NASCA

Economics, Business and Finance

Sections 1

(Units 1-6)

Section 1 Unit 1

Topic 1: The economy

Overview

It is essential to understand how the economy operates and affects both businesses and individuals as active economic citizens. This topic will cover the basic economic concepts and systems, as well as emphasising the environments in which they operate and the market dynamics that affects them. In conclusion, you will be looking at some of the contemporary economic issues that affect the economy.

**Figure X: Structure of Topic 1 – The Economy**

UNIT 1: ECONOMIC CONCEPTS

Introduction

This unit will serve as an introduction for discussions that will take place later and familiarises you with some of the concepts that will be used. It is important you understand the terminology and these concepts so as to facilitate the understanding of practices, procedures and policies that are peculiar to the country in which you live. By the end of this unit you should be able to read and understand more about economic activity and follow economic discussions more closely.

|  |
| --- |
| <https://www.youtube.com/watch?v=CamHuVSm_IQ> economy, definitions |

In this Topic you will address the following issues:

Topic 1 Learning Outcomes

After completing this Unit you should be able to:

1.1.1 Describe the scarcity problem:

• Absolute and relative scarcity;

• Differences between economic and free goods;

• Alternatives and choices;

• Opportunity cost.

1.1.2 Discuss how the scarcity problem can be alleviated;

1.1.3 Differentiate between free and economic goods;

1.1.4 Describe the process of:

• Production;

• Consumption;

• Exchange;

• Distribution.

1.1.5 Use the circular flow model diagram of the open economy with component elements:

• Participants;

* Households
* Business sector
* Government
* Foreign sector

• Markets;

* Factor market
* Market for goods and services/products
* Financial market – money and capital
* Foreign markets/foreign exchange

• Flows through different markets (production, income and spending)

• Real and money flows;

• Statistical economic data.

Unit 1.1 The economic problem

1.1.1 The economic problem of scarcity

**A need** is a necessity that you cannot do without, for example food, water and shelter.

The problem of scarcity exists in all societies because of the fact that, whilst the *needs and wants* of the inhabitants are limitless, the means to produce them are limited. This presents the problem of how best to use *limited* resources to produce goods and services to satisfy *unlimited* needs and wants. We naturally want more things than we have at the moment, but what is stopping us from achieving this is our limited income. Can you identify with this problem? There are very few people in this world that have enough money to supply all their needs and wants.

**A** **want** is a desire for something you would *like* to have but can live without, like a fancy house, designer clothes or electronics.

This refers to the issue of *scarcity***.**

**1.1.2 The problem of choice**

This leads to the next question, and this is how the problem of scarcity is alleviated: Because resources are limited, choices have to be made. This applies to producers as well as consumers who have to pick what is the most important to them. This means choosing between *alternatives* that are available.

**Scarcity:** A situation where the needs and wants exceed the available resources to satisfy them.

**Alternative:** Thepossibility of choosing between options, such as the products and services that are all viable to satisfy your need or want.

* Consumers have to choose wisely, between the products they purchase with their income, so survival is important before buying the ‘nice to have’ things.
* Producers and Manufacturers will have to choose the best way of using their resources (factors of production for example money and labour) to produce their goods and services.

These alternatives have to be carefully considered. When a choice is made, it means that you choose one item over another; then you lose the satisfaction that the *other* alternative would have given you – this is known as *the Opportunity Cost*. For example, if you choose to go to the beach instead of the cinema, then you lose the satisfaction that going to the cinema would have given you.

* *Absolute* scarcity refers to the situation when there is not enough goods and services available to satisfy demand for it.
* *Relative* scarcity refers to the situation where goods and services are available but the resources to purchase them are not.

Look at the following example of how manufacturers address these problems of scarcity and choice:

**The basic production process choices**

There are three basic questions that manufacturers have to answer:

**What to produce?**

If you are a manufacturer, you will choose what you would like to manufacture, for example using your limited resources (money and equipment) to choose between the manufacture of furniture, clothing or toiletries, to name but a few. They must decide on how much of the product they will manufacture and what resources they will allocate to this process. This is a very complicated decision and influenced by many factors, but as we progress through the course you will understand more about it. You will also learn more about how society influences these decisions, through creating the demand for products and services.

**How to produce?**

Next, manufacturers must ask how to use the limited resources they have so that they get the best possible output. In other words, what combination would be the most beneficial and profitable? Considering they will have to pay for the **factors of production**, they must be careful to decide what the correct combination will be**.**  This will determine the system of production they will use.

**For whom to produce?**

This is where the demand created by customers will determine the decision they will take so that they have a market for the goods and services they have chosen to produce. For example, choosing to produce furniture, they will have researched the demand to ensure that all their products get sold. This introduces the question of exchange of goods which causes the flow within the economy.

**1.1.3 Free goods and economic goods**

You learnt earlier that goods and services are required to satisfy wants and needs. For example, you need water to quench thirst, and clothing for protection. In Economics, we use the term *utility* to describe the ability of goods and services to satisfy needs and wants.

**Utility** is the power of an article to satisfy a need or want.

Therefore, you can conclude that anything that can satisfy a need or want has got utility. Sometimes the goods are available to all, but nobody *pays for them*, for example air to breathe or the sun that provides the warmth needed to grow crops without anyone having to pay for it. These goods are available in limitless quantities and the scarcity problem does not arise here. Our study concerns goods that are scarce in relation to the demand for them and they come at a price. These goods are called economic goods.

**Table X: Free goods and economic goods**

|  |  |
| --- | --- |
| **Free goods** | **Economic goods** |
| Have usage value (utility) but does not command a price  Anyone can use them without paying  The quantity available is limitless  Availability is related to any economic principle | Have usage value but must be paid for  Users need to pay for the usage  The quantity available is limited  Availability subject to law of demand and supply |

Activity 1.1 Understanding important economic concepts

Suggested time:

45 minutes

Aim:

This activity will help you to understand and remember the economic concepts (ideas) and terminology you have engaged with in this Section. . It will help to form the basis of your understanding of the more complex issues that will be discussed later in this course material.. . It is therefore important that you

What you need:

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers.

What you will do:

* Carefully read the four short tasks below and complete them in your note books.

1. Use your own words to write an explanation of the following three terms in your note book.

* Utility
* Scarcity
* Alternatives

2. Write a few sentences in your note book in which you explain the difference between *free goods* and *economic goods.*

3. Classify or group the following stating whether they are free or economic goods. Give reasons for your answers.

* Sand in the desert
* Water from the sea
* Water from a well
* Bottled water from a borehole
* Sand for plastering your house.

4. Identify one example of a good/service that was *previously* a free good, but is now an economic good? Explain why this good/ service changed from being a*free* good/serve to an *economic* good/service.

Guided Reflection:

Now check your answers at the back of the Workbook. Does your understanding of these economic concepts and terms match what you have found in the answer section of the Workbook?

Understanding these economic concepts and terms will help you with your studies going forward. If you find that your understanding does not match the explanations provided in the answer section, you should re – read this section in your workbook. Then try doing this activity again or if you have a friend that is studying with you, you can explain these concepts to each other.

Stop and think

*Teaching* someone else new content or a new skill, is one of the best ways of *learning* something new yourself.

Why do you think this is so?

**1.1.4. The economic processes:**

**Production**

You will recall that earlier you learnt that manufacturers have to produce or make goods to satisfy wants and needs. We now take a look at this process of *production***.**

Production can be defined as the process whereby the entrepreneur combines the available resources in such a way as that it converts them into a suitable product or service to satisfy a need or want.

For production to take place, several *factors of production* need to be combined for this to happen.

The factors we identify are:

**Capital:** This refers to money as well as other forms of assets, for example machinery, which is used in the production process. It is important to remember that money used to create further wealth can be classified as capital.

**Entrepreneurship.** The entrepreneur is that person who has the ability to combine the above three factors of production in such a way that the production process is profitable. The three factors alone cannot function on their own but requires someone who can ensure that they are used in the right proportions.

**Land/ Natural Resources:** This includes all the gifts of nature available either in their natural form or with processing. Examples are mineral resources such as gold and coal, fish, animals, crops or forests. These are not limitless, for example, the supply of gold can be exhausted and various species of animals have already died out. Note that we refer to it as land, as it comes from the earth.

**Labour:** This is the human effort that is used in the process of production. This effort is rewarded by wages and salaries. There are various qualities of labour each requiring differing amounts of knowledge, training and effort, known as unskilled, semi- skilled, skilled and professional labour.

*NOTE: If you use the ‘CELL’ acronym for the factors of production, it is easy to remember them!*

Activity 1.2. Understanding economic concepts related to labour and production

Suggested time:

45 minutes

Aim:

Inaddition to distinguishing between the various concepts and terms that are related to labour and production it is also important that you are able to apply your knowledge by providing concrete examples of these concepts and terms are used in daily life.

What you need:

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers.
* An example of a household product that you can use to apply your knowledge (See Question 3).

What you will do:

Read the instructions related to the three tasks below carefully and write your responses in your notebook.

1. What do you understand by the following three terms? Start by writing your own explanation for each one of them in your note book.

* Unskilled
* Semi-skilled and
* Skilled labour?

Now, now write short notes which explain the difference between these three types of labour.

2. Identify any domestic product e.g. a table. Identify the factors of production that were associated with its manufacture.

Here are some useful guidelines to help you with this task:

Choose an item from the place where you live.

* Think about you have already learnt about the factors of production (e.g. CELL: capital, entrepreneurship, land/natural resources, labour,)
* Identify these factors or elements in the product that you have identified.
* Capital will include the money used to finance production as well as the machinery/equipment used in the production
* Entrepreneurship will include the business owner(s) as well as intermediaries involved in the production as well as delivery to the consumer.
* Land/natural resources used to manufacture a table might be wood or steel.
* The labour used to manufacture the table may include the different classes of labour used in the different production stages.

