



NORTHERN CAPE HIGH SCHOOL

GRADE 12

ECONOMICS P1

JUNE 2019

MARKING GUIDELINE

MARKS: 150

This memorandum consists of 18 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

- 1.1.1 D - 4 ✓✓
- 1.1.2 C - demand and supply-side ✓✓
- 1.1.3 C - tax revenue ✓✓
- 1.1.4 A - International Monetary Fund. ✓✓
- 1.1.5 B - mass production ✓✓
- 1.1.6 A - product market. ✓✓
- 1.1.7 B - Tax ✓✓
- 1.1.8 D - free-floating ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 I - The short-term and very short-term market for savings and loans ✓
- 1.2.2 F - Compulsory payments made by private individuals or business enterprises to the government sector ✓
- 1.2.3 A - Argue that most fluctuations in the economy are caused by government intervention in the economy ✓
- 1.2.4 H - Holds the view that markets are inherently unstable ✓
- 1.2.5 G - An indirect tax on goods and services consumed in the economy ✓
- 1.2.6 B - A document that details expected revenue and projected expenditure ✓
- 1.2.7 C - Where one country can produce goods and services cheaper than another ✓
- 1.2.8 E - An official ban on trade or other co-operative activities with a particular country ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

- 1.3.1 Closed economy ✓
- 1.3.2 Peak ✓
- 1.3.3 Nationalisation ✓
- 1.3.4 Terms of trade ✓
- 1.3.5 Repo / Repo rate ✓
- 1.3.6 Monetary ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer TWO of the three questions from this section in the ANSWER BOOK.

QUESTION 2: MACROECONOMICS

2.1 Answer the following questions:

2.1.1 Name TWO examples of injections into the circular flow model. (2 x 1)

- Investments (I) ✓
- Government spending (G) ✓
- Exports (X) ✓ (2)

2.1.2 What is the relationship between interest rates and capital formation? (1 x 2)

- Higher interest rates leads to more savings and will increase capital formation. ✓✓
 - Lower interest rates leads to less savings and will decrease capital formation. ✓✓
- (Accept any correct relevant answer) (2)

2.2 Data response

2.2.1 Which factor of production, according to the table above, receives the biggest portion of the national income?

Labour ✓ (1)

2.2.2 Which method was used to calculate the above figures?

Income method ✓ (1)

2.2.3 Briefly describe the term *basic prices*.

Basic prices is the amount received by the producer exclusive of taxes payable on products and inclusive of subsidies receivable on products ✓✓ (2)

2.2.4 Briefly explain how subsidies can influence production.

Subsidies will reduce the costs of production/ encourages producers to increase output ✓✓
(Accept any correct relevant answer) (2)

2.2.5 **Calculate the Gross Domestic Product at market prices (A).
(Show all calculations)**

Gross value added at basic prices	3 871 214 ✓
PLUS: Taxes on products	484 059 ✓
MIN : Subsidies on products	16 415 ✓
GDP at Market Prices	4 338 858 ✓

OR

$$3\,871\,214 \checkmark + 484\,059 \checkmark - 16\,415 \checkmark = 4\,338\,858 \checkmark \quad (4)$$

2.3 **Data response**

2.3.1 **Identify the curve depicted in the graph.**

Laffer ✓ (1)

2.3.2 **At what tax rate will government revenue be maximised?**

45% ✓ (1)

2.3.3 **How much revenue will the government receive if the tax rate is 100%?**

No revenue/zero ✓✓ (2)

2.3.4 **What effect will a decrease in the tax rate, from 65 – 45%, have on tax revenue?**

A decrease in the tax rate will lead to an increase in tax revenue by encouraging people to work and by reducing the magnitude of tax evasion and avoidance ✓✓
(Accept any other correct relevant response) (2)

2.3.5 **What consequences did the 1% increase in VAT had on the different role players in the South African economy?**

The increase of VAT by 1% could affect role-players by:

- increasing the revenue to the government if the same/more is spend by businesses and households ✓✓
- resulting in a fall in output (production) because fewer consumers will be able to afford to buy the same goods and services as before ✓✓
- leading to a decline in the satisfaction of wants of consumers, maily poor consumers in buying luxury goods ✓✓
- causing an increase in tax - especially the high income earners (luxury goods) where they are responsible for 85% of VAT income ✓✓
- 19 basic food items are excluded from VAT ✓✓ that benefit most lower income earners

