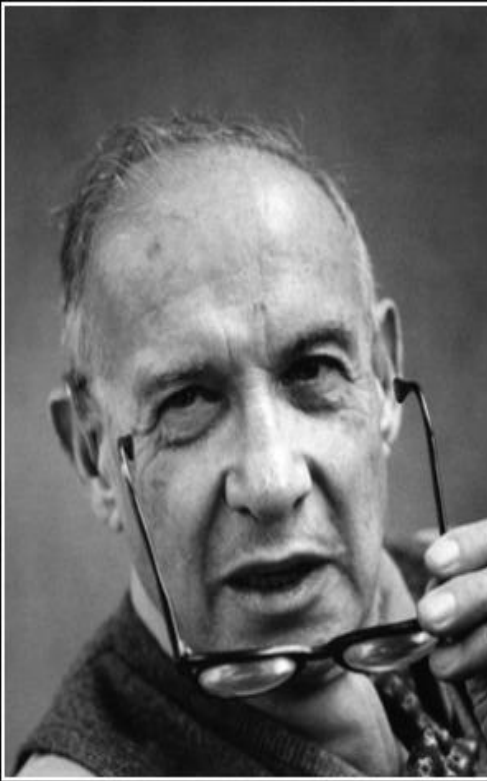




The ultimate resource in economic development is people. It is people, not capital or raw materials that develop an economy.

— Peter Drucker —

AZ QUOTES

# ECONOMIC ESSAYS

2021 - 2023

Preview from Notesale.co.uk  
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### Improving the efficiency of inputs ✓

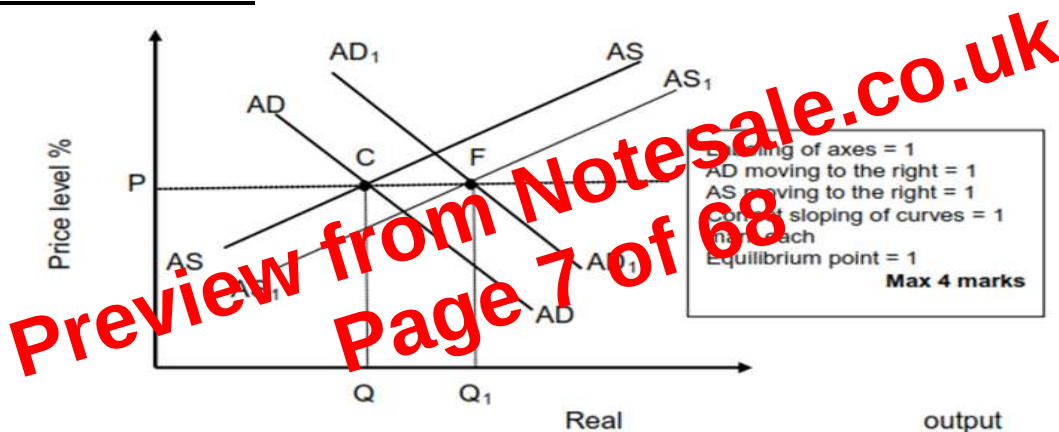
- Tax rates: low tax rates can serve as an incentive to workers. It will improve the productivity and output. ✓✓
- Capital consumption: replacing capital goods regularly creates opportunities for businesses to keep up with technological development and better outputs ✓✓
- Human resource development: to improve the quality of manpower by improving health care, education and training. ✓✓
- Free advisory service: these promote opportunities to export. ✓✓

### Improving the efficiency of markets ✓

- Deregulation: removal of laws, regulations and by-laws and other forms of government controls makes the market free. ✓✓
  - Competition: encourages the establishment of new businesses ✓✓
  - Levelling the play field: private businesses cannot compete with public enterprises ✓✓
- Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.  
Learners should be awarded 1 mark per heading or sub-heading to a maximum of 8 marks.