Now choose your own domestic product and analyse all the factors that went into producing it.

Guided reflection

As you answered question 1 did you realise that the main difference between skilled and unskilled labour was the amount of training or education that is needed?

Did your explanation of *capital intensive* and *labour-intensive* match the one in the answer section? Please check it!

When you analysed the factors of production that were used to make the product that you had identified, were you able to identify all the factors? E.g.: the raw material used; the type of labour that is necessary to produce this item (skilled /unskilled etc.) what kind of capital investment was necessary to produce this item and who the entrepreneur may have been that came up with the original idea?

**Consumption:**

Consumption refers to the use of goods and services to satisfy needs and wants. After production is complete, the produced goods are available for consumption as they have utility value. The use of the goods is used to determine whether they fit into one of the two categories:

*Consumer goods* – these goods satisfy wants directly; they are used by the consumers to satisfy needs and wants. Examples are clothing, food, music etc.

*Capital goods* – these goods are used to produce consumer goods; they do not satisfy wants directly, for example, the tools used by the car manufacturer to make cars.

Activity 1.3 Classification of consumer and capital goods

Suggested time:

30 minutes

Aim:

There are many types of goods that we use in our daily lives, and the Aim of this activity is to apply the knowledge you have learnt on this~~,~~ by classify goods according to their use (or utility value) to the consumer.

What you need:

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers.

What you will do:

1. Copy the following table into your notebook and leave 6 blank lines to work in. NOTE: The first one has been done for you as an example:

|  |  |  |
| --- | --- | --- |
| **Goods** | **Consumer/Capital** | **Reason Want/Need** |
| Clothing in my wardrobe | Consumer | Protection/Fashion |
|  |  |  |

1. Write each of the following goods (a – g) into the first column.
2. Clothing in my wardrobe
3. Hardhats worn in mining or factories
4. Woodwork machinery in ABC Wood Turners
5. Family car used for transporting children to school
6. Vehicle used to transport 15 children to and from nursery school.
7. Water for drinking
8. A drill used to put up a shelf at home
9. In the second column, identify whether they are *consumer or capital goods*.
10. Now give a reason for your choice in the final column, by stating what type of want or need it is.

Guided Reflection

Did you find some items harder to classify than others? Go back to the definitions of consumer and capital goods to help you if you did.

Like the clothing, some items may satisfy more than one need or want. You have a basic **need** for protection from the weather, but you may also **want** to weara specific style of clothing or brand name to achieve this.

**Stop and Think**

How will knowing this difference help you in your daily life? The next time you go shopping, would you think more about whether it is a need or want, and whether it is worth the price you are paying for it? Maybe you can just borrow or rent a drill, as you only need a hole in the wall to put up the shelf, you don’t need the drill itself?

**Exchange:**

You will recall that the aim of production is to create goods and services to satisfy needs and wants. If you are baking a cake for your tea, this is to satisfy your want. If, however, you are not creating these goods and services for *yourself*, then you are the producer, and the consumer is *someone else*. It would be pointless engaging in this second activity if the goods do not reach the final consumer. There needs to be a clear transfer path from the producer to the consumer. This means the producer needs to find the consumer or vice versa. The producer and the consumer can then exchange what they have for what the other wants.

* The consumer wants the goods.
* The producer wants money which can be used for the things he needs to purchase.

This is the process of exchange.

For Example:

When the farmer’s crop of litchis is ready he needs to get it to the consumer as quickly as possible, as it is fresh produce; he must know where the consumer will be. The consumer, similarly, needs to know where he can obtain the fruit. The place where both the producer (farmer) and the consumer (buyer) know they can meet is known as the *market*. In this example, the market that comes to mind is the fresh fruit market. You have other examples for primary products like, for example, the wool exchange (for wool). A supermarket would, in contrast, provide a wide variety of goods, so it is very convenient for the customer.

The exchange in the above examples is the exchange of *goods for money*.

Remember that the market does not always have to be a *place* like it used to be, but is also used describe certain sectors, as they are specific target markets. For example:

* Youth market – for goods appealing to the youngsters
* Coastal and inland markets - for goods used in these areas
* Summer market – for goods used in summer
* Niche market – a very small, targeted market such as luxury cars (i.e. only a limited number of people will be able to afford them)

Activity 1.4 Different types of markets

Suggested time:

30 minutes

Aim:

As discussed, the term ‘market’ can be used to describe many other situations where buyers and sellers meet. This activity gives you practice in applying the use of the term “market” in a much broader sense.

What you need:

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers.

What you will do:

1. Look at the different types of markets below and, mentioned for each one, provide an example of a good and a service that will be bought and sold there.
2. Youth market
3. Coastal and inland markets
4. Summer market
5. Niche market

2. Can you spot the different between the niche market and all the others? Explain what it is.

Guided Reflection

Was it easier to think of examples of goods than services? If so, why do you think that is? You may also have found that it is easier to think of examples for the markets that you are in – such as the summer market that affects all consumers.

For the niche market, could you only find examples of wants (such as mentioned in the theory) or did you think of specific needs as well, such as maybe medication for a very rare medical illness?

**Distribution:**

This concept is closely related to the above. Distribution refers to the activities involved in getting the goods to the market. Various methods of distribution are used to make sure that they reach the target market. Producers may want to take charge of this function themselves or they may employ others who specialise in it, to undertake this for them. This activity is dealt with in detail later in this Module.

**1.1.5 The circular flow**

This branch of Economics is referred to as *macroeconomics.* It studies the economy as a whole. In order to show the many economic activities that are taking place in the economy, we use a diagram called the *circular flow model*, (previously known as the economic cycle). This diagram is used to show the relationships that exist between all the participants in the economy and it captures the most important activities of the country as a whole. You will see that the main participants are the *households* and the *business* sectors, as they show the flow of goods and services and the flow of income between them. Very simply, the following activities will be depicted:

**Households**

Households offer their services by supplying the factors of production (e.g. their labour, capital etc). In exchange, they receive remuneration (income) in the following forms:

* *Wages* for supplying labour (workers)
* *Rent* for supplying land
* *Interest* for supplying capital
* *Profits* for supplying expertise (entrepreneurship).

Households use this income received for supplying these factors, to buy the goods and services that businesses produce.

**Businesses**

Businesses sell the produced goods to the households. In return they receive the income from the sale of such goods and services.

In the above explanation, we have referred to *two things* of note:

* There is a flow of factors in one direction
* There is a flow of money in the other.

Furthermore, the buying and selling of each creates a *market* for it:

* There will be a market for factors (factor market)
* There will be a market for products (goods and services market)

These are the markets where prices are determined.

**The factor market**

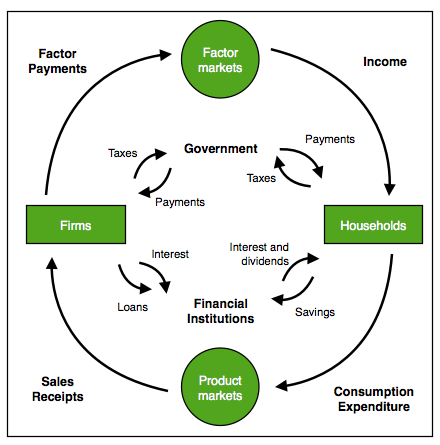
Households are the owners of the factors and offer their services on the factor market.

Businesses come to the factor market to purchase these factors. The factor market will be used to determine the price of, for example, labour. In this market, those with scarce skills, like engineers for example, can determine what they should be paid (they can demand high wages) as opposed to those in abundant supply like unskilled workers who are paid much less.

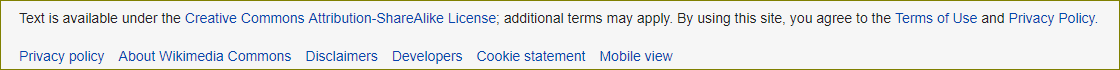
**The products market**

In this market, the goods and services from the business sector are made available to households; here also the law of supply and demand determine the prices of such goods. The scarcer the goods are, the higher the prices they command. The opposite also applies: the more abundant the supply, the lower the price it commands.

**Diagram 1.1: The Circular Flow Model**



Source: <https://commons>.wikimedia.org/wiki/File:Circular\_flow\_of\_income.png



**Note:**

In the factor market above, the price for labour is determined.

In the products market above, the price for the products are determined.

Let us now expand the discussion to include the other participants.

**The Government:**

In addition to the two participants mentioned above, the Government participates in the process by providing goods and services (those that are not as profitable for businesses to provide such as infrastructure or require substantial amounts of capital with low returns.) These include services like education, health and power supply.

Keep in mind, that for the government to do this they will also buy goods and services for the services they provide like defence equipment, or machinery from businesses in the Private Sector.

The flow can be summarised as:

* The government receives money in the form of Income Taxes from individuals and businesses.
* In return they provide common goods and services to both businesses and individuals.

**Foreign Sector:**

So far, the discussion has concentrated on a *closed economy***,** which does not import goods from, or export goods to, other countries. In these times of globalisation, this is far from reality as trade takes place regularly between countries. This is referred to as *the foreign sector.*

**Closed economy**: economy that does not import or export any of its goods and services.

**Open economy**: economy that engages in international trade.

If you are watching the news, you will recall the various trade delegations from South Africa, to other countries, to promote our goods as well as the trade agreements signed between countries and international trade fairs to give a few examples of efforts to promote our goods to foreign buyers.

Households and the business sector are also engaged in international trade. Locals buy goods and services overseas and pay for them. This implies that goods *enter* the country and money *leaves* the country.

In the same way, goods leave our country (exports) and money enters the country from the sale of such goods and services.

This can be reflected on Diagram 1.1: Go back to this diagram and draw in the arrows to show how the foreign Sector interacts with our economy.

**Real flows and money flows:**

|  |
| --- |
| Inflation definition  INFLATION is the rate at which prices for goods and services rise and consequently money loses its value. |

In the above discussion, we have referred to two types of flows without mentioning the terms used in describing them.

