 Province of the

EASTERN CAPE

EDUCATION

ECONOMICS

CONTEMPORARY ECONOMIC ISSUES

SUGGESTED ANSWERS/SOLUTIONS

2020

**INFLATION**

|  |  |  |  |  |  |  |  |
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| 1.1 |  | | | | |  | |
| 1.1.1 | An increase in the prices of goods due to higher input cost | | | | | *Cost push inflation* | |
| 1.1.2 | A regulated product used by motorists- | | | | | *Petrol* | |
| 1.1.3 | High unemployment, a high inflation rate and low economic growth | | | | | *Stagflation* | |
| 1.1.4 | A sustained increase in the general price level | | | | | *Inflation* | |
| 1.1.5 | This indicator measures the increase in the cost of production | | | | | *Producer price index* | |
| 1.1.6 | The price level rises so rapidly that people lose confidence in the value  of money | | | | | *Hyperinflation* | |
| 1.2 | Study the table below and answer the questions that follow. | | | | | |  |
|  | **Year** | | **Average Price of a Basket of Goods** | **CPI** | **Inflation Rate** | |  |
|  | 2010 | | R200 | 100 | ----- | |  |
|  | 2011 | | R214,29 | 107,1 | 7.1 | |  |
|  | 2012 | | R223,41 | 111,7 | 4.3 | |  |
|  | 2013 | | R234,58 | 117,3 | 5,0 | |  |
|  | 2014 | | R248,10 | **A** | 6,8 | |  |
|  | *[Source: Stats SA 2015]* | | | | | |  |
|  | 1.2.1 | **Which year is considered the base year from the table?**  2010🗸 | | | | | (1) |
|  | 1.2.2 | **What tendency did the inflation rate show over the last three years**?  Inflation rate increased 🗸 | | | | | (1) |
|  | 1.2.3 | **Explain the concept CPI.**  CPI is an index that measures price of a fixed basket of consumer goods and services🗸🗸 | | | | | (2) |
|  | 1.2.4 | **Why do people lose confidence in their currency during hyperinflation?**  CPI is an index that measures price of a fixed basket of consumer goods and services🗸🗸 | | | | | (2) |
|  | 1.2.5 | Calculate the CPI as indicated by the letter **A**. Show all calculations.  CPI2012 = Price of basket in current year (2014)  Price of the basket in the base year (2010) x 100 🗸  = x 100   = 124,1 🗸🗸 | | | | | (4) |

**ACTIVITY 2**

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| 2.1 |  | Study the information below and answer the questions that follow. |  |
|  |  | Source: <http://www.tradingeconomics.com/south-africa/core-inflation-rate> |  |
|  | 2.1.1 | **Identify the quarter during which the core inflation rate was at its lowest**.  2nd quarter/April to June 🗸 | (1) |
|  | 2.1.2 | **Which institution in South Africa calculates the official inflation rate?**  Statistics South Africa 🗸 | (1) |
|  | 2.1.3 | **Briefly describe the term core inflation**.  The inflation index that excludes items that have volatile prices from the basket of goods and services 🗸🗸 | (2) |
|  | 2.1.4 | **How does inflation affect the real value of money?**  It reduces the real value of money 🗸 | (2) |
|  | 2.1.5 | **In your opinion what could the Reserve Bank have done to prevent the increase in the inflation rate in December 2016**?   * Increase the interest rate 🗸🗸 * Reduce money supply 🗸🗸   (Accept any other relevant and correct answer) | (4) |
| 2.2 | **How would a low inflation rate benefit South Africa’s economy?** | |  |
|  | Low inflation rates will benefit the South African economy by:  ⦁ increasing consumption 🗸🗸  ⦁ stimulating production/economic growth/GDP 🗸🗸  ⦁ encouraging the borrowing of money 🗸🗸  ⦁ encouraging investment 🗸🗸  ⦁ increasing exports 🗸🗸 | | (8) |
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| 3.1 | Give a term/concept for the descriptions below | |  |
|  | 3.1.1 | Measures by Minister of Finance to combat inflation | *Fiscal policy measures* |
|  | 3.1.2 | The institution used by Monetarists to combat inflation | *South African reserve bank* |
|  | 3.1.3 | 3 – 6% band | *Inflation targeting* |
|  | 3.1.4 | The inflation that is used in the measuring of the official inflation rate | *Headline inflation* |
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**ACTIVITY 3**