(8 x 1) (8)  
[Max 26]

### BODY: ADDITIONAL PART



### Explanation:

The above graph shows:

- Aggregate demand (AD) and aggregate supply (AS) are in equilibrium at point C. ✓✓
- If 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 any price increases. ✓✓
- Supply is often sticky and fixed in the short term. ✓✓
- Therefore, if aggregate demand increases to AD<sub>1</sub> and aggregate supply does not respond, intersection is at point F. Real production increases but so does the price, in other words, with more inflation. ✓✓
- The aggregate demand locates at any position to the left of AS<sub>1</sub> inflation prevails. ✓✓
- The solution is to create conditions that ensure supply is more flexible. ✓✓
- If the cost of increasing production is completely flexible, a great real output can be supplied at any given price level. ✓✓

[Max 10]

- They serve to confirm the behaviour of co-incident indicators✓✓
- E.g. the value of wholesalers' sales of machinery✓
- If the business cycle reaches a peak and begins to decline, we are able to predict the value of new machinery sold✓✓

### **Composite indicator**✓

- It is a summary of the various indicators of the same type into a single value✓✓
- Their values are consolidated into a single value , if this is done we find a value of a composite leading , coincident and lagging indicator✓✓

Accept **ONE** example from the table below:

| LEADING INDICATORS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | CO-INCIDENT INDICATORS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | LAGGING INDICATORS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Net new companies registered</li> <li>• Number of new vehicles sold</li> <li>• Net gold and other foreign reserves</li> <li>• Number of residential building plans passed</li> <li>• Share prices</li> <li>• Real export of goods (gold excluded)</li> <li>• Gross operating surplus as % of GDP</li> <li>• Labour productivity in manufacturing</li> <li>• Job advertisements in newspapers</li> <li>• Commodity prices in US \$ for a basket of SA export commodities</li> <li>• Opinion survey of the average hours of work per factory worker in the manufacturing sector</li> <li>• Opinion survey on stocks in relation to demand: manufacturing and trade</li> <li>• Opinion of business confidence of manufacturing, construction and trade</li> <li>• Opinion survey of volume of orders in manufacturing</li> </ul> | <ul style="list-style-type: none"> <li>• Registered unemployed</li> <li>• Physical volume of manufacturing production</li> <li>• Real retail sales</li> <li>• Real merchandise imports</li> <li>• Utilization of capacity in manufacturing</li> <li>• Gross value added at constant prices excluding agriculture, forestry and fishing</li> <li>• Industrial production index</li> <li>• Value of wholesale, retail and new vehicle sales at constant prices</li> <li>• Total formal non-agricultural employment</li> </ul> | <ul style="list-style-type: none"> <li>• Employment in non-agricultural sectors.</li> <li>• Hours worked in construction</li> <li>• Cement sales in tons</li> <li>• Number of commercial vehicles sold</li> <li>• Real investment in machinery and equipment</li> <li>• Unit labour cost in manufacturing</li> <li>• Wholesale sales of metals, machinery and equipment</li> <li>• Prime overdraft rate of banks</li> <li>• Value of non-residential buildings completed at constant price</li> </ul> |

## **Protecting specific industries**

### **Dumping**

- Foreign industries may engage in dumping because government subsidies permit them to sell at very low prices or because they are seeking to raise profits through price discrimination. ✓✓
- The reason for selling products at lower prices may be to dispose of accumulate stocks Of the goods and as a result consumers in the importing country stand to benefit however,
- Their long term objective may be to drive out domestic producers and gain control of the market and consumers
- Are likely to lose out in the reduction in choice and higher prices that the exporters will be able to charge. ✓✓

### **Infant industries**

- Usually newly established and find it difficult to survive due to their average costs being higher than that of their well-established foreign competitors. ✓✓
- However, if they are given protection in their early years they may be able to grow and Thereby take advantage lower their average costs and become competitive and at this point protection can be removed. ✓✓