*Real flow* is flow, in one direction, of the factors of production from the owners (households) to businesses and goods from businesses to households.

In the opposite direction, is the *money flow*, that is, the income received by the households for their labour, as well as the income received by businesses for their goods sold.

**Statistical Economic Data**

Economics studies the organisation of activities in order to solve the problem of scarce resources used to satisfy peoples’ desires. In order to do this the process required the collection of data (facts and figures) from various sources or from observations. Data could concern a number of fields, for example:

* Population
* Earnings
* Prices
* Production
* Exports
* Imports and so on.

When such data is collected, it has to be organised in some way in order to make it more meaningful. After it has been arranged, it is known as information. Such information needs to be expressed; although it can be done in words, it becomes much clearer to understand by using statistics. This can be illustrated with an example:

Examine each of the following statements to understand how the use of statistical data can make the understanding easier:

* The price of petrol will increase next month ;
* The price of petrol will increase next month by 9%;
* Following last month’s increase in the price of petrol by 9% it is set to decrease this month by 4%.

Statistical data can be presented in many ways:

* Text (as above)
* In table format
* By the use of graphs (graphically).

You will be coming across, and working with a great deal of statistical data in the materials to follow. You will be required to find the data in some cases, and more importantly to interpret them and draw conclusions from them, like, for example:

* Are the statistics showing the situation has become better or worse ?
* What pattern is emerging from the data?

What actions are needed to be taken? (if any).

Activity 1.5 Using economic data: Unemployment and Inflation

This unit will serve as an introduction for discussions that will take place later and familiarises you with some of the concepts that will be used. It is important you understand the terminology and these concepts so as to facilitate the understanding of practices, procedures and policies that are peculiar to the country in which you live. By the end of this unit you should be able to read and understand more about economic activity and follow economic discussions more closely.

Suggested time:

30 minutes

Aim:

In your research you will be using economic data to illustrate your learning and support your arguments. This exercise will familiarise you with some of the ways in which data is sourced and used. It will form a opportunity for you to source and interact with actual economic data given, as well as other data that you will research.

What you will do:

1. Study the following table which shows the 2018 Unemployment and Inflation rates.
2. Now research the same data for the current year, so that you can form comparisons before answering the questions that follow.
3. Complete the table below with the information.

|  |  |  |
| --- | --- | --- |
|  | **2018** | **Current Year: 20\_\_\_** |
| Unemployment | 26.7%[[1]](#footnote-1) |  |
| Inflation | 4.5% [[2]](#footnote-2) |  |

**Questions:**

1. Has there been a change, and if so, why do you think that the change has occurred in:
   1. Unemployment rate
   2. Inflation.
2. Explain how each of these aspects have affected you personally:
   1. Unemployment rate
   2. Inflation.

Guided Reflection:

The statistics should be easy to find on the websites given – just be careful not to use news articles that are subjective and may quote incorrect stats.

Depending on the number of years since 2018, you may find a large difference, or if it is relatively stable, why do you think that is? Political and socio-economic factors will also affect the situation, so look broadly at all the issues that may affect these figures.

Every person living in the country is affected by inflation, especially if salaries and wages do not keep up with the inflation rate. Has this been true for you or the breadwinners in your family?

Have you ever been unemployed, and if so, for what period of time? Do you currently have a full-time job? A part time job? If you are looking for work, where are you looking and what type of job are you after?

**SUMMARY OF LEARNING UNIT ONE**

In this unit we began with the basics, commencing with the basic problem of:

* What to produce
* How to produce
* For whom to produce.

It is important you understand these concepts and issues because, you will soon realise in the discussion of Economic Systems, (which you will study later in this section) , that the answers to each of these questions will differ with the type of system.

Thereafter we progressed to unpack some concepts which are necessary to understand this subject. We touched on:

* Scarcity
* Free goods and economic goods
* Production
* Consumption,
* Exchange
* Distribution

From this we discussed the circular flow (previously called the economic cycle), very basically, beginning with two participant and then adding on the government and later the foreign sector.

We made use of terms like

* Factor market
* Goods market
* Foreign market
* Flows (real and money)
* Conclusion???????????
* You are constantly exposed to news concerning the economy of the country sometimes good sometimes not. Now you will be able to understand it better and be able to draw important conclusions. Later on you should be in a position to offer suggestions to improve some of the situations.

**SUMMARY ASSESSMENT**

**Unit 1**

**Learning Outcomes**

Now you should be able to:

1.1.1 Describe the scarcity problem:

• Absolute and relative scarcity;

• Differences between economic and free goods;

• Alternatives and choices;

• Opportunity cost.

1.1.2 Discuss how the scarcity problem can be alleviated;

1.1.3 Differentiate between free and economic goods;

1.1.4 Describe the process of:

• Production;

• Consumption;

• Exchange;

• Distribution.

1.1.5 Use the circular flow model diagram of the open economy with component elements:

• Participants;

• Households

• Business sector

• Government

• Foreign sector

• Markets;

• Factor market

• Market for goods and services/products

• Financial market – money and capital

• Foreign markets/foreign exchange

• Flows through different markets (production, income and spending)

• Real and money flows;

• Statistical economic data.

**Introduction**

This being the first unit of the first section, you may have had to rely on any previous knowledge you have on this subject. It is an introductory unit and is meant to strengthen your understanding of basic concepts so that when the discussion becomes more complex, you are able to follow it through and come to the right conclusions.

**Aim**

This activity will combine the knowledge gained in all the preceding units and will serve as a basis for the issues to be tackled in the forthcoming units and sections. It serves as the tools of the subject.

**What you need**

Revisit the activities you have completed so far and make sure you are able to answer the questions or give your opinions/ examples where asked to do so. If you were able to provide an example, ask yourself if you can provide another example now.

**Suggested time ; I Hour**

**What you will do**

Answer the following questions:

**Question 1 :**

What are the three basic questions participants in the economy will have to ask at the beginning of any economic activity?

Explain why it is so important? (10 )

**Question 2 :**

Examine each of the statements in column A and match it with the correct concept/term in column B.

Write only the number and the correct answer: (10)

e.g. 2.8 N

|  |  |
| --- | --- |
| **A** | **B** |
| 2.1 Combining resources to produce goods to satisfy wants | A Natural resources |
| 2.1 Gifts of nature | B Utility |
| 2.3 Power of an article to satisfy a want | C Production |
| 2.4 Situation where the resources are insufficient to satisfy wants and needs | D Surplus |
| 2.5 Human effort to produce goods and services | E Scarcity |
|  | F Consumption |
|  | G Labour |
|  | H Exchange |

**Question 3:**

Distinguish Between the following with examples:

Capital goods and Consumer goods

Free goods and Economic goods

Need and Want

Real flow and Money flow

Factor market and Product market 5x6=30

**UNIT TWO: ECONOMIC SYSTEMS**

The economic problems mentioned in Unit 1 all apply in a specific environment which is the economic “system” that the country employs. Countries choose which system to follow and this choice affects the lives of all the citizens with respect to their freedom of choice, opportunities and lifestyle amongst other things. Because of the importance of this choice, and the effect it has on you, you need to be familiar with each one. It also enables you to better understand the unique situation in your own country and can even look at comparisons of how different it could have been, had other choices been made. As you travel or buy products made in other countries, it also helps to understand their systems.

As you will learn, each one of these “systems” operates differently and therefore similar issues are handled differently in these environments.

In this Unit you will cover the following topics:

After completing this unit you should be able to:

2.1.1 Describe the characteristics, advantages and disadvantages of the three main economic systems

* Centrally planned economy
* Market economy
* Mixed economy

2.1.2 Contrast the systems, discussing the similarities and differences between them.

2.2.1. Assess the efficiency of South Africa’s mixed economy:

* Critically evaluate its success in delivering socio-economic services to its citizens

**2.1 Centrally Planned, Mixed and Market Economies.**

**Introduction:**

In Unit 1 you learnt that, in Economics, a country has to ask the following questions:

* What to produce?
* How to produce?
* For whom to produce?

Each one of these systems has its own characteristics. Depending on the type of Economic System it chooses, these questions will be answered differently as indicated by the table below:

**Table X: Comparison of Economic Systems**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Who makes the decisions?** | | |
| **Aspects to consider:** | **Centrally Planned**  **Economy** | **Market**  **Economy** | **Mixed**  **Economy** |
| Alternate name | ***Command Economy*** | ***Capitalist Economy*** |  |
| What to produce? | State (Government) | Individuals | State (Government) and individuals |
| How to produce? | State (Government) | Individuals | State (Government) and individuals |
| For whom to Produce? | State (Government) | Individuals | State (Government) and individuals |

**Centrally Planned Economy**

**Characteristics**

In a Centrally Planned Economy, the Government (State) is in complete control and makes all the decisions, especially on the distribution of resources.

This type of economy is also called the *command economy*. In this type the state makes all the decisions regarding what to produce, how much to produce and for whom to produce. All the factors of production are owned by the state, and everyone works for the state. No choice is allowed. There is communal ownership of all goods and property.

Every system has its pros and cons for both the government and the people, so it is important to analyse these. In a centrally planned economy, these are:

**Advantages**

* People’s needs are fulfilled to a large extent.
* The population is employed as the state controls jobs.
* There is a more equal distribution of income.
* Natural resources are protected from depletion.
* Resources are centrally controlled and managed.

**Disadvantages**

* The needs for all goods and services have to be accurately forecasted for this system to work.
* The system is not flexible and changes cannot be swiftly made.
* It inhibits creativity.
* It has proven to be less efficient than other systems.
* It is demotivating as working harder does not necessarily lead to additional benefits.

**Market Economy**

**Characteristics**

In this type of economy, which is also known a *Capitalist economy*, individuals make all the decisions with the government not interfering in such decisions. They will choose what will be most profitable to them. Prices play an important part in these decisions, which means profits are important. There is complete flexibility as individuals own the factors of production and not the state.