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| 3.2 | Read the information below and answer the questions that follow. | |  |
|  | **CHANGES IN FUEL PRICES ARE HERE TO STAY**  The Department of Energy has announced that the petrol price will increase by 0,52c a litre, while the price of diesel will increase by 0,76c from 1 June.  The price of paraffin will increase by 0,62c a litre.  The department's Robert Maake says, “The main reasons for these increases include the high crude oil prices, which led to high prices of petroleum products in the market and the depreciation of the rand against the US dollar during the period under review.”  This is the second petrol price increase in the space of a month, as it went up by 0,12c per litre on 4 May 2016.  Diesel went down by between one and two cents per litre, while illuminating paraffin decreased by 0,09c per litre.  Eyewitness News | 30 April 2016 (Edited by Winnie Theletsane) | |  |
|  | 3.2.1 | **Identify the institution which announces the monthly change in fuel prices.**  Department of Energy 🗸 | *1* |
|  | 3.2.2 | **Give ONE reason for the monthly changes in fuel prices**.  high crude oil prices, which led to high prices of petroleum products 🗸  depreciation of the rand against the US dollar 🗸 | *1* |
|  | 3.2.3 | **Briefly explain why the government see fuel levies as a very popular source of income**.  - It is sufficient income resources 🗸🗸  - To improve resource allocation 🗸🗸  - It provides an additional source of revenue to the state. 🗸🗸  (Accept any other correct relevant answer) | *2* |
|  | 3.2.4 | **Distinguish between fuel levies and the normal monthly change in fuel prices.**  **Fuel levies:**  Tax on the use of fuel.  It lead to an increase in fuel prices (negative externalities) 🗸  **Monthly charge on fuel prices;**  Increase in fuel prices due to higher crude oil prices and weaker rand 🗸  (Accept any other correct relevant response) | *2* |
|  | 3.2.5 | **How does an increase in fuel prices impact on the country’s inflation rate**?   * - transport costs will increase and lead to higher product * prices (an increase in inflation) 🗸🗸 * - Consumer spending will decrease, leading to less disposable * income 🗸🗸   (Accept any other correct relevant response) (2 x 2) | *4* |
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|  | **ACTIVITY 4** | |  |
|  | 4.1.1 | **What is the impact of inflation on the individual taxpayer?** |  |
|  |  | . Inflation increases the marginal and average tax rates of the individual taxpayer   The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money   Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more   Individuals end up paying higher taxes even when they are not actually better off   Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer   (Accept any other correct relevant response) | *8* |
|  |  |  |  |
|  | 4.1.2 | **What is the impact of inflation on *investors* and *savers?***  Inflation will impact on investors and savers by:   * having a negative effect due to assets with fixed nominal values remaining constant, because when the purchasing power of the nominal values increase, the real value decrease 🗸🗸 * benefiting them due to assets having a flexible market value:🗸🗸 The holders of shares and fixed property usually gain by price increases because the nominal value of these assets tend to increase at least proportionately to the rate of inflation 🗸🗸 * benefiting them because the prices of these assets often increase more rapidly than the increase in the general price level🗸🗸 * creating wealth, to the advantage of the shareholders 🗸🗸 * disadvantaging people who save due to the fact that interest earned will be less than the current inflation rate🗸🗸   (Accept any other correct relevant response) | *8* |
|  |  |  |  |
|  | 4.1.3 | **To what extent is inflation targeting beneficial to the economy?**  • It helps to keep prices at a lower level   It increases people's expectation that prices will be stable in the medium term   It is useful in controlling demand pull inflation because the concept is simple and easy to understand   It enhances producers' confidence in the economy as it enable them to make investments knowing that inflation will be under control   It reduces uncertainty and promotes sound planning in public and private sectors   It provides a yardstick that serves to discipline monetary policy and improves the accountability of the central bank   (Accept any other correct relevant response) (4 x 2) | *8* |
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**TOURISM**