### **Declining industries/sunset industries**

- Structural changes in the demand and supply of a good may severely hit an industry such industries should be permitted to go out of business gradually declining industries
- Are likely to be industries that no longer have a comparative advantage and however, if they go out of business quickly there may be a sudden and large increase in unemployment. ✓✓
- Protection may enable an industry to decline gradually the following time for resources including labour to move to other industries. ✓✓
- Protecting domestic standards domestic regulations of food safety human rights and environmental standards have been increasingly acting as trade restrictions. ✓✓

**[Accept any other relevant fact]**

**[Max 26]**

## **ADDITIONAL PART**

South Africa promotes exports through subsidies

### **Direct Subsidies**

- Strict screening measures should be put in place when companies apply for financial assistance. Government expenditure can provide direct financial support to domestic producers for their exports e.g. ✓✓
- Cash grants offered to South African exhibitors to exhibit their products at exhibitions overseas. To explore new markets. ✓✓
- Foreign trade missions to explore new markets imposition of tariffs on imports. ✓✓
- Funds for the formation of formal export councils. ✓✓
- Subsidies for training or employing personnel. ✓✓
- Funds for the export market research. ✓✓
- Product registration and foreign patent registrations. ✓✓

### They face substitutes

- There are few products that have no close substitutes. ✓✓
- For example, cell phones can compete with telephone services. ✓✓

### They may enjoy favourable circumstances

- Sometimes an entrepreneur may enjoy favourable circumstances in a certain geographical area. ✓✓
- For example, there may be only one supplier of milk in a particular town. ✓✓

### They may exploit consumers

- Because a monopolist is the only supplier of a product, there is always the possibility of consumer exploitation. ✓✓
- However, most governments continually take steps to guard against such practices. ✓✓

### Market Information

- All information on market conditions is available to both buyers and sellers. ✓✓
- This means that there are no uncertainties. ✓✓

### Control over price

- In the case of a monopoly there are considerable price control, but limited by market demand and the goal of profit maximisation. ✓✓

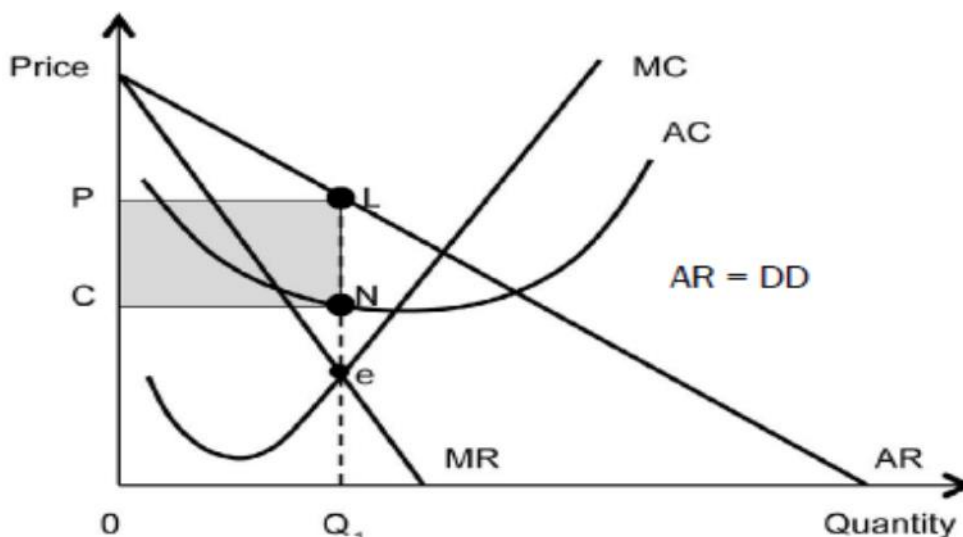
### Long-run economic profit

#### Can be positive

- Because new entries are blocked and short-run economic profit therefore cannot be reduced by new competing firms entering the industry. ✓✓
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains intact. ✓✓

### Body: Additional part

Long run equilibrium of a monopoly



|                                              |                                                                 |                                        |                                         |                                                                                                     |
|----------------------------------------------|-----------------------------------------------------------------|----------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------|
| Entry                                        | Completely free/easy to enter<br>There are no barriers to enter | Free<br>There are no barriers to enter | Varies from free to restricted          | Completely blocked by legal restrictions and cost advantages e.g. natural and artificial monopolies |
| Information                                  | Complete                                                        | Incomplete                             | Incomplete                              | Complete/<br>Incomplete                                                                             |
| Collusion                                    | Impossible                                                      | Impossible                             | Possible                                | Unnecessary                                                                                         |
| Firm's control over the price of the product | None<br>Prices are determined by demand and supply              | Some                                   | Considerable, but less than in monopoly | Considerable, but limited by goal of profit maximisation                                            |
| Demand curve for the firm's product          | Horizontal (perfectly elastic)                                  | Downward-sloping                       | Downward-sloping, may be kinked         | Equals market demand curve: downward-sloping                                                        |
| Long run economic profit                     | Zero/normal profit                                              | Zero/normal profit                     | Can be positive/economic profit         | Can be positive/economic profit                                                                     |

**PLEASE NOTE: THE ABOVE TABLE SHOULD BE VERBALLY WRITTEN AS PER ESSAY INSTRUCTION**

**Discuss in detail how the following factors lead to the misallocation of resources in the market (Market Failures)**

### **INTRODUCTION**

Market failure is when the forces of supply and demand fail to allocate resources efficiently / when markets fail to allocate goods and services efficiently. ✓✓

**[Accept any other correct introduction]**  
**[Max 2]**

### **BODY: MAIN PART**

#### **1. Missing Markets**

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓
- Public goods:
- They are not provided by the price mechanism because producers cannot withhold the goods from non-payment and there is often no way of measuring how much a person consumes. ✓✓

- Labour takes time to move to into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital e.g. equipment, buildings, land and raw materials can only move from one place to another at a high cost, but cannot be moved to fit a change in demand. ✓✓
- Technological applications change production methods e.g. use of robots rather than physical labour. It takes time for most industries to adapt. ✓✓
- With greater technological change there is an increasing need for workers to become **flexible**, to update skills, change employment, occupations and work patterns. ✓✓

[Max 26]

### **ADDITIONAL PART**

- Motivate why government has implemented a national minimum wage in the labour market. ✓✓
- Pressure was put on the South African government to introduce labour laws which require employers to pay minimum wages. ✓✓
- The application of minimum wage laws is needed to improve a redistribution of income. ✓✓

### **The main objectives were:**

- To redress inequality (Gap between wealthy and poor) ✓✓
- To improve the standard of living. ✓✓
- Government tried to protect domestic workers and farm workers — thus preventing exploitation. ✓✓

[Max 10]

[Accept any other correct relevant response]

### **CONCLUSION**

Governments intervene in the market when market forces cannot achieve the desired output.

[Max 2]

[Accept any other relevant conclusion]

## **Discuss in detail state intervention as a consequence of market failures, with the aid of relevant graphs (Market Failures)**

### **INTRODUCTION**

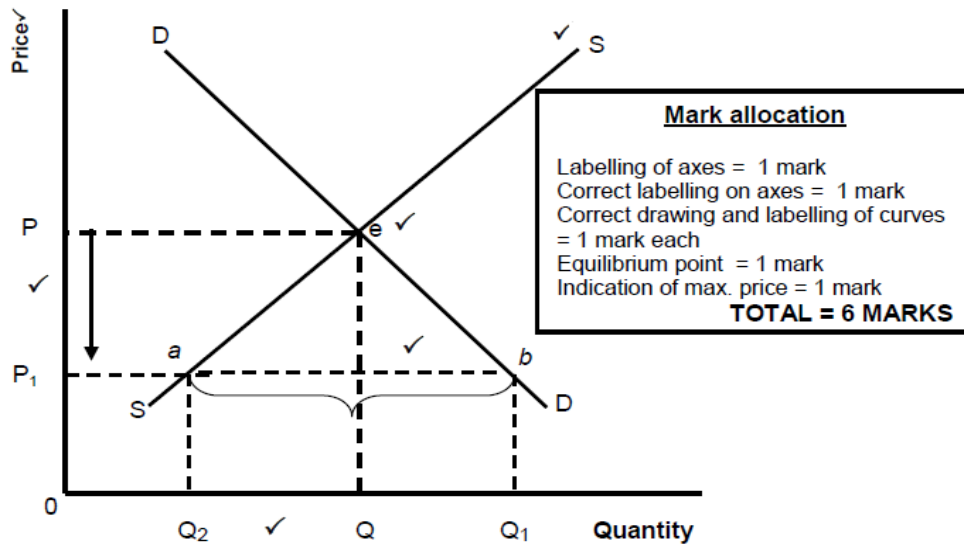
The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximizes its benefits. ✓✓

[Accept any other relevant introduction]

[Max 2]

### **BODY: MAIN PART**

## Maximum prices



- Sometimes government will set the price of a good or service at a maximum level that is below the market price ✓✓
- The government intervene and passes a law that suppliers may not charge more than the maximum price ✓✓
- The immediate effect is that quantity supply will drop ✓✓
- The original market equilibrium price and quantity is  $P$  and  $Q$  respectively ✓✓
- The price set by the government is  $P_1$ , at this price the demand will increase to  $Q_1$  and the supply will decrease to  $Q_2$  ✓✓
- The difference between  $Q_1$  and  $Q_2$  is the shortfall that will be created on the market ✓✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand has increased ✓✓
- Black markets start to develop ✓✓

[Mark allocation: Graph 6 and discussion max. 10 marks]

## **ADDITIONAL PART**

### **Debate the merits (benefits) of administered prices by the government**

- These are prices regulated by the government e.g. home owner's costs on water/household fuel (paraffin and electricity) medical care (public hospitals) communication (telephone calls, telephone rentals and installations/postage cell communications /transport (petrol). ✓✓
- Most of the administered prices are adjusted once a year which brings price stability. ✓✓
- Regulated prices are restricted as to the extent to which prices may vary, depending on the government's objectives. ✓✓
- Administered prices provide additional revenue to national treasury. ✓✓
- It appears that some of these prices remain extremely robust over the short term. ✓✓

**[Accept any other relevant response]**

**[Max 10]**

## **CONCLUSION**

- If inflation is not controlled by the proper and effective instruments, it can have challenging problems to the economy in general. ✓✓

### **Discuss in detail the measures to combat demand-pull and/or cost-push inflation (Inflation)**

#### **INTRODUCTION**

##### **COST PUSH**

Inflation is a sustained and significant increase in general price level over a period of time and a simultaneous decrease in the purchasing power of money.

- Accept any other relevant introduction. ✓✓

**[Max 2]**

#### **BODY: MAIN PART**

Causes of cost-push inflation

- **Increase in Wages:**

- In South Africa, increase in wages constitute more than 50% of Gross Value Added at basic prices ✓✓
- If the increase in wages is not accompanied by an increase in production, the cost of production will rise ✓✓
- Producers will increase the prices of their products to offset the high cost of production strikes and stay-aways / labour union activities ✓✓

- **Key inputs/ increase in prices of imported capital goods**

- When the prices of key inputs that are imported increase, domestic cost of production ✓✓
- increases especially in the manufacturing sector ✓✓
- Supply shocks e.g. sudden increase of oil causes a knock-off effect ✓✓

## **Discuss in detail how the government can ensure sustainable development (Environmental Sustainability)**

### **INTRODUCTION**

Environmental sustainability can be defined as development that meets the need of the present without compromising the ability of future generations to meet their own needs. ✓✓

### **BODY: MAIN PART**

#### **Public sector intervention**

Because it is difficult to enforce measures to ensure sustainability the government has to intervene. ✓✓

#### **Environmental taxes**

Environmental taxes (green taxes) can be added to the cost of goods and services for the negative impact they have on the environment. ✓✓