**Advantages**

* There is freedom of opportunity for individuals to succeed.
* It is an efficient system as resources will be used most efficiently.
* Profits attract newcomers to enter the market.
* It encourages creativity and innovation.

**Disadvantages**

* It can lead to monopolies- consumers can be exploited.
* Entrepreneurs will choose the most profitable activities and neglect others.
* Not all needs are satisfied.
* Unemployment is usually a problem.
* There can be extremes of rich and poor.

**Online Resources:**

Access the following YouTube to see a practical application of how a market economy works.

Name: How the economy really works

Link: https://www.youtube.com/watch?v=G6iRy-AISZs

**Mixed Economy**

**Characteristics**

In this type of economy, the government takes some decisions about the less profitable ventures while private individuals choose others. The government establishes **parastatals** [Company wholly/partly owned and controlled by the government whose activities serve the state] to perform some of the activities. While the profit motive is still present there is a check on monopolies. Usually large undertakings which requiring huge capital outlays with low profitability are left to the state.

**Advantages**

* Most of the needs of the population are catered for.
* Allows for creativity and commitment.
* Private ownership is allowed.
* State caters for less profitable but important services.
* The government keeps a close watch on competition

**Disadvantages:**

* Taxes to fund public goods can be high.
* Unemployment may still be a problem
* Quality may suffer if there is too little state intervention.

Activity 1.6 Distinguishing between Economic Systems

**Suggested Time:** 30 minutes

**Aim:**

This activity will help you clearly differentiate between the three systems that you are studying. Furthermore it will help you to identify the system that South Africa uses and give you an opportunity to comment on it.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers.

**What you will do:**

Carefully read the tasks below and complete them in your notebook.

1. Distinguish between the three systems mentioned above. Which, in your opinion is the best and why? In your answer make sure you mention, amongst others,

* Decision making
* Ownership of factors
* Workers choices
* Control of production factors
* One advantage
* One disadvantage

2. Discuss the system used in South Africa using the points below as a guideline:

2.1 Which system does South Africa follow? Motivate your answer.

2.2 Comment on whether you think it is the best system for SA?

2.3 Given the choice, would you prefer to live in another type of system?

**Guided Reflection:**

This activity first compares the three economic systems and then emphasises the unique characteristics of the economic system that South Africa follows, as well as how it affects you as a citizen of the country. Furthermore it compels you to look at your preferences and justify your viewpoint. This is an essential element for conducting meaningful debate in this subject.

In the next topic, you will cover the mixed economic system we have in more detail and look at the roles of both the public and private sectors.

**2.2 South Africa’s Mixed Economy.**

South Africa’s economic system is classified as mixed because both the state and individuals share the space. The Government, also known as the Public Sector provides basic services and infrastructure, but the Private Sector, which is comprised of individuals and groups of individuals, also provides goods and services. Remember that these are all based on the needs and wants of the population, both as individuals and as businesses.

Activity 1.7 Private Sector Providers

**Purpose**

This activity requires you to find examples for statements made in this section. It helps you better understand what is being studied by relating to examples you find from your own surroundings.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers.
* The diagram below.

**Suggested time:** 1 hour

**What you will do:**

Read the following questions and answer them in your notebook:

1. Look at the diagram below. Can you provide examples of the private service providers in each case?

2 Two more empty levels have been added to the diagram: Give more examples of what services the public and private sector could provide here. (Think of services you personally use.)

3. Who provides petrol? Do research on how this strategic commodity is supplied to the consumers.

4. Electricity affects our lives daily:

* Who controls this in South Africa?
* Comment on whether you agree with this policy (followed by South Africa).
* Contrast it to a country like Germany, through research, and give your opinion on whether you think their system is better or worse than ours.

**Guided reflection:**

This activity should make you aware of how various services are provided. Stop and reflect on the various categories and whether you use the public or private sector options? It will also make you aware of current issues like the price of petrol and help you to better understand the various issues that influence your own lifestyle.

You will now take a more in depth look at the performance of the economy to determine whether this mixed market system is the best choice for South Africa.

**SUMMARY OF LEARNING UNIT 2**

Unit 2 focussed on economic systems and hopefully you realised what a major influence it has on the way you live in this country.

It also introduced you to the systems that are practiced across the world:

* Centrally planned economies (communism)
* Market economies (capitalism) and
* Mixed Economies (socialism).

After a discussion of the characteristics of each one, you went onto the advantages and disadvantages as these are important factors that affect the success or failure of each system.

These discussions made it possible for you to identify the South African Economy as “Mixed Market.”

In the second part of this unit, you concentrated on the South African economy. After determining it was a mixed market economy, you proceeded to justify why this was so by providing examples Thereafter, you were introduced to some observations of the performance of the economy and the debate was raised about whether it was the best system for this country.

In the recent past, South Africa has received downgraded ratings from the international Ratings Agencies such as S&P and Moody’s. These pointed to a “slowdown” in economic activity, and warning bells should have sounded when the country’s economic prospects were downgraded in 2017.

For you as a student, this is the same as receiving your report card at the end of the year. In the same way as you would take note and work on improving, the country needs to do the same.

As a final thought: Make a commitment to keep up to date with current affairs and issues such as the petrol price, the unemployment rate and SA’s international ratings, and look for factors that influence these changes. The theory you have learnt in EBF will definitely help you to understand why these changes happen, and how to analyse them.

**SUMMARY ASSESSMENT**

**UNIT: 2 Economic Systems**

**Suggested Time**: 2 hours (including research).

**Aim:**

This case study will provide you with insight into the South African Economic situation, regarding the contributions of the public versus private sectors. This serves to reinforce the idea that economic decisions are difficult to take and can have serious consequences if not monitored properly.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Newspapers or an electronic device to do research

**What you will do:**

Study the article below, and answer the questions that follow:

**The Mixed Economy is here to stay**

**Although the public and private sectors are not perfect, both have important roles to play in South Africa. What we should be doing is to start focusing on strengthening their capacities.**

We cannotdeny that we have a mixed economy, so we can discuss the best balance between the private and public sectors: Nowhere in the world is there an example of a pure free market economy. Almost all economies are mixed to some degree. Unfortunately, reports on South Africa’s economy by a variety of international agencies are all negative.

Even though South Africa is a resource-rich country, we are under-performing badly, and more often than not, not showing adequate economic growth. To start with, several state-owned enterprises (SOEs) perform badly because they are poorly managed. This provides scope for the critics of government interventions and has led to international ratings agencies downgrading us as a country. This in term affects foreign investors being hesitant to invest in South Africa.

The point is that in a mixed economy there are some things that the market delivers best and other things that governments deliver best; for example, the private sector might be the best to deliver where competition and risk exists, but where there is no competition, or the handling of strategic resources like water and electricity, there might be a role for government. In South Africa the argument is often made that SOEs must be profitable even if they provide services to make a profit.

The real question is how we can use the strengths of both the private and public sectors to the benefit of the economy.

**Adapted from:** [**https://www.iol.co.za/business-report/opinion/the-mixed-economy-is-here-to-stay-1811778**](https://www.iol.co.za/business-report/opinion/the-mixed-economy-is-here-to-stay-1811778) **(Accessed: 15 July 2018)**

**Questions:**

1. The article confirms that South Africa uses a mixed market system. List three observations mentioned in the article regarding their performance. (6)

2. Where do the authors think the major problem lies for South Africa? What exactly is the problem that has been identified? (5)

3. Why should South Africa be doing much better in comparison to other countries? Motivate your answer from the case study. (5)

4. This article is a few years old. Has there been any notable improvements or have matters deteriorated between it and the present?

* Identify some of the issues mentioned in the article and research what is currently happening with them. (4)
* Discuss both the facts as well as motivating your answer by giving your opinion. (4)

Total: 24 Marks

Guided reflection:

This activity gave you some insight to the mixed market economy that we have in South Africa and showed that it comes with its challenges. Do you agree with the authors’ views?

In question 3, could you name some of the natural resources that make South Africa a resource-rich country to strengthen your argument?

The success or failure of this system can be determined by measuring the performance of the chosen system compared to other systems in other countries.

Stop and think

For question 4 it is important that you read or listen to the news, as that will give you good insight into what is currently happening. Make this is a habit so that you stay up to date – it is good to be able to understand the economy in which you live and work.

Briefly describe four types of markets with examples (8)

**UNIT 3: ECONOMIC ENVIRONMENTS**

**Introduction:**

In this section you will look at the different types of environments within which the country operates as well as those that develop within it. Each of these environments has some effect on the functioning of the economy. Some may affect the operation directly, while others have an indirect effect. Furthermore, you will also determine the extent to which each can or cannot be controlled.

**Learning Outcomes:**

**Students Should be Able to:**

3.1.1. Distinguish between public and private sectors:

* Highlight important public enterprises
* Public-private partnerships
* Contribution of private sector companies to the RSA economy

3.1.2. Explain the characteristics, advantages and disadvantages of formal and informal sectors.

3.1.3. Discuss the importance of the informal sector (2nd economy/unobserved economy) to the RSA economy.

3.1.4. Describe the elements of the formal agricultural and non-agricultural sectors of the economy.

3.1.5. Argue for or against privatisation/nationalisation.

3.1.6. Provide examples of the formal and informal sectors.

The Topic is broken down as follows:

**Economic Environments**

**3.1 Economic Sectors:**

**3.1.1 The Public and Private Sectors**

**The Public Sector**:

The public sector refers to all those organisations owned and controlled by the government. They provide public goods and services. In a mixed economy like South Africa, the government provides those goods and services that are considered to be strategic resources, such as water. It is a basic human right of all citizens, so has to be accessible for all. When we use the word government here, we mean all the branches of the government, which includes:

* *Central government –* catering for needs of the country as a whole e.g. National Department of Education with the National Minister of Education representing the Department.
* *Provincial government -* catering for the needs of the province e.g. Kwa Zulu Natal Department of Education with the MEC for Education as representative.
* *Local government* - catering for the needs within the municipal areas. They attend to local matters like roads and parks, electricity and so on.
* *State owned enterprises (SOE) –* these are enterprises that are owned by the government and provide common goods and services e.g. Eskom.

