 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY WORKSHEET ANSWER SHEET**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **07/04/2020** |
| **TOPIC** | **MACROECONOMICS TOTAL MARKS: 40** | **TERM 1**  **REVISION** | **X** | **TERM 2 CONTENT** | (Please tick) |

**QUESTION 1 MACROECONOMICS 40 MARKS – 40 MINUTES**

* **Discuss ALL the features underpinning the forecasting of business cycles, excluding the economic indicators.**

**(26 marks)**

* **Why is price stability important to prevent extreme fluctuations in business cycles?**

**(10 marks)**

**INTRODUCTION**

* There are a number of techniques available to help economists to forecast business cycles like economic indicators √√
* A business cycle can be described as successive periods of contraction and expansion of economic activities √√
* The pattern of expansion and contraction of aggregate economic activity, measured as real Gross Domestic Product, displays around its overall trend √√
* The process of making predictions about changing conditions of future events that may significantly affect the economy √√ (Accept any other correct relevant response) **(Max. 2).**

**MAIN PART**

**Extrapolation** √

* Past data is used, where predictions are made about the future based on assumptions related to trends. √√
* Extrapolation means to estimate something unknown from the facts and information that is known√√
* Extending a trend into the future may provide information on what is likely to happen. √√
* If a business cycle has passed through a trough and entered into a boom phase, forecasters may predict that the economy will grow in the months to follow √√
* Extrapolation techniques are sometimes used to predict future share prices √√
* The trend of the curve must be followed to complement the completed section. Take a calculated decision to continue beyond the level of a resistance point √√

**Amplitude** √

* It is the difference between the value of total output between peak and trough measured from the trend line to the peak and trough √√
* Amplitude reflects the intensity of the upswing and downswing in economic activity √√
* The amplitude shows two things:
  + The power of the underlying forces, e.g. interest rates, exports or consumer spending √√
  + A large amplitude during the upswing signifies strong underlying forces – which result in longer cycles √√
  + The extent of change: the larger the amplitude, the more extreme the changes that may occur √√
* During an upswing, unemployment may decrease from 20% to 10% (a decrease of 50%) / inflation may increase from 3% to 6% (i.e. 100%) / a surplus on the current account (BOP) can change from a surplus to a deficit √√

**Trend** √

* The trend indicates the general direction in which the indexes that were used in the business cycle, moves √√
* When the economy is growing, there is an upward trend, but when the economy is decreasing, there is a downward trend √√
* The trend will change when the time series data change their behaviour patterns of the past √√
* Resistance points indicates forces in the economy preventing it from repeating the performance – unfavourable forces need to change or be removed for growth to exceed previous tendencies √√
* It normally has a positive slope because the production capacity of the economy increases over time √√
* Channels are formed when output growth reaches successive higher turning points (upward channel) √√

**Length** √

* Length is measured from peak to peak or from trough to trough√√
* Longer cycles show strength and shorter cycles show weakness with regard to economic activities√√
* Cycles may overshoot with the effect that some composite indicators increase to beyond its normal level. √√

**Moving averages** √

* This method is repeatedly calculating a series of different average values along a time series to produce a smooth curve √√
* It is used to analyse the changes in a series of data over a certain period of time. √√
* To eliminate the effect of sharp fluctuations in the business cycle, economists use moving averages to smooth out the business cycle so that it looks more like a straight of slightly curved line√√

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of facts/examples) (Candidates would receive 2 marks if they indicated the amplitude, length and trend line on a graph) **(Max. 26)**

**ADDITIONAL PART**

**Price stability is important in preventing extreme fluctuations in business cycles because it:**

* contributes to high levels of economic activity and employment. √√
* improves the transparency of the price mechanism so that people can recognise changes in relative prices without being confused by changes in the overall price. √√
* allows people to make well-informed consumption decisions√√
* encourages foreign investment to promote growth. √√
* helps to allocate resources more efficiently √√
* avoids unproductive activities that are sometimes used to protect one against the impact of high inflation √√
* implements inflation targeting, by reducing distortion of inflation or deflation which exacerbate the distortionary impact on the economic behaviour of tax and social security √√
* prevents an arbitrary redistribution of wealth and income as a result of unexpected fluctuations √√
* keeps interest rates unchanged to ensure continued growth in the economy without big fluctuations √√
* adapts the cash reserve requirements which will compel banks to limit credit/money in circulation √√

(Accept any correct relevant response.) **(Max 10)**

**Candidates can express the above answer in a negative way, when arguing if price stability is not achieved, e.g. there will be low levels of economic activity and employment**

**CONCLUSION**

* Policy makers should closely watch all these indicators because external factors are very significant for South African business cycles. √√
* Different methods can be used in forecasting like the quantitative method that is based on mathematical models or qualitative methods being used in long term forecasting √√

(Accept any other orrect higher order response.) **(Max2)** **[40]**