**ACTIVITY 1**

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| 1.1 | 1.1.1 | **Name any four types of tourism** |  |
|  |  |  Cultural tourism   Business tourism   Paleo-tourism   Eco-tourism   Adventure tourism   (Accept any other correct relevant response) | 4 |
|  | 1.1.2 | **What five activities should tourism comply with?** |  |
|  |  | There should be a purpose for the visit e.g. camping, business or studies.🗸  • No remuneration should be earned at the tourist destination.🗸  • A minimum length of stay should be one night.🗸  • The maximum length of stay should not exceed one year.🗸  The travelling distance should exceed 160 km from a person’s residence.🗸 | 5 |
| 1.2 |  | **Study the information below and answer the questions that follow** |  |
|  |  |  |  |
|  | 1.2.1 | **Identify TWO purposes in the table why South Africans travelled domestically?**  -Visiting family and friends   Holiday   Business | 2 |
|  | 1.2.2 | **Briefly describe the term domestic tourism.**  Domestic tourism is when people travel within the borders of their own countries  | 2 |
|  | 1.2.3 | **What is a possible reason for the decline in holiday trips between 2015 and 2016?**  • Increase in inflation   The effects of a weaker rand   Increase in general unemployment  | 2 |
|  | 1.2.4 | **Calculate the number of people who undertook business trips in 2016. Show all calculations.**  11 x 7,3 m   100  = 803 000🗸🗸 | 4 |

ACTIVITY 2

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|  | 2.1 | **Explain the effects of tourism on the *environment* and *poverty*.**  **The environment**  • Tourism can create permanent environmental stress   Permanent restructuring of the landscape e.g. construction work on high ways   Direct environmental stress e.g. the loss of wildlife species due to safari hunting   Effects on population dynamics e.g. migration and changes in population density in response to the needs of tourist sites   Additional waste products, e.g. sewage and litter (2 x 2)  **Poverty**  • Tourist development in rural areas increase the number of available jobs   People are able to earn a living in their home areas, resulting in reduction in urbanization and more balanced population distribution   Rural people can go into partnership with mainstream tourism businesses supplying goods and services   Accept any other relevant. (positive/negative) | 8 |

**ACTIVITY 3**

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| 3.1 | **Name TWO world heritage sites in South Africa.**   * Mapungubwe  * Sterkfontein Caves  * Robben Island  * Vredefort Dome  * Richtersveld and Botanical Landscape    **Accept any correct relevant site** | |  |
| 3.2 | **Read the information below and answer the questions that follow** | |  |
|  | **WEAK RAND CAN BENEFIT SOUTH AFRICA'S TOURISM**  South Africa's currency has reached its lowest level since 2001. This is great news for international tourists who can take advantage of a very favourable exchange rate to visit South Africa. Now, more than ever, South Africa offers great value for money and has become one of the greatest holiday destinations for international travellers.  South Africa offers vacation options to suit every pocket and taste. Travellers are truly spoilt for choice from hotel and safari lodge accommodation, restaurants offering local and international cuisine, access to the Big Five wildlife and spectacular, breath-taking scenery.  [Source: www.eturbonews.com | |  |
|  | 3.2.1 | **Identify TWO goods or services on which tourists can spend money in South Africa in the extract above.** |  |
|  |  | -Hotel and lodge accommodation   Restaurant services   Big five viewing  | 2 |
|  | 3.2.2 | **Explain the term *tourism*.** |  |
|  |  | The activities of people travelling to and staying in places. outside their usual environment for not more than one consecutive year for leisure, business and other purposes  | (2) |
|  | 3.2.3 | **How does a weaker rand affect the South African tourist?** |  |
|  |  | - Imported goods and services become more expensive   It will reduce travel abroad / cost of travel   Encourage domestic tourism   (Accept any other correct relevant response) | (2) |
|  | 3.2.4 | **How can an increase in tourism benefit South African households** |  |
|  |  | Job creation / New employment opportunities   They receive income for working in the tourist sector   Infrastructure created for use by tourist becomes available for use by households   Increased domestic production to satisfy everyone's needs   (Accept any other correct relevant response) | 4 |