Important public enterprises are those which provide the infrastructure that keeps the wheels of the economy turning: Eskom for electricity, Transnet for transport and all the Government Departments that provide essential services such as the Department of Health, Department of Education etc.

**The Private Sector:**

The private sector consists of those organisations that are owned privately and not by government. They provide goods and services for profit. They are driven by the profit motive.

The private sector employs most of the workforce in many countries. The profit motive is paramount in private sector employment. Business will make sure they employ the best possible people who will contribute to the profitability of their business enterprise by being *productive*[contributing more to the business than the salaries they receive so the business makes a profit by employing them].

The private sector covers a very wide area of activities. The government regulates the private sector through laws that all businesses must comply with.

A business is free to choose its product or service, the target market, their suppliers and the location. Most industries and individual businesses choose to control themselves by setting their own standards and policies. They also create a mission statement, which usually includes moral and ethical ideals. They often apply higher standards than is required for dealing with their *stakeholders*[any person or business with a direct interest in the success or failure of the business]**,** such as workers, customers and the natural environment, as this gives them a competitive advantage and a good name in the industry.

**Public – Private Partnerships:**

At this stage it may be important to introduce the concept of. As the name implies, PPP’s (public-private partnerships) are an agreement between a public and a private sectors to work together on a project usually to provide a public good or service e.g. tourism or transport. The private enterprise supplies the knowledge and skills and also takes responsibility for timely delivery and controlling cost. The government looks at the infrastructure, environmental and other factors which could affect the citizens of the country.

It is a change to the traditional role of government to provide the capital and operational costs, containing costs and keeping to deadlines.

Some examples are:

* Gautrain Project
* Gauteng Freeway Project
* Point Development (Durban)
* Toll Roads operation
* Prisons (e.g. Mangaung Metropolitan Municipality)
* Municipal caravan parks

PPP’s notes are somewhere?

**Activity 1.9 Public and Private Sector Services**

**Suggested time:** 1 hour

**Aim:**

This activity will give you an opportunity to classify products and services provided by the government and those rendered by the private sector. It will strengthen the concept of “mixed economy”.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Local newspapers, magazines and/or an electronic device for research
* The wordsearch given below

**What you will do:**

In the Wordsearch below, search for clues to assist you with the activity questions.

NOTE: Words may go down or across but mark them with a pencil or highlighter as you find them. Note that you can use any word as a clue, for example, ‘soap’ is a product produced by the private sector, and ‘water’ a commodity supplied by die public sector. In some cases, you can use one answer for both purposes: The public sector supplies some ‘parks’ and the private sector others. You may also use examples not on the wordsearch. Think broadly.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **P** | **A** | **R** | **K** | **S** | **H** | **O** | **P** | **S** | **O** | **N** | **S** |
| **O** | **J** | **C** | **H** | **E** | **M** | **I** | **S** | **T** | **S** | **A** | **C** |
| **L** | **O** | **A** | **F** | **W** | **A** | **T** | **E** | **R** | **H** | **I** | **H** |
| **I** | **T** | **S** | **B** | **A** | **K** | **E** | **R** | **I** | **E** | **S** | **O** |
| **C** | **S** | **H** | **O** | **G** | **E** | **N** | **V** | **P** | **B** | **P** | **O** |
| **E** | **P** | **O** | **W** | **E** | **R** | **L** | **I** | **T** | **E** | **A** | **L** |
| **T** | **H** | **E** | **S** | **O** | **A** | **P** | **C** | **H** | **E** | **Z** | **S** |
| **H** | **O** | **S** | **T** | **O** | **K** | **V** | **E** | **L** | **N** | **A** | **N** |
| **O** | **N** | **I** | **X** | **K** | **E** | **O** | **C** | **A** | **R** | **S** | **T** |
| **T** | **E** | **L** | **E** | **C** | **T** | **R** | **I** | **C** | **I** | **T** | **Y** |

1. Give three examples of services performed by the government and give a reason for your answer.

2. List five examples of private sector businesses and the product/service they are engaged in. Why do you consider them to be private?

3. Which public enterprises do you consider to be the most important? Justify your answers.

4. Name at least two other PPP’s that were not discussed in the theory.

**Guided Reflection:**

This activity makes you aware that some services are provided by the government while others are provided by the private sector. When you are complete, take a look at the different between these services.

Which of the services you listed are ones that you use yourself?

**3.1.2 The Formal and Informal Sectors.**

**Informal sector**

**Characteristics**

The informal sector is that part of the economy that engages in unrecorded economic activities mainly in consumer goods or services. It is also known as the unobserved or second economy as it is difficult to get true figures. They are usually individuals in business for themselves and fall outside the mainstream activities of the public and private sectors. The informal sector is not a permanent solution; it cannot eliminate poverty although it provides a temporary income. In the absence of any solution to the unemployment problem, it is fast becoming a permanent feature of the economy.

See Stats SA for up to date figures on unemployment rates and http://www.statssa.gov.za/?s=informal%20sector

**Advantages**

* It is an opportunity for unemployed persons to earn an income
* It usually concerns small scale retailing
* It is usually conducted by persons who cannot find work in the formal sector
* It is easy to enter this sector
* It is a source of income for many householders
* It requires very little capital to start
* It requires few skills and little training
* There are no regulated working hours

**Disadvantages**

* No fringe benefits are provided (pension etc)
* There is no worker protection or union affiliations
* The output is excluded from formal sector production figures
* It sometimes encourages illegal practices e.g. counterfeiting

**The Formal Sector:**

This is the regulated section of the economy. Businesses are registered and workers:

* work regulated hours
* receive recommended wages and
* enjoy protection such as employment contracts, UIF (Unemployment Insurance Fund) membership etc.

In addition, they could receive fringe benefits such as medical aid, transport allowances or free meals.

The production from the formal sector is used to calculate the GDP (Gross Domestic Product).

Workers pay income tax on their earnings e.g. Pay As You Earn (PAYE).

**Activity 1.10: Differentiating between Formal and Informal Sectors**

**Suggested time:** 30 minutes.

**Aim:**

This activity allows you to apply the description of these sectors to actual businesses in your local community.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers.

**What you will do:**

|  |  |  |
| --- | --- | --- |
|  | **Formal Sector** | **Informal Sector** |
| Business 1: |  |  |
| Business 2: |  |  |

1. Look at the local businesses in your neighbourhood and identify at least two formal and two informal businesses:

Why did you classify them as either formal or informal?

1. Now choose one of each type of business and complete the following table by looking at how these factors differ between the two types of businesses.

|  |  |  |
| --- | --- | --- |
|  | **Formal Sector** | **Informal Sector** |
| Name of business |  |  |
| Type of business |  |  |
| Ownership |  |  |
| Hours |  |  |
| Capital |  |  |
| Working Hours |  |  |
| Worker Protection |  |  |
| Skills Required |  |  |
| Contribution to GDP |  |  |

**Guided Reflection:**

This activity distinguishes between two different sectors -- the formal and the informal. While each has its own advantages and disadvantages, they both make some contribution to economic activity. In many cases, people who cannot find employment in the formal sector are forced into the informal in order to earn a living.

**3.1.3 The importance of the Informal Sector**

The informal sector as described is an important part of the economy because:

* It provides goods and services close to its clients: the corner tuck shop or spaza shop is situated within neighbourhoods and brings daily requirements within easy reach.
* It provides job opportunities for those who cannot find work: with high unemployment rates those wanting to enter the working world find it increasingly difficult to find suitable jobs. This sector allows the entrepreneur to get a foothold and can often lead to the development of a formal business over time.
* It assists in the fight against poverty: the work in this sector is not of a permanent nature but it does allow a person to eke out a living.
* Running an informal business gives the entrepreneur a chance to develop the skills required to become successful should he decide to enter the formal market at a later stage.
* It also gives the opportunity to experiment with different types of activities and be able to find the most suitable one without much investment. Road side food stalls and pop-up barbers have become a common sight in South Africa.
* Informal business assists in caring for the environment: with some innovation, people often make use of scrap that would otherwise add to the pollution problem and change them into items of use – such as toys and stationery holders made from discarded cans, or swings and other utensils from discarded tyres. This also helps in the *green economy* [economy that supports sustainable development without degrading the environment]*.*

|  |
| --- |
| You tube “green economy”XXXXXX |

**However it does have certain drawbacks:**

* Workers do not have any protection and can be exploited, for example working illegally long hours or being underpaid. No union representation exists in the informal sector.
* The output does not form part of the official GDP [Gross Domestic Product] which is measured by the government. It is therefore difficult to measure the extent of the informal activities as they are not recorded.
* The government is not collecting any taxes from the operators.
* Sometimes illegal operations thrive in the informal sector. With the lack of control or regulation, these can become social evils.
* The quality of goods may be questionable. Consumers have no recourse against fake or even harmful goods.

**Activity 1.11 Informal Entrepreneurial Business: Observations**

**Suggested time**: 45 minutes

**Aim**

This activity allows you to test the theory already learnt by applying it to a practical business unit.

**What you will need**

Identify an informal business close to you.

**What you will do**

Approach the owner/s for permission to spend some time at the business and observe what is being sold or what service is being offered as well as the prices being charged. Interview them on why they run the business, how well it is working etc.

Write a paragraph on the business and whether you think it plays a significant role in the local community. Use the factors that were discussed in the theory above as a guideline to look at the different aspects.

**Guided reflection:**

You will have observed that the business is serving a definite purpose to the community. Make sure you look at the different business functions such as marketing, finance etc? Where do they get their stock from? Do they employ anyone? Do they have permanent or semi-permanent premises?

