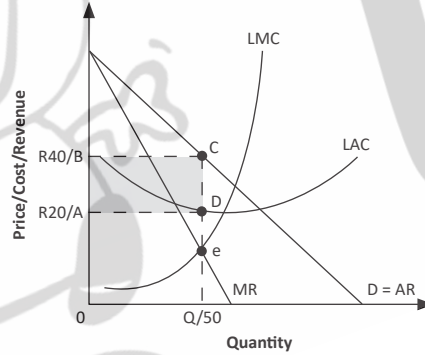
SHORT-RUN EQUILIBRIUM POSITIONS: ECONOMIC PROFIT



ECONOMIC LOSS

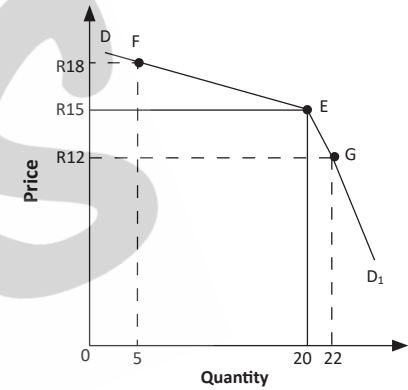


LONG-RUN EQUILIBRIUM POSITION: ECONOMIC PROFIT

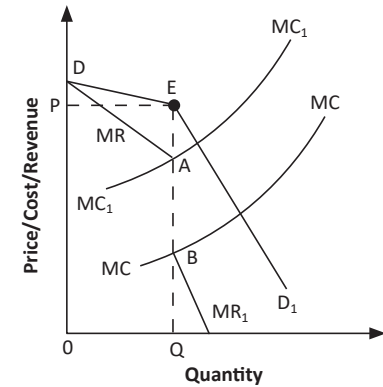


OLIGOPOLY

KINKED DEMAND CURVE

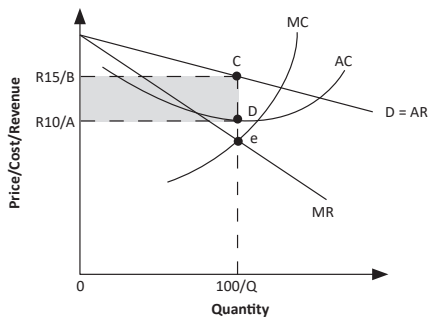


KINKED DEMAND CURVE INCLUDING THE MARGINAL REVENUE (MR) CURVE AND MARGINAL COST (MC)

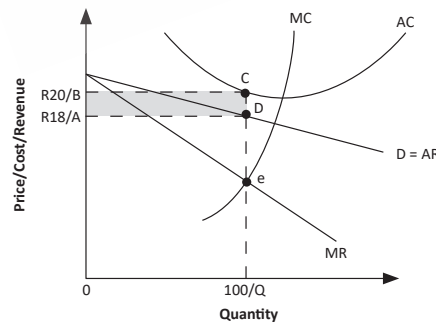


MONOPOLISTIC COMPETITION

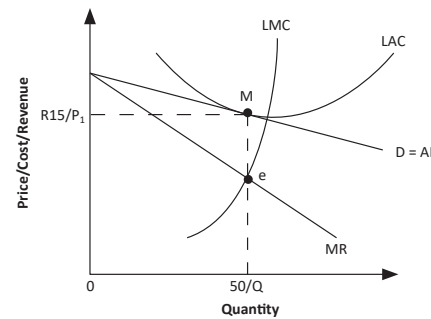
SHORT-RUN EQUILIBRIUM POSITIONS ECONOMIC PROFIT



ECONOMIC LOSS



LONG-RUN EQUILIBRIUM POSITION NORMAL PROFIT

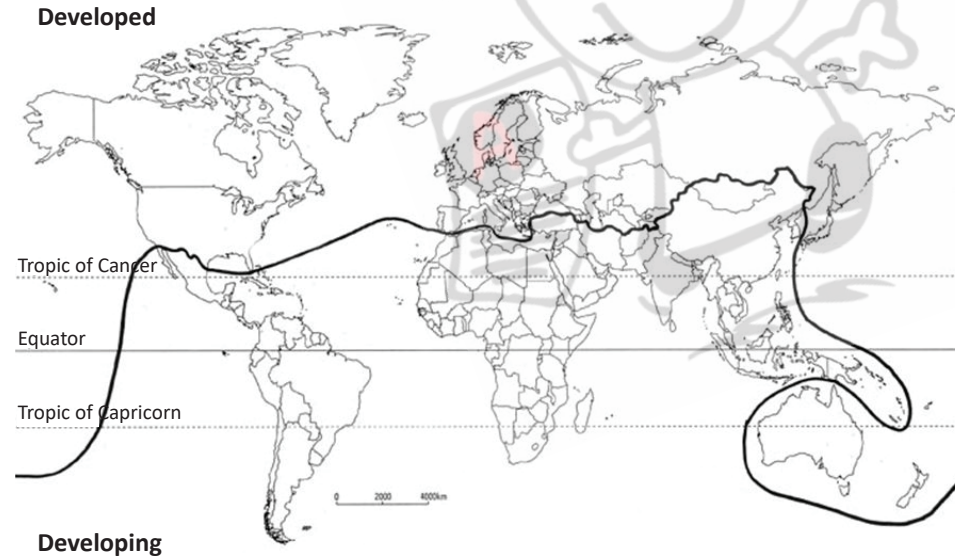


THE NORTH/SOUTH DIVIDE



The **North/South divide** refers to the world's developed countries that are situated in the **North**, e.g. Germany and Japan, while the developing countries, e.g. South Africa and Brazil, are situated in the **South**.