(Accept any other correct relevant response) (2 x 2) (4)

2.4 **Distinguish between real flows and money flows.** (2 x 4)**Real flow**

- Factors of production flow from the owners (households) to producers via the factor markets. ✓✓
- Goods and services flow from the producers via the goods markets to households and other users of goods and services. ✓✓
- Factors of production and goods and services flow from foreign countries to South Africa (imports). ✓✓
- Factors of production and goods and services flow from South Africa to foreign countries (exports). ✓✓ (2 x 2)

Money flow

- Factor remuneration represents the expenditure of producers and the income of households (wages, rent, interest and profit). ✓✓
- On the other hand, consumption expenditure represents the expenditure of households and the income of producers. ✓✓ (2 x 2) (8)

2.5 **Briefly analyse the measures to reduce a deficit on the balance of payments.**

- Borrowing money from the IMF ✓✓
- Import substitution will reduce imports of goods because it will be produced in the country ✓✓
- Export promotion will increase in aggregate supply and reduce prices. Exports are promoted through cheaper prices ✓✓
- Higher interest rates help to decrease spending on imports ✓✓
- An increase in import tariffs and controls, although SA complies with policies of the WTO to reduce its import controls. (Trade liberalisation) ✓✓
- Exchange control allows central banks to ration foreign exchange ✓✓
- Reduction of foreign reserves by SARB to correct deficits if we adopted a managed floating exchange rate ✓✓
- Changes in exchange rate, i.e. currency depreciation/devaluation makes imports expensive (reduction) and exports cheaper for foreign countries. (increase exports) ✓✓
- An increase in tax reduces disposable income which decreases demand in imports ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 4 marks for the mere listing of facts/examples) (4 x 2) (8)

QUESTION 3: MACROECONOMICS**3.1 Answer the following questions:****3.1.1 Name TWO examples of lagging economic indicators.**

- Employment in non-agricultural sectors ✓
 - Hours worked in construction ✓
 - Cement sales in tons ✓
 - Number of commercial vehicles sold ✓
 - Wholesale sales of metals, machinery and equipment ✓
 - Real investment in machinery and equipment ✓
- (Accept any correct relevant answer)

(2 x 1) (2)

3.1.2 What determines the size of the multiplier?

The marginal propensity to consume /save / mpc / mps ✓✓
(Accept any correct relevant answer)

(1 x 2) (2)

3.2 Data response**3.2.1 Identify the trend line in the business cycle.**

K ✓

(1)

3.2.2 Which letter represents a trough in the diagram?

D ✓

(1)

3.2.3 Briefly describe the term *business cycle*.

Successive periods of expansion and contraction in economic activities ✓✓
(Accept any other correct relevant description)

(2)

3.2.4 Explain economic activity during phase EF in the business cycle.

- Economy is growing and improving rapidly ✓✓
 - More businesses open up and more workers are hired ✓✓
 - Increased demand for credit which increases interest rates ✓✓
 - Higher demand and higher prices for capital goods ✓✓
 - Profits and salaries increase ✓✓
 - Higher inflation ✓✓
- (Accept any other correct relevant response)

(2)

3.2.5 **How can the length (BF) be used in forecasting of business cycles?**

- The length tends to remain relatively constant over time that makes forecasting easier ✓✓
- If a business cycle has a length of 12 years, it can be predicted that 12 years will pass between successive peaks or troughs or that it will take 6 years for the economy to pass through a recession ✓✓
- Longer cycles show strength and shorter cycles weaknesses ✓✓
✓ (2 x 2)

(4)

3.3 **Data response**

3.3.1 **According to the extract what was the deficit in the balance of payments in 2016?**

R76 bn ✓

(1)

3.3.2 **Identify the term that calculates the difference between goods imported and goods exported.**

Balance of trade / Trade balance ✓

(1)

3.3.3 **Briefly describe the term *balance of payments*.**

A systematic record of all transactions between one country and other countries over a particular time period ✓✓
(Accept any other correct relevant response)

(2)

3.3.4 **What is the significance of the balance on the *current account*?**

It give an indication whether a country is living within its means ✓✓
(Accept any other correct relevant response)

(2)

3.3.5 **How can a surplus on the balance of payments affect the South African economy positively?**

The surplus of the balance of payments can affect the economy positively by:

- reaching the production potential of the country ✓✓
- increasing exports compared to imports will result in receiving more foreign exchange and build up the reserves of the country ✓✓
- more infrastructure investment ✓✓
- increased value of the rand ✓✓
- reducing the tax burden due to less money borrowed to pay off public debt ✓✓
- stimulating economic growth and create job opportunities ✓✓
(Accept any other correct relevant response) (2 x 2)

(4)

3.4 **Briefly explain the interaction between *households* and the *state* as part of the circular flow model.**

- Households provide production factors to producers (government). ✓✓
- Households receive an income (Y) in return – rent, wages, interest and profits. ✓✓
- Households pay taxes to the government. (T) ✓✓
- The government provides public goods and services to households. ✓✓

(2 x 4) (8)

3.5 **Describe how the South African Reserve Bank can use the repo rate to smooth out business cycles?**

- If banks experience a shortage of funds in the money market, they are accommodated by the SARB, when they are allowed to borrow money through the Repo system (Repurchase tender system) at a rate known as the repo rate. ✓✓
- By increasing this rate, money becomes more expensive for commercial banks, who pass on the increase to their clients by increasing interest rates on loans. ✓✓
- Loans become more expensive to the consumer and so the demand for money will decrease. ✓✓
- By decreasing this rate, money become less expensive for commercial banks, who pass on the decrease to their clients by decreasing interest rates on loans. ✓✓
- Loans become less expensive to the consumer and the demand for money will increase. ✓✓

(4 x 2) (8)
[40]

QUESTION 4: MACROECONOMICS**4.1 Answer the following questions:****4.1.1 List TWO factors influencing the demand for foreign exchange.**

- Importing goods ✓
- Payment for services from foreign countries ✓
- Buying shares in another country ✓
- Tourist spending money overseas ✓
- Repayment of debt borrowed from foreign countries ✓ (2 x 1) (2)

4.1.2 Explain the exchange rate system South Africa is using. (1 x 2)

South Africa is using a free floating exchange rate - the value of the currency is determined purely by the forces of the market, i.e. demand for rand and supply of rand. ✓✓ (2)

4.2 Data response**4.2.1 Identify ONE reliable indicators that is being used in the prediction of a bear markets.**

- Business cycle recession ✓
- Rising interest rates ✓
- Foreign currency outflows ✓
- Stretched valuations, ✓ and
- Stock market momentum ✓ (1)

4.2.2 Give a synonym for the term Central Bank.

South African Reserve Bank (SARB) ✓ (1)

4.2.3 Briefly explain the concept *recession*.

A negative economic growth for at least two successive quarters ✓✓ (2)

4.2.4 What happen to share prices during a *bear* and *bull* market?

Bear market – share prices decrease ✓✓ (2)

4.2.5 Why are economists concerned about the downward trend in the business cycle?

- Rand depreciates ✓
- Inflation increases ✓
- Interest rates increases ✓
- Property prices are high ✓

- Manufacturing production falls rapidly ✓
 - Loss in income for businesses ✓
 - Increase in unemployment ✓
- (Any relevant answers) (4 x 1) (4)

4.3 Data response

4.3.1 Identify the exchange rate system depicted in the graph above.

Free floating ✓ (1)

4.3.2 What was the original rand/dollar exchange rate before the demand for US dollar increased?

R13,00 = \$1 ✓ (1)

4.3.3 Briefly describe the term *exchange rate*.

The rate at which one currency is exchanged for another / the value of one country's currency in terms of another country's currency ✓✓
(Accept any other correct relevant response) (2)

4.3.4 How has the increased demand for US dollars affected the value of the rand?

The value of the rand depreciated from R13,00 to R14,00 against the dollar / depreciated by R1 ✓✓ (2)

4.3.5 What could Reserve Bank do to strengthen the value of the rand against the dollar?

The Reserve Bank could strengthen the value of the rand by:

- selling US dollars in reserve in the foreign exchange market ✓✓
- selling gold reserves on the international market ✓✓
- obtaining assistance from the International Monetary Fund ✓✓
- increasing the repo rate to stimulate investment by foreigners in the South African economy ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