Ask yourself what will happen if the business was not there? Does it have potential to develop into a larger, more formal enterprise in the future?

**3.1.3 Formal agricultural and non-agricultural sectorsqueried with Roop**

**3.1.4 Nationalisation and Privatisation**

Nationalisation is the process of converting private assets into state assets. In other words, the state will take over the activities performed by private entrepreneurs and bring it under their control. The motivation for this is that the investment in such industries is so great and are often unprofitable, as it involves essential services that cannot be denied to sections of the population, which supports the state taking over for the benefit of the general public. Transport and electricity are examples of such nationalised industries. However, as you have learnt before, there can be competition for this from the private sector such as private roads, health and education services.

**Arguments for Nationalisation:**

Supporters of Nationalisation argue as follows:

* These industries usually run at a loss. The state can bear losses if such a situation occurs as they supplement the shortfall from taxes paid by citizens, whereas private business often cannot access enough capital. It does not make sense to introduce competition as this will only increase prices. If the revenue exceeds the expenditure, then the surpluses can be used to fund other state activities
* The wide gap between the rich and the poor makes it necessary to have a levelling effect. Nationalised industries can assist in bringing about this equalisation.
* Some of the industries provide basic necessities; if these were in the hands of private individuals then it is possible that prices will be higher. As a result, many households will not be able to afford the service, e.g. electricity and education if they have to pay private rates.
* These operations require large capital outlay and continued additional investment to keep it active. If this is not done, then it becomes unprofitable.
* Organised labour finds it easier to work with the government instead of private business, knowing that the profit motive has been removed.
* Nationalised industries should be mindful of other government initiatives and will ensure that its activities do not clash with them, for example, care of the environment.

**Arguments against Nationalisation:**

Supporters against Nationalisation argue as follows:

* Lack of competition – as you know, competition is good in many ways, it brings out the best in you and keeps you on your toes all the time. With nationalisation and the removal of this important characteristic, participants become docile and follow the crowd.
* There is a lack of freedom. In the working towards profit people become more creative and go to any extent to come up with original ideas to outwit the competition. This is now sadly lacking in nationalisation.
* State enterprises are not always run by people who are trained in business skills and this can cause huge losses. This impacts on the government’s finances and may cause hardship to the general population. Should this have been in the hands of private enterprise, it would employ the most qualified people to keep it in business.

**Privatisation:**

* Privatisation may be regarded as the opposite of Nationalisation. In this process, state owned enterprises are sold to private individuals, who pursue the profit principle.

**Arguments to support privatisation:**

* Increased competition leads to better good and services.
* Private businesses are reported to operate more efficiently than public enterprises. The profit motive, being the main aim, should ensure that all the resources are used to their best advantage – the most productive staff are employed, fewer resources are wasted and money is spent more wisely. State enterprises, on the other hand, are usually poorly managed resulting in losses, as a result of regular government ‘bail-outs’[Capital sums of money paid in from tax money to rescue the enterprise]. SAA is an excellent example of this and has been a bone of contention in politics for years. This has implications for National Treasury and the issue of tax collection and spending.
* Private businesses pay taxes to the government on their profits; this is an important source of revenue for the state, and can be used to fund its own projects and initiatives.
* Well run businesses improve the standard of living and the image of the country in the eyes of overseas investors; attracting more money into the country, which means credit ratings could improve.

**Some of the arguments against privatisation:**

* Workers are often exploited in the pursuit of profits. The interest of the individuals are placed before that of the country.
* Privatisation can lead to job losses as the businesses will be more selective in their recruitment and try to curb amounts spent on salaries.
* Privatisation can lead to fragmentation of industries or services, losing the benefit of economy of scale.

**Activity 1.12 Case Study – Privatisation and Nationalisation.**

**Suggested time** : 1 hour

**Aim:**

Case studies indicate how theoretical approaches are unfolding in practice. This case study will contain important detail to strengthen your understanding of the issues being discussed.

**What you will need**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* An electronic device to do research

**What you will do**

Read the article below, and revise the theory you have just covered before answering the following questions:

**Privatisation or Nationalisation?**

As in any political or economic debate, those arguing both for and against nationalisation have strong opinions. The reality is that in economics there are no right answers and each policy and decision has to be taken on a case-to-case basis. For this reason, one cannot endorse nationalisation as a cure for all ills but at the same time one cannot rule it out as a much-needed intervention tool in specific circumstances.

There is no doubt that private entrepreneurs have more zeal and incentive to grow a business contributing to the growth of the economy through more efficient utilisation of resources. But, at the same time, entrepreneurs like all individuals are focused on instant gratification and profit maximisation, and thus will fail to focus on developing sectors necessary for long-term growth and will also often overlook elements essential for long-term social benefit. This approach will be more front and centre when enterprises are nationalised.

Many were surprised when, in a recent talk, Bill Gates, arguably the greatest entrepreneur of our time, asked the US government to take a more proactive and direct role in the energy sector, citing how it was not possible without the government to have the internet or many of the cures on which the healthcare industry runs and humanity benefits from.

 Adapted from Source: <http://dailytimes.com.pk/opinion/03-Dec-15/nationalisation-versus-privatisation> [Accessed: 14 January 2019]

Questions:

1. Do you think that the issue of nationalisation is an economic or political problem? Give reasons for your answer.
2. Why do you think Bill Gates wants the US government to get involved in the energy sector?

3. Here, in South Africa, we have instances of protest action and demonstrations regarding issues related to Nationalisation and Privatisation. Research and choose ONE aspect to discuss (For example, the Nationalisation of Mines or the SARB):

3.1 What are these issues? Name the group or political party that is calling for the change.

3.2 What is being proposed?

3.3 What are your personal views on it? How would you and your family be affected if these industries/enterprises are nationalised?

**Guided Reflection:**

This activitydemonstrates the complexity of the problems facing Privatisation and Nationalisation in a practical situation. This will help you understand the complex problem the government has in supporting any one of them.

**3.2 The State**

You will study this topic as follows:

**Functions of the state**

**The government’s macroeconomic policy**

**Public sector intervention.**

After studying this section you should be able to:

3.2.1 Describe the role and importance of the functions of the state.

3.2.2 Comment on the government’s macroeconomic objectives.

3.2.3 Evaluate the achievements of these interventions.

**3.2.1 Functions of the State:**

The government is in charge of the economy of the country, and needs to look after the citizens. The state fulfils the following functions:

* + - **Security**

The government has a duty to ensure that its population is safe from attacks both from the outside as well as from within the country.

The National Defense Force protects the country from attacks by foreigners.

The South African Police Services (SAPS) ensures that citizens are protected from each other. The courts and the legal justice system form part of the law enforcement mechanism.

* **Social Welfare:**

The state has the responsibility of ensuring that the disadvantaged are taken care of, or are assisted to care for themselves. For this they provide grants e.g. child grants, old age grants and pensions to mention a few. For health-related issues, medical services such as clinics and public hospitals are also provided. Housing is also one of the social needs catered for by the State.

* **Legislation:**

Because we have a mixed economy, there are private businesses supplying goods and services. Through legislation, the government ensures that businesses compete with each other fairly to offer the best deals possible and that they observe a certain level of integrity. Various acts were passed to regulate the business world for example:

* + The Basic Conditions of Employment Act;
  + The Labour Relations Act
  + The Employment Equity Act
  + The Skills Development act

Some of the Acts are designed to facilitate business operations while others tackle the issue of redress [actions taken to correct wrong practices of the past]. You will learn more about these Acts in Section 4.

Legislation is also necessary to protect individuals and their actions. Examples such as the Children’s Act and Criminal Procedure Act govern our society.

* + - **Preserving resources:**

It is important that the resources which each country is endowed with, are used with care. Natural resources like gold and soil fertility must be preserved, not only for survival but also as a basis for our economy. Water conservation is a major focus in South Africa due to ongoing droughts. The government takes steps to ensure that the population is made aware of these situations and takes part in usage initiatives to conserve this scarce commodity.

* + - **Money and Banking**:

A secure and solvent banking system is a requirement for trade and business. The country uses the South African Reserve Bank (SARB) to administer this function, that is, to control the money and banking in the country. The Banks Act provides for the establishment of commercial banks to which individuals and businesses have access. In the past, The World Economic Forum’s (WEF) rating for the South African Banking and reporting system was very favourable but problems in the latter part of Jacob Zuma’s presidency and the issues around state capture have tarnished this reputation and led to downgrading by international rating agencies. Research and find out what the current situation is on SA’s international rating – has it improved or become worse?

* + - **Providing infrastructure**:

One of the main aims of the National Growth Plan is the provision of infrastructure. The country considers this to be very important in encouraging industrial development. Providing safe, economic transport and communication is at the heart of these initiatives. Numerous projects are being undertaken presently to see this come to fruition.

Sometimes the state takes over and establishes key industries itself that will service other industries economically, for example, Eskom and Transnet.

* + - **Encouraging business and providing guidance**:

The state establishes organisations that will assist industry by providing guidance and support for example:

* South African Bureau of Standards (SABS) for quality control
* Council for Scientific and Industrial Research (CSIR) is South Africa's central and premier scientific research and development organisation
* Central Statistical Services (CSS) for the processing information
* Industrial Development Corporation (IDC) for finance
* Research laboratories for stock and plant diseases

**Note:** The role of the state is not static; if the economic organisation of the country changes, then the functions of the state change with it. Sometimes the emphasis also changes as environmental factors and the global economy changes.

**3.2.2 Macroeconomic policy of the state**:

Macroeconomic refers to the interventions of the state in order to improve the performance of the economy. This is done to:

* Improve the standard of living of the inhabitants
* Improve the state of the economy by catering for low profitability goods/services.

The government aims to do this through:

*Economic Growth*: this implies stimulating economic development. There should be an increase in the GDP (Gross Domestic Product). Letting more money remain in the system is one way; the government can do this by relaxing the taxation and this will stimulate consumption which should lead to an increase in production.