The North/South divide was developed by German Chancellor, Willy Brandt, who was the Chairman of the UN commission in the 1980s. Brandt investigated the differences in global economic development and discovered that most of the world's industrialised countries were situated in the North while less industrialised countries were situated in the South, except for Australia and New Zealand. This led to the Brandt Line being developed which is an imaginary line that divides countries into the developed North and developing South.



The Brandt line was developed in the 1980s; a lot has changed since then. Many countries that were considered developing and therefore part of the South have subsequently experienced rapid economic growth and are now highly industrialised, e.g. China, India and Mexico. These economies are now called **newly industrialised countries / emerging market economies** who are fast becoming strong economies with high economic growth rates.



Singapore



South Korea

The Asian Tigers

The Asian Tigers are four Asian economies that have maintained high levels of economic growth from the early 1960s.

They are Singapore, South Korea, Taiwan and Hong Kong.

The Asian Tigers were the first newly industrialised countries who continue to enjoy high levels of industrialisation and economic growth.



Taiwan



Hong Kong

We will be comparing the following criteria for the North and South:

- Unequal standards of living
- Globalisation
- Environment



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Nazlie Mohamed

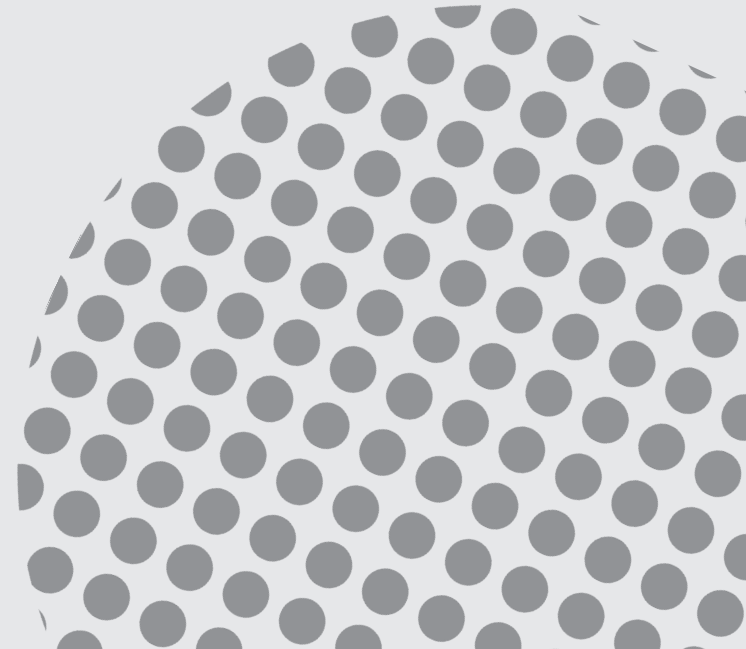
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1 CIRCULAR-FLOW MODEL

SECTION A

1.1

1.1.1 B

1.1.2 B

1.1.3 C

Only the value of **final** goods is included in the GDP, hence, only the value of goods sold at Mr Price Home is included.



1.1.4 D

1.1.5 C

$$\begin{aligned} R9,00 \times 20\% &= R1,80 \\ R9,00 + R1,80 &= R10,80 \\ R10,80 \times 15\% &= R1,62 \\ R10,80 + R1,62 &= R12,42 \end{aligned}$$



1.2

1.2.1 C

1.2.2 F

1.2.3 D

1.2.4 G

1.2.5 A

1.2.6 B

1.3

1.3.1 Subsidies

1.3.2 Leakages

1.3.3 Marginal propensity to consume

1.3.4 Real national income



REMEMBER

Abbreviations, acronyms and examples will not be accepted.



