 Province of the

EASTERN CAPE

EDUCATION

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **06/04/2020** |
| **TOPIC** | **MACROECONOMICS TOTAL MARKS: 40** | **TERM 1**  **REVISION** | **X** | **TERM 2 CONTENT** | (Please tick) |

**QUESTION 1 MACROECONOMICS 40 MARKS – 30 MINUTES**

* **Discuss the role of the various markets in the circular flow without the use of a diagram.**

**(26 marks)**

* **How does an increase in injections affect the level of equilibrium in national income?**

**(10 marks)**

**INTRODUCTION**

* Markets coordinate economic activities and in the process prices are determined for goods and services. √√

(Accept any other correct relevant response.)

**MAIN PART**

**Factor market** √

* Households are the owners of factors production. √√
* They sell the factors of production on the factor markets √√ and are paid rent for land, wages for labour, interest for capital and profit for entrepreneur. √√
* The factor market also includes the labour, property and financial markets. √√

**Financial markets** √

* These markets are NOT directly involved in the production of goods and services, they are a link between households, firms and other participants. √√
* E.g. insurance companies, banks etc. √
* The financial market serves those who wish to save and those who wish to borrow. √√

**Money market** √

* It is where short term loans and very short term funds are saved and borrowed by consumers and business enterprises. √√
* Banks operate in the money market. √√
* The SARB is a key institution in the money market. √√ •
* Bank debentures, treasury bills, government bonds are traded. √√

**Capital market** √

* In the capital market long term funds are borrowed and saved by consumers and business enterprises. √√
* JSE is the key institution in this market. √√
* Shares are traded and mortgage bonds. √√

**Foreign exchange market** √

* In the RSA these transactions take place in our banks. √√
* Businesses buy foreign currency to pay for imported goods and services. √√
* The SA rand is traded freely in these markets. √√
* E.g when a person buys a travellers cheque to travel abroad. √
* The most important foreign exchange markets are in London, New York and Tokyo. √√

**Goods/product market** √

* These are markets for consumer goods and services √√ goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants and needs. √
* Buying and selling of goods that are produced in markets. √√
* E.g durable consumer goods- furniture √
* Semi-durable consumer goods - tyres √
* Non-durable consumer goods - beverages √
* Services are intangible items such as hairdressing, insurance √√
* Capital goods market is for trading of buildings and machinery. √√ **(Max. 26)**

**ADDITIONAL PART**

**How does an increase in injections affect the level of equilibrium in national income?**

* Increase in injections (in the form of government expenditure, investment and export earnings √) will lead to an increase in the equilibrium level of national income. √√
* Increased injection leads to increased investment, increased demand and increased employment √√ and this process continues, √
* This is known as the Keynesian Multiplier. √√
* The multiplier effect refers to an initial spending which gives rise to an even greater increase in national income. √√
* A change in the autonomous component of aggregate demand will lead to a change in the equilibrium output. √√
* In other words, the change in output will be even larger than the initial change in aggregate demand resulting from further increase in injections. √√ (Max 10)

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

**CONCLUSION**

* Markets are critically important institutions in our economic system, because they regulate supply and demand and safeguard stable prices and confidence amongst business people. √√

(Accept any other relevant higher order conclusion.) (2) **[40]**