*Full employment:* Keeping the population fully employed is a challenge, and South Africa has a high rate of unemployment. Theoretically, workers will retain their jobs if there is an increase in consumption of the goods they are producing. This implies increased consumer demand. Should this happen, then increased production will require more labour and hence the employment situation will improve.

*Price stability:*

Prices (which you studied earlier) needs to be stabilised, that is, remain constant for a certain period of time, at least. Constantly rising prices puts, especially the poor, more and more at a disadvantage, making the country’s performance less competitive. One of the bases of comparing countries is to measure the position of an inhabitant of that country with that of another.

The term inflation is used to describe the loss in the purchasing power of money because of prices increasing. In other words, we are able to buy less with the same amount of money. Inflation causes hardship for many households. Inflation is dealt with in more detail later, in unit 6.1.

Curbing inflation is one of the main aims of economic policy. Inflation targeting has been the focus of the SA Reserve Bank. Any action taken directly can have other negative effects such as, for example, on employment.

*Exchange rate stability:* The rate of exchange is the rate at which the currency of one country can be exchanged for that of another. In international transactions, the rate of exchange plays an important role as the value of the goods to be purchased or sold between countries can change when the exchange rate changes. For example, when our Rand is weakening (losing against other countries) then, by implication, foreign currency is strengthening. At times like this, it would be beneficial for a tourist to visit our country because they would be able to get more value for their money here in South Africa. The same applies to trade: the goods can become cheaper or more expensive simply by the rate of exchange moving in one direction or another.

*Economic equity:*  This describes the situation where the resources of the country are distributed fairly over the population. This implies that the tax liability of the population is roughly the same. As there are wide differences between rich and poor in South Africa, it cannot use this system of taxation. We use the progressive taxation system which quite simply requires those who earn more to pay more. The tax rates are reviewed annually in February in the National Budget by the Minister of Finance, and long-term planning is done through the MTEF (Medium Term Expenditure Framework) which is a rolling, three-year government planning and budgeting process for cash flow.

MT Budget case study removed, do we need another exercise here? Maybe link to gov site to look at budgets if they want?

**3.2.3 Public Sector interventions**

In an ideal world, markets would work and if left on their own, they should work out the prices according to the theory of demand and supply. This means that producers are free to produce what they want to and customers can have the goods and services they, and the prices will be determined by the balance between this supply and demand. The economic aspect of this will be dealt with in Unit 5. Theoretically, there is no need for the government to intervene.

**Why the interventions?**

Sometimes however, there is need for the government to intervene for specific reasons such as:

* The economy is not growing at a satisfactory rate to absorb the new workers entering the job market. This would lead to a rise in unemployment. Government could then introduce measures like *subsidies* to encourage entrepreneurs to establish new businesses or expand existing ones.
* The difference between the rich and the poor is widening, that is, the rich are getting richer and the poor are getting poorer. In this case they may decide on a *minimum wage* to try and uplift the earnings of the poor.
* The population may be finding it hard to meet its daily needs and are buying less thereby reducing demand; this will affect suppliers and upset the market equilibrium. In this case they may decide to introduce *price control.*

**Effects, pros and cons of the interventions:**

**Subsidies**:

When the government for example, decides to introduce a subsidy for any specific branch of industry, they are providing assistance to that industry.

*Example:*

If the government decides to subsidise maize farmers, they are in fact, paying part of the cost of production. The effect is that the cost of production deceases, which should lead to the lowering of the final price of maize.

Pro: Quite simply, now more people (mostly the poor) are able to afford maize whereas they were not able to in the past. This would be a good solution except that:

Cons: Farmers are now assured of a subsidy and it will discourage them from trying out innovative methods of cultivation or improvements in technology. It is also an additional cost to the government.

There can be various types of subsidies:

Subsidy for wages, relocation, rentals, modernisation, rural development, subsidies for housing, etc.

**Minimum wage:**

Wages are determined by market forces, that is the demand for labour and the supply of labour.

Those who have knowledge and skills will be able to command a high wage, while those who lack them may be exploited and forced to accept wages that are too low. When this situation continues over an extended period of time, the government may decide to introduce minimum wages. This sets out the minimum wage an employer will be obligated to pay the employee.

Pros: This move may benefit the worker who may now enjoy a better quality of life.

Cons: The employer will have an additional wage bill and this will increase the price of the good/service he is offering, reducing the effect of the wage gains. Furthermore, employers may find it necessary to reduce the workforce, or reduce the workdays of those it employs as they cannot afford the higher wages. This will hurt the very people that it is meant to help - the poor.

Basically those who are able to secure a job will be the only ones to benefit.

**Price controls:**

In a perfect market as we mentioned, supply and demand work perfectly and is able to determine the equilibrium price. Even in this situation the government sometimes feels the needs to intervene in the normal workings of the market and set a price, for example the maximum price. This is known as price control.

*Example:*

If the normal market price of a good is R6,00, there will be a number of people (especially the poor) who are unable to afford this price. Assume the government sets the maximum price to R5,00.

Pros: This will benefit consumers as those who could afford it before will now purchase more at the lower price, while those who couldn’t will now be able to.

Cons: While this benefits the demand side, it negatively affects the supply side. Suppliers who were making excess profit will now have a reduction, but many who were not, will now produce less as their profitability is affected. This will create shortages in the market and, without controls, the price would have risen, but since this is not allowed, some producers may be driven out of the market. The intervention can be counterproductive. Example here?? Bread?

**Activity 1.13 Government Intervention : Minimum Wages**

**Suggested time**: 2-3 hours.

**Aim:**

Sometimes the government has to intervene in the economy and introduce certain measures if it is not coming right on its own. One of such interventions is setting a minimum wage for workers. This activity examines the wisdom of such interventions.

**What you will need**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* The case study given below
* Newspapers or an electronic device to do further research

**What you will do**

**Read the following case study and answer the questions that follow in your notebook.**

# Ramaphosa: 'Historic' minimum wage to come into effect on January 1, 2019

Dec 07 2018 15:12

**Tehillah Niselow, Fin24**

The national minimum wage of R20 per hour will be effective from January 1, 2019, President Cyril Ramaphosa announced at a ceremony on Friday in Kliptown, Soweto. The location was chosen in a nod to the Freedom Charter, which was adopted there in 1955 and called for a minimum wage.

The legislation will see a R20 compulsory hourly rate, which will be phased in at R18 an hour for farmworkers and R15 an hour for domestic workers.

Ramaphosa spearheaded the four-year process that lead up to the signing on Friday after he was appointed by former president Jacob Zuma in 2014 to stabilise the labour environment.

Adapted from: <https://www.fin24.com/Economy/ramaphosa-historic-minimum-wage-to-come-into-effect-on-january-1-2019-20181207> [Accessed: 16 January 2019]

*1. Various organisations have expressed their views on this announcement. What are they? Find at least two examples of organisations or groups that support the minimum wage and two that are against it.*

*2. How do you feel about it? What affects your attitude?*

**Guided Reflection**

This activity will demonstrate the difficulty the government has in implementing any planned strategy to grow the economy. Any action can be interpreted in many ways and is often met with opposition, as you will have seen both from the discussions on interventions in the theory and your research on the minimum wage issue.

Each participant in the economic structure has their own viewpoint and this often presents a stumbling block that hinders progress. You will be strongly influenced by your own situation in these matters, for example if your family is directly affected by the minimum wage issue. For example, if you are a farmworker earning R12 an hour, but the farmer now retrenches you because he can only afford to keep fewer workers at the minimum wage, then you would end up unemployed and searching for a new job. This could also affect your housing if you were living on the farm.

**3.3 Business environments**

This section is broken down into the following:

* Micro environment
* Market environment
* Macro environment

After completing this section you should be able to:

3.3.1 Describe the components of the Micro Environment

3.3.2 Describe the components of the Market Environment

3.3.3 Describe the components of the Macro Environment

3.3.4 Discuss the relationship between these three environments

3.3.5 Discuss the extent to which each of these three environments can be controlled.

**3.3.1 The Micro Environment** :

The Micro Environment consists of the business itself (all the internal factors) together with its components which consist of the vision, mission, objectives and the organisational culture as well as all the business functions.

It is also referred to as the decision-making environment because the management of the business takes all the decisions that shape this environment. We will expand on some of the components here and others (business functions) will be dealt with in greater detail in Section 4 (Business Operations).

**Figure X: Elements of the Micro Environment** (Note that the vision of the business informs all the decisions made in the other elements)

***Vision*:** This is the dream of the founders; the entrepreneur has a dream of WHAT the future of the business should be, and needs to be a short, sharp statement for example, *“To produce students of high quality who become employable and use their skills to serve the nation”.*

***Mission*:** This is a more detailed statement indicating *how* the business wishes to achieve their Vision, in other words *why* it exists in the long term.

***Objectives (Goals)***: This is an elaboration of the mission statement and is more specific. Businesses will have more than one objective; we know that the primary objective of most businesses is to make profit but further than that it may also include providing products, creating employment and service to the community, such as by providing training skills to the local community.

***Culture of the business:*** the organisational culture is based on the values, expectations and beliefs, for example, the determination and commitment of workers can lead to great success for the business and job satisfaction for them.

***Strategy*** relates to the plans management draws up in order to achieve all these goals. This can be done only if the available resources are used wisely so as to beat the competition.