SECTION B

2.1

2.1.1 Investment, Exports, Government expenditure

2.1.2 For every real flow there is a money flow in the opposite direction.

2.2

2.2.1 Income method

2.2.2 Depreciation

2.2.3 Factor cost refers to the cost of the factors of production incurred when producing goods and services.

2.2.4 South Africa uses the System of National Accounts because this is the universal method of presenting the National Account Aggregates prescribed by the United Nations. It is also used to compare a country's national account aggregates from year to year and to compare national account aggregates between countries.

$$\begin{aligned} 2.2.5 \quad C &= R9\,207 - R963 - R1\,458 \\ &= R6\,786\text{bn} \end{aligned}$$

2.3

2.3.1 Line of equilibrium / line of equality / an economy which is in equilibrium.

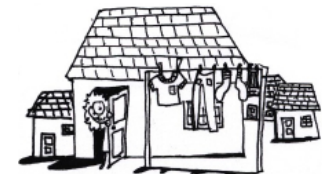
2.3.2 Households or Businesses

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

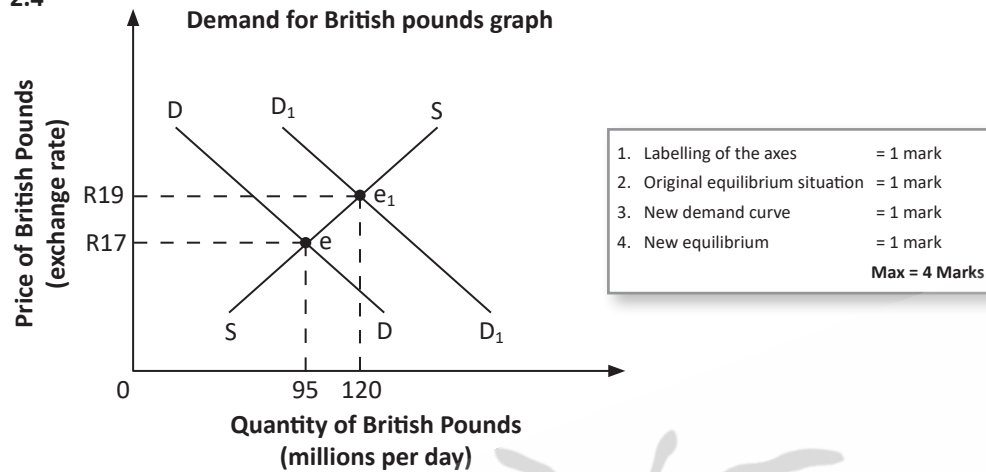
2.3.4 The smaller the mps, the greater the value of the multiplier and the greater the mps, the smaller the value of the multiplier.

$$\begin{aligned} 2.3.5 \quad K &= \frac{1}{1 - mpc} \\ &= \frac{1}{1 - 0,63} \\ &= \frac{1}{0,37} \\ &= 2,7 \end{aligned}$$

$$\rightarrow R30\text{bn} \times 2,7 = R81\text{bn}$$



2.4



- Where DD and SS intersect, the original equilibrium point (e), equilibrium price £1 = R17 and equilibrium quantity (95m) are formulated.
- The demand for pounds increases, causing the demand curve to shift to the right to form to D_1D_1 .
- Where the D_1D_1 intersects with SS, a new equilibrium is formulated.
- The new equilibrium shifts from e to e_1 while the price of the British pound increases from £1 = R17,00 to £1 = R19 and the equilibrium quantity increases from 95m to 120m.

- 2.5
- The Financial Account records all inbound and outbound investments.
 - South Africa is a developing country and for sustained and meaningful economic growth to occur, it needs to expand its secondary sector.
 - Currently natural resources are extracted, exported to be processed and then imported back at a much higher value.
 - If SA could process its own natural resources, it would generate far more income.
 - In this regard, we need to secure financial investment which is more inbound than outbound orientated.
 - The SARB should therefore be focused on securing and promoting potential investors to invest in South Africa.
 - This would initiate the expansion of the productive capacity in South Africa and solve the huge challenge of unemployment.
 - South Africa would then be able to export far more which will better subsidise the necessary imports. *(any four relevant facts accepted)*

REMEMBER

Question 2.5 is an 'out of the box' question – your answer might not be identical to the answer provided. As long as your answer is logically explained with suitable facts, you will still earn the marks.

**MODULE 1: CONSOLIDATION TEST****SECTION A****1.1**

1.1.1 C 1.1.2 C 1.1.3 B 1.1.4 D 1.1.5 A

1.2

1.2.1 E 1.2.2 G 1.2.3 F
 1.2.4 H 1.2.5 A 1.2.6 C

1.3

1.3.1 Injections 1.3.2 Kondratieff cycle
 1.3.3 Financial derivatives 1.3.4 Medium Term Expenditure Framework

SECTION B**2.1**

- 2.1.1 Taxes, income from property rental, income from privatisation of assets, donations, loans, profits from State-owned Enterprises *(any suitable answer accepted)*
- 2.1.2 Developed countries are established ones that have strong economies where unemployment is low and skill is high. This ensures that the tax base that the state has access to is high, which allows them to provide more public goods and services in the correct allocated quantities.

**2.2**

- 2.2.1 Gauteng, KwaZulu-Natal
- 2.2.2 Covid-19
- 2.2.3 Economic growth refers to an increase in the productive activities in a country. *(any suitable answer accepted)*
- 2.2.4 It will have a negative impact on the value of the rand as there will be less demand for it.
- 2.2.5 The cartoon depicts the looting that occurred in Gauteng and KwaZulu-Natal. The looting cost the South African economy billions of rands and resulted in 300 deaths. In the process of looting, South African citizens also spread the coronavirus. *(any suitable answer accepted)*