4.4 Differentiate between *endogenous* and *exogenous* approaches to business cycles.

Endogenous	Exogenous
Factors that will affect the economy from <u>within</u> the market system ✓ Markets are <u>inherently unstable</u> ✓ <u>Government intervention is needed</u> ✓ Also known as the <u>Keynesian</u> explanation ✓ For example: changes in patterns of consumer spending, investment spending ✓ (Max.4)	Factors that will affect the economy from <u>outside</u> the market system ✓ Markets are <u>inherently stable</u> ✓ <u>Government should not intervene</u> ✓ Also known as the <u>Monetarist</u> explanation ✓ For example: Natural Disasters / War / Terrorism ✓ (Max.4)
(Accept any other correct relevant response) (Allocate a maximum of 4 marks for the mere listing of facts/examples)	

(8)

4.5 How can natural *resources* and *specialisation* contribute to international trade?

Natural resources

- Natural resources are unevenly distributed in the world ✓✓
- They vary from country to country and can only be exploited in places where these resources exist ✓✓
- E.g. South Africa is rich in iron ore, gold, coal and platinum whereas China does not have them and it therefore imports these minerals from South Africa ✓

(Accept any other correct relevant response) (Max 4)

Specialisation

- The production of certain goods and services allows some countries to produce them at a lower cost than others ✓✓
- This leads to mass production which lowers costs ✓✓
- E.g. Japan produces electronic goods and sells these at a lower price ✓

(Allocate a max of 4 marks for mere listing of facts/examples)

(Accept any other correct relevant response) (Max 4) (8)

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction <ul style="list-style-type: none"> • A good starting point would be to define a concept or key word that appears in the question. • Include other sentences to support the topic. • Do not include in your introduction any part of the question. • Do not repeat any part of the introduction in the body. • Avoid saying in the introduction what you are going to discuss in the body. 	Max. 2
Body: Main part: Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate Additional part: Give own opinion / Critically discuss / Evaluate / Critically evaluate / Draw a graph and explain / Use the graph given and explain / Complete the given graph / Calculate / Deduce / Compare / Explain / Distinguish / Interpret / Briefly debate	Max. 26 Max. 10
Conclusion <ul style="list-style-type: none"> • The conclusion is a wrap up of the discussion of the topic in the body and should be treated as a higher order response. • The conclusion can take the form of an own opinion, examples to support your discussion or contradictory viewpoint from what has been discussed. • No aspect from either the introduction or body should be included in the body 	Max. 2
TOTAL	40

QUESTION 5: MACROECONOMICS

- Discuss any FIVE problems of public sector provisioning in South Africa in detail. (26 marks)
- How can the unfair distribution of income in South Africa be resolved? (10 marks) [40]

INTRODUCTION

All countries need a public sector to provide services that the markets fail to deliver/ The public sector consists of the central government responsible for national matters (e.g. security), provincial government responsible for regional matters e.g. housing and local government responsible for street lighting ✓✓
(Accept any other correct relevant response) (Max 2)

BODY: MAIN PART**1. Lack of Accountability ✓**

- Accountability means to give an explanation for one's decisions, actions and expenditures ✓✓
- The people require the state to use the taxes for the purpose for which they are raised and not to abuse the powers it was granted ✓✓
- People employed by the state do not always serve the interests of the public ✓✓
- They seek to maximize their salaries, status and power and are not required to produce a profit and loss statement. They are budget driven ✓✓
- The state tries to overcome this problem by making civil servants accountable to the public ✓✓

In South Africa, accountability is underpinned by:

- Ministerial responsibilities: ministers are spokespersons for their departments. ✓✓
The Director General of each department is accountable for the activities of the Department ✓✓
- Portfolio Committees: monitor individual departments and make recommendations to Parliament ✓✓
- Treasury control: the national treasury is responsible for expenditure control ✓✓
The Treasury committee, chaired by the Minister of Finance, evaluates all requests for additional funding throughout the year ✓✓
- The Auditor-General reports on each government department ✓✓ The AG reports on the standard of financial management and points out fraudulent and unauthorized spending ✓✓ (Max 6)

2. Inefficiency ✓

- Accountability does not guarantee efficiency. ✓✓
- Public goods must be efficiently provided (Pareto efficiency where the welfare of the community is at its maximum and it is therefore impossible to increase the welfare of one individual without making another worse off) ✓✓

Three major reasons for inefficiency:

- *Bureaucracy*: ✓ (official rules and procedures) ✓✓ Officials may focus on correct procedures and rules and are indifferent to the quantity (e.g. the number of patients attended to ✓✓) and quality of the service (e.g. explaining the use of the medicine)