**The Business Functions**

There are many aspects that need attention for a business to be run successfully. As mentioned above, this aspect will be done on greater details in later in Section 4. These functions include:

* General management – is the control centre of the business, planning, organising, leading and controlling all the other functions.
* Purchasing (Also known as Procurement) – is the buying in of all the goods and services needed to run the business.
* Production – is the manufacturing (making) of the products in a manufacturing concern. (Note that some businesses only deliver a service and do not manufacture any goods.)
* Marketing – is the process of getting the goods and services to the consumer. It includes many steps such as market research, storage and selling. (More detail in Section 4 Unit 3.1)
* Financing – is the function that does the budgeting and ensures that money is adequately controlled and wisely spent. (More detail in Section 4 Unit 3.3)
* Administration – is the paperwork and control behind all the other functions to ensure that everything is well documented.
* Public relations – is the protection of the *image* of the business and the way it interacts with all its stakeholders.
* Human resources – is the function controlling the labour: all the workers that need to be appointed, paid, trained and retained in order to do the work. (More detail in Section 4 Unit 3.2)
* Risk management – is the process of looking a threats and potential threats to the business, both internally and externally.
* Information Technology – is the process of using technology such as computers, the Internet etc. to run all aspects of the business more effectively.

**3.3.2 The Market Environment:**

The market environment lies immediately outside the micro environment, and interacts directly with it, meaning that includes stakeholders which are in direct contact with the business. It is made up of the following components:

* Consumers
* Suppliers
* Competitors
* Intermediaries
* Community based/non- governmental organisations
* The Government and other groups also form part of this such as Unions, Industry regulators etc. Any stakeholders that interact with the business will fall into the Market Environment.

**Figure X: Components of the Market Environment**

**Suppliers**

These are people or businesses who provide resources to enable a business to trade. Suppliers play an important part in ensuring that trade is not disrupted by making goods and services of the right quality and quantity available at the right time.

It is important for businesses to choose the right supplier, one that is reliable - especially in times of shortages. Large organisations relying on imports have buyers overseas who are constantly sourcing alternate sources of supply.

**Consumers:**

A consumer (customer) is one who buys goods and services for his personal use, that is, to satisfy his wants and needs. Consumers have certain behavioural patterns and the business, in its research, should identify them and cater for these specific patterns.

The challenge for a business is to have the correct goods at the correct time at the correct price to cater for the varying needs of the consumers. The consumer market is heavily influenced by competing brands and pricing and their wants keep changing as they learn about new products and services or have new needs, e.g. someone getting a car is now in the market for petrol and other car-related products and services.

**Competitors:**

A competitor refers to any other business that is engaged in the same or similar line of business; in other words they offer the same goods or services to the same customers. Because of our mixed market economy, free competition is allowed and encouraged. Competition is beneficial to consumers because they benefit in the end in terms of either better quality or lower prices. Competition keeps a business on its toes as it does not want to lose its customers, who are its source of income.

**Community organisations**

Community Based Organisations (CBO’s) as well as Non-Governmental Organisations (NGO’s) are established by the community to assist in rendering services to the public, when the government is not providing these. They are run mainly by volunteers and rely heavily on public support and the assistance of private sector businesses. They are active in areas such as health care, education, social services, and environmental awareness.

**Other Market Environment stakeholders**

As the market environment includes all stakeholders that interact with the business, there are many more examples such as:

* Trade unions which represent the rights of workers in a working environment.
* The government who regulates the business through laws as well as providing infrastructure and collecting rates and taxes from the.;
* Industry regulators: A number of regulatory bodies control the way business is conducted in the country.
* Consumer watchdogs like the Consumer Council, and Chambers of Commerce are mindful of the consumers plight;
* Consumer related TV Programmes warn consumers of exploitation and scams, for example Speak Out (TV 2), Carte Blanche (DSTV);
* Consumer columns in newspapers expose bad business practices;
* Websites such as [www.hellopeter.co.za](http://www.hellopeter.co.za) are used to name-and-shame businesses or give complements so this acts as an informal form of control.

**3.3.3 The Macro Environment**

The macro environment exists outside both the micro- and market environments and effects of all businesses. It is very vast and complex, but it is important to identify those elements from the macro environment that are most likely to have an impact on the business and their operations so that they can develop strategies to overcome them.

The components of the macro environment are: Pestle format

* Physical (natural)
* Economic
* Social
* Technological
* Legal
* Ethical
* Political
* International
* Institutional

Note that these can be remembered in the format of PESTLE – PII, and in analysing the macro environment, many companies will talk about a PESTLE analysis.

**Figure X: PESTLE-PII Analysis**

**PESTLE-PII Components in the Macro Environment**

**P - Physical**

This component consists of scarce natural resources and infrastructure which are used by the business to produce goods and services; irresponsible usage has brought about legislation to protect them, for example motor car exhaust systems had to be adapted to reduce fumes. Scarce resources also need to be protected, such as minerals (e.g. gold, platinum).

Waste discharge leads to air and water pollution and has also led to legislation such as for the control of the release of sewage into rivers and oceans, and the fumes from smoke-stacks in factories and production plants.

The protection of the physical environment has resulted in the creation of the *‘green economy’*- an intentional effort to protect our natural heritage and ensure the sustainability of resources for future generations.

**E - Economic**

This component includes economic forces such as interest rates, exchange rates and the general performance of the economy – all the things you have already learnt about in Unit 1. For example, high interest rates have the following effect:

* Consumers borrow less and therefore spend less which affects businesses negatively.
* Businesses borrow less and that limits growth and expansion possibilities, which means they cannot create more job opportunities.
* Exchange rates will either affect imports (make them more expensive) or make exports cheaper for foreign buyers, or vice versa.
* Poor economic performance, high inflation and unemployment make South Africa less attractive as an investment destination and may lead to a downgrade from the international ratings agencies.

**S - Social**

The social aspect deals with the society within which the business operates and includes *cultural* [aspects relating to the ideas, customs and social behaviour of a specific group of people] and *demographic* [relating to the structure of the population in terms of age, gender, race etc.] factors. Factors like unemployment, crime, education levels, social trends and new developments all have an impact on the success or failure of businesses. For example, catering for the younger generation as opposed to the older generation, (they have different likes and dislikes). All these factors have serious implications in being able to satisfy varying and changing needs and wants.

Differences in cultural preferences also need to be taken into account. Knowledge of such customary practices is a must in order to be successful. For example, certain religions prohibit the eating of meat or meat products or the consumption of alcohol.

Unemployment is another factor that brings with it other social evils like crime and exposure to, as well as lack of treatment to diseases such as TB and HIV Aids.

**T - Technological**

The technology component is both a huge opportunity and an immense threat to business. Note that all machinery and automation form part of technology, not only computers and the internet. With the advance in technology the face of business is constantly changing in terms of:

* *The way business operates –* new production methods, *mechanisation* [the increased use of machinery] with a reduction of labour; products and production methods becoming outdated making it compulsory for businesses to change to newer and more efficient methods of production (e.g. LP records being replaced by CD’s, DVD’s and current downloadable formats).
* *The way information is recorded* *and used for business purposes*; computers allow vast amounts of data to be stored and recalled almost instantly; documents can be electronic and not paper based, but old methods are often used with the new, e.g. paper invoices or printed billboard advertising.
* *Banking practices* - these have become more streamlined and convenient; with the introduction of internet banking and things like Snapscan and Touchbanking much of the laborious payment methods are being replaced.

**Activity 1.15 The impact of technology on business and individuals**

**Suggested time**: 1 Hour

**Aim:**

This activity will require you to think about how the businesses you interact with have adapted to technology, as well as reflecting on how much or little you have accepted and embraced technology.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers.

**What you will do:**

1. Draw the following table in your notebook and complete it by giving examples of how each of these business aspects has changed due to technology. Some examples have been done for you:

**Businesses you deal with:**

|  |  |  |
| --- | --- | --- |
| **Aspect** | **Old formats** | **New Technological formats** |
| Advertising  Invoices and Statements  Payment methods  Telephones  Stock Control | Printed brochures, posters, billboards etc.  Cash, cheques etc.  Manual Exchanges | Email, cell phone and Social Media adverts, electronic billboards etc. |

1. Draw the following table in your notebook and complete it by giving examples of how your use of technology has changed. Some examples have been done for you:

**Technology in your personal life:**

|  |  |  |
| --- | --- | --- |
| **Aspect** | **Old formats** | **New Technological formats** |
| Transport  Telephones  Communication  Accessing news  Music  Entertainment  Socialising with friends | Walking, bus, train, cars, taxis.  Letter writing  Newspapers, radio etc. | Uber and other options that can be booked on APPS. |

**Guided Reflection:**

This activity will have made the benefits of technology very clear and highlight how much has changed. Sometimes we adapt to new technologies and forget how different things are. Think about your childhood and the children of today – the world is very different for them.

You could, as a challenge, think of possible disadvantages of doing it this way, to give a balanced view. Technology is not only positive – think of the fact that too much screen time affects the development of children’s eyes or the negative things on the internet that we are now exposed to.

**L - Legal**

Businesses need to operate in a protected environment with the government passing laws to allow this to happen. This ensures fair competition, giving all an equal opportunity to prove themselves but also protects consumers against danger (e.g. safety glass used in vehicles) and unfair treatment. Some of the areas where this occurs are laws to protect the natural environment and consumers as well as to protect against unfair labour practice. Some laws are set in place to promote job creation or skills development.

**Activity 1.14: Laws for Protection.**

**Suggested time**: 30 minutes

**Aim:**

This activity will familiarise you with some of the laws passed to protect businesses from various threats.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* A library or an electronic device for research.

**What you will do:**

Draw a table as shown below in your notebook. Giveone example of the relevant laws below. The first one is done for you as an example:

* Laws to protect the natural environment
* Laws to protect against unfair labour practice
* Laws to protect consumers
* Laws to promote job creation
* Laws to promote skills development

|  |  |
| --- | --- |
| Law to promote skills development | Skills Development Act No 97 of 1998 |
| Laws ...... |  |
|  |  |
|  |  |

**Guided Reflection:**

What do you think life would be like without laws to protect us? Do you think we need to be protected from businesses as workers and consumers?

Are there any specific laws that you have personal experience of? If you are employed in the formal sector you will have encountered the BCEA – Basic Conditions of Employment Act