The government uses the income generated through these taxes to protect the environment. ✓✓

Taxes can be imposed on petrol, paper, emission gases etc. ✓✓

In 2003 the government has legislated the use of biodegradable plastic bags which consumers had to pay for. ✓✓

The hope is that they will use fewer bags and ensure a litter free environment. ✓✓

#### **Charging for dumping of waste**

A monthly fee as part of municipal accounts is charged for collection of waste, sewage and garbage. ✓✓

Households already pay for the collection of rubbish. ✓✓

The factory owner might clean up his waste if it costs him to dump it. ✓✓

Industries might also pay for emitting gases that can be harmful to people and the environment. ✓✓

#### **Subsidies**

Subsidies can be awarded to businesses that are willing to reduce pollution and waste. ✓✓

Waste can also be reduced by using new techniques or equipment such as solar energy. ✓✓

Emission gases from factories can be reduced using new technology. ✓✓

#### **Granting property rights**

Normally owners of properties tend to be more protective over their resources than users who are only interested in the profits the resources offer. ✓✓

For this reason the government might grant property rights over a specific area. ✓✓

Property rights empowers owners to negotiate contracts with businesses who wish to exploit the area's resources. ✓✓

#### **Marketable permits**

A government can decide on the maximum desired level of pollution in an area. ✓✓

It then distribute pollution rights (marketable permits) to factories within that area. ✓✓

This means that each factory can pollute to a certain limit. ✓✓

It means that marketable permits are licenses that polluters can buy or sell to meet the control levels set by government. ✓✓

#### **Education**

Incorporating topics into the curriculum of school fosters awareness. ✓✓

The public is gradually been made aware of this rising problem. ✓✓

**Discuss in detail the following problems and the international measures taken to ensure sustainable development (Environmental Sustainability)**

**INTRODUCTION**

Environment refers to the physical surroundings and physical conditions that affect people's lives. ✓✓

The ever-increasing pressure on our environment originates from increasing population numbers and excessive consumption ✓✓

Our air, land, and water are under constant assault from the ever-growing ravages of man-made pollution generated chiefly by industrialized societies. ✓✓

**[Accept any appropriate introduction]  
[Max 2]**

**BODY-MAIN PART**

**Conservation**

- Conservation is necessary because human actions cause pollution and over-utilisation of resources. ✓✓
- Conservation is a strategy aimed at achieving the sustainable use and management of natural resources. ✓✓
- Conservation seeks a creative continuity of the environment while ensuring that change is sympathetic to the quality of life for both present and future generations. ✓✓
- Certain aspects of conservation need to be taken into account.
- Firstly, there is an opportunity cost. ✓✓
- Secondly, externalities are often present. ✓✓
- Lastly, self-interest has a short term horizon – meaning that decisions cannot be left entirely to market forces. ✓✓
- Over utilization of resources causes a reduction in supply, increase in prices, contradiction of demand and a search for substitutes. ✓✓
- This necessitates conservation of both renewable and non-renewable resources. ✓✓
- Conservation has to be concerned with limiting what is harvested in order to maintain a stable stock at least at the minimum level. ✓✓
- Government can use permits and quotas as two possible direct control methods in order to maintain the stock of resources at the minimum level. ✓✓

**Preservation**

- Preservation involves any strategy undertaken to safeguard the environment, maintain its current condition and keep it as habitable as possible for people and animals. ✓✓
- Heritage sites, indigenous forests, species of animals etc. that have special cultural or environmental significance, are often targeted preservation. ✓✓
- Preservation is not likely to work as a private enterprise because the benefit to society is much bigger than the income of the producer. ✓✓
- It may be possible to use cost-benefit analysis to calculate the social benefits of preservation of the environment.
- The weaknesses in market solutions require the government to intervene in order to preserve environment assets. ✓✓
- Government could do any of the following:
- Buy or expropriate – Environmental assets are simply closed for human use. ✓✓