✓✓ Some may be insensitive to the needs of their clients ✓✓

- **Incompetence:** ✓ i.e. lack of skill or ability to do a task properly ✓✓ This may be due to improper qualifications, lack of training, experience and an attitude of apathy. ✓✓
- **Corruption:** ✓ i.e. exploiting of a person's position for personal gain ✓✓ Taking bribes, committing fraud, nepotism, behaving dishonestly and committing discrimination. ✓✓

(Max 6)

3. Difficulty in assessing needs ✓

- In the private sector, the forces of demand and supply dictate prices ✓✓
- The market prices act as signals to the producers, communicating the needs of consumers and the quantity demanded ✓✓
- State-owned enterprises do not operate according to the forces of demand and supply ✓✓
- It therefore becomes difficult for state-owned enterprises to assess the needs of consumers and they are prone to under-or over-supplying public goods ✓✓ (Max 6)

4. Pricing policy ✓

- In the private sector, price is determined by the intersection of the demand and supply curves, at the point where quantity demanded equals quantity supplied ✓✓
- State-owned enterprises do not work within the market system of demand and supply ✓✓ This creates problems in determining the price for public goods and services ✓✓
- The state sets the price of goods in the following ways:
 - Free of charge e.g. police – completely funded by taxes ✓✓
 - User charges e.g. Toll road- a fee is levied on the user ✓✓
 - Subsidies where the state may charge the user a reduced fee ✓✓
- The price strategy used depends on:
 - **technical factors** (i.e. How easy it is to charge a fee e.g. a toll road) ✓✓
 - **economic factors** (e.g. provision of electricity - difficult to provide for free) ✓✓
 - **political factors** (e.g. free health care to the unemployed and very poor) ✓✓

(Max 6)

5. Parastatals (SOEs- state owned enterprises) ✓

- Created in one of two ways by Government starting an enterprise or by Government nationalising an existing enterprise ✓✓
- They have to act within the framework of the public policy ✓✓
- Some parastatals do not understand their constitutional obligations and are not able to deliver on the economic and social rights ✓✓
- SOEs have limited liability but have been moves to restructure SOEs (profit-seeking with the limited liability) ✓✓

(Max 6)

6. Privatisation ✓

- Some economists believe that the problems associated with public provision of goods and services are good grounds for handing state-owned enterprises to the private sector. ✓✓

Privatisation	the process by which state-owned-enterprises and state-owned assets are sold to private individuals ✓✓
Nationalisation:	the process whereby the state takes control and ownership of privately-owned assets and privately-owned enterprises ✓✓

• There are three arguments in favour or against privatization:

a) *The costs of maintaining and managing state-owned enterprises are very high.* ✓✓

Positive -

- These costs result in higher taxes and higher public debt. ✓✓
- Transferring ownership of these enterprise and assets to the private sector could result in lower personal income tax and it could reduce public debt ✓✓

Negative -

- Privatisation may lead to job losses (to ensure maximum profits) ✓✓
- Privatisation may further lead to price increases to ensure sustainable profits ✓✓

b) *Some people believe that private enterprises are more efficient than public enterprises.* ✓✓

Positive -

- These people argue that the profit motive in the private sector ensures that firms operate efficiently and produce goods and services at the lowest possible price. ✓✓
- State-owned enterprises, on the other hand, are bureaucratic, inefficient, unresponsive to consumer needs, poorly managed, uncreative and have low levels of productivity. ✓✓
- Privatisation is thought to lead to greater economic efficiency and better management of the enterprise. ✓✓

Negative-

- Private owned enterprises cannot provide goods and services at the same low prices than SOE's and might result in market failure ✓✓

c) *Since state-owned enterprises do not operate according to the profit motive, they sometimes incur large losses, which result in budget deficits.* ✓✓

Positive -

- These budget deficits have to be financed by higher taxes or increased public debt. Privatisation eliminates these fiscal problems. ✓✓

Negative -

- Privatisation might exclude a large part of the population who cannot afford higher prices charged by private enterprises, especially merit / consumer goods providing in basic needs ✓✓ (Max 6)

(Allocate a maximum of 8 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

(A maximum of FIVE problems must be discussed. The listing and explanation of the FIVE problems in a positive way, counts a maximum of 3 marks. The rest of the marks should explain the problematic nature of each aspect) (Max 26)

ADDITIONAL PART

To ensure fair income distribution consider:

- measuring income distribution on a regular basis the Gini-Coefficient is used on a regular basis as a requirement by the UN ✓✓
- delivering social services effectively in all areas especially rural areas ✓✓
- using tax monies effectively to ensure a fair redistribution and eliminate the misuse of funds / uproot corruption and nepotism ✓✓
- effectively using the fiscal policy measures will ensure an even distribution of

income ✓✓

- taxing incomes progressively to lower the tax burden on the lower income groups and relying more on the higher income groups ✓✓ e.g. income tax ✓
(Allocate a maximum of 2 marks for the mere listing of facts/ examples) (Max 10)
(Accept any other correct relevant response)
(A maximum of 4 marks may be allocated for redress policies, e.g. BEE, land restitution, affirmative action)

CONCLUSION

Efficient public sector provisioning in South Africa is key to a much better growth rate, higher employment rate and a better standard of living of all ✓✓
(Accept any other correct relevant higher order response) (Max 2)

[40]

QUESTION 6: MACROECONOMICS

- **Discuss export promotion as part of South Africa's international trade policy under the following headings:**
 - **Reasons (8)**
 - **Methods (8)**
 - **Disadvantages (10)** **(26 marks)**
- **How does free trade contribute to globalisation?** **(10 marks) [40]**

INTRODUCTION

- Export promotion involves providing incentives to encourage local businesses to produce goods for export ✓✓
 - When government pay incentives to encourage the production of goods that can be exported ✓✓
- (Accept any other correct relevant introduction) Max (2)

MAIN PART**Reasons for export promotion**

- The country achieves significant export-led economic growth ✓✓
- Export promotion enlarges the production capacity of the country ✓✓
- Export markets are much bigger than local markets ✓✓
- Larger production units creates more job opportunities ✓✓
- It leads to lower retail prices ✓✓ Max (8)

Methods of export promotion:

- Incentives: ✓
 - The government supplies information on export markets in order to stimulate exports ✓✓
 - Other examples are research on new markets, concessions on transport charges, export credit ✓
- Subsidies: ✓
 - Incentives which encourage exporters to increase the amount of their production ✓✓
 - It includes direct and indirect subsidies:
 - Direct subsidies: Cash payments to exporters ✓✓
 - Indirect subsidies: Refunds on import tariffs and general tax rebates ✓✓
- Trade neutrality: ✓
 - Subsidies, equal in size to import duties, are paid ✓✓
 - Neutrality can be achieved through trade liberalisation ✓✓ Max (8)

Disadvantages of export promotion

- The real cost of production is hidden: ✓
 - It reduces the total costs by subsidies and incentives ✓✓
 - The real cost of production is concealed by the subsidies ✓✓
 - The product may thus never be able to compete in the open market ✓✓
- Lack of competition: ✓

- Incentives and subsidies reduce prices and force competitors who may be able

to create sustainable and profitable businesses out of the market ✓✓

- Total potential trade is therefore reduced with subsidies rather than without subsidies ✓✓

- Increased tariffs and quotas: ✓

- Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production ✓✓
- Powerful overseas businesses can afford to offer similar products at much lower prices ✓✓
- Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business who received the subsidy ✓✓

- Protection of labour-intensive industries: ✓

- Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
- Export promotion results in the protection of labour-intensive industries by developed countries ✓✓

Max (10)

(Allocate a max of 8 marks for mere listing of facts/examples)

(18 marks for discussions)

Max (26)

ADDITIONAL PART

- Specialisation: The theory of comparative advantage shows that world output can be increased if countries specialise in what they are relatively best at producing ✓✓
- If countries specialise in producing goods for which they have a comparative advantage, world trade and consumption will be maximised ✓✓
- Trade allows economies of scale to be maximised and thus unit costs are reduced ✓✓

- Economies of scale are a source of comparative advantage ✓✓
 - Free trade gives consumers the choice of what to buy from the whole world and not just from what is produced domestically ✓✓
 - Consumers' welfare is thus increased because some consumers will prefer to buy foreign goods rather than domestic goods ✓✓
 - Choices is enlarged ✓✓
- (Accept any other correct relevant response) (Max 10)

CONCLUSION

In the light of the negative impact of free trade it is critically important to protect smaller developing economies against uneven competition from the developed economies ✓✓
(Accept any other correct relevant higher order response) (Max 2)

TOTAL SECTION C: 40
GRAND TOTAL: 150