**ACTIVITY 4**

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|  | 4.1 | **Explain the effects of increased tourism on poverty**  Tourism allow poor people to share in the benefits of tourism development   Poor people can start small tourism business around community assets such as parks   They become empowered by receiving on the job training   • Local people can form business partnerships with mainstream tourism businesses supplying goods and services   Accept also negative effects | 8 |
|  | 4.2 | **How can indigenous knowledge systems (IKS) be used to increase tourism in SA?**  Tourism can be increased by:  • promoting local culture, history and environment to international tourists   offering tourists an authentic village experience at cultural villages, such as Shangana in Mpumalanga   promoting cultural significance of World Heritage Sites, such as Robben Island   touring townships, such as Soweto, to allow tourists to eat and drink at a shebeen   taking tourists who are interested in arts to festivals, such as the National Arts Festival in Grahamstown  | 8 |

**ENVIRONMENTAL SUSTAINABILITY**

**ACTIVITY 1**

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|  | 1.1 | Study the information below and answer the questions that follow. |  |
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|  | 1.1.1 | **Clearly distinguish between the actions of the two divers above.**  Recreation and trying to make money (profit driven) 🗸 | 1 |
|  | 1.1.2 | **Identify the motive behind the destruction of the coral reefs.**  Profit driven. (using it to get income | 1 |
|  | 1.1.3 | **Briefly describe the term environmental sustainability.**  The ability of the environment to survive its use for economic activity. It refers to meeting the needs of the present generation without compromising the needs of future generations. | 2 |
|  | 1.1.4 | **Why is it important to conserve/protect our coral reefs?**  It must be protected to ensure that it will be available for future generations  To ensure that the reefs are not totally lost.  (Accept any other correct relevant response) | 2 |
|  | 1.1.5 | **What can the government do to prevent the destruction of the coral reefs?**   * Policy of protection must be put in place  * Issue permits  * Issue quotas  * Information sessions for the public – courses, brochures etc.   (Accept any other correct relevant response | 5 |
|  |  |  |  |
|  | 1.2 | **Why are CO2 gasses bad for the environment?**   * Emission of CO2 gasses lead to air pollution 🗸🗸 * It lead to damaging the ozone layer🗸🗸 * Poisonous gasses damage the environment🗸🗸 * Looking after the environment is important for environmental sustainability. 🗸🗸   (Accept any other correct relevant answer) | 2 |
|  | 1.3 | **How can conservation and preservation contribute to a better environment**?  Conservation contributes by:   * Using and managing natural resources in a sustainable manner by including wildlife, water, air and earth deposits, 🗸🗸 * delivering vegetal recovery, protection of springs and watercourses, among others 🗸🗸 * creating environments that favour biodiversity and 🗸🗸 * offering recreation, nutrient cycling, hydrological balance and carbon sequestration, among others 🗸🗸   Preservation contributes by:   * attempting to maintain their present condition areas of the Earth that are so far untouched by humans 🗸🗸 * preserving native species, both endangered and common, for the purpose of maintaining ecological balance 🗸🗸   stabilization the environment 🗸🗸 | 8 |

**ACTIVITY 2**

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|  | 2.1 | **How does the lack of knowledge (ignorance) by businesses contribute to climate change?**  ⦁ They are not aware that some of their products are dangerous to  the ozone layer e.g. aerosol 🗸🗸  ⦁ They are not aware that the fumes emitted during the production  process go as far as the ozone layer🗸🗸  (Accept any correct and relevant answer) | 2 |
|  | 2.2 | **Distinguish between land pollution and water pollution.** |  |
|  |  | **Land pollution**:  ⦁ Land pollution is the degradation of land surface through irresponsible use or deposits of solid waste  It causes damage to the land and make it not suitable for agricultural used🗸🗸  Examples: solid waste/soil erosion🗸 |  |
|  |  | **Water pollution:**  ⦁ Water pollution is the introduction of chemical, physical and biological materials into rivers, lakes, streams, dams and oceans that affect the organisms living in it 🗸🗸  It is the contamination of water by foreign objects 🗸🗸  ⦁ Examples: sewer dumping/ agricultural waste and industrial waste🗸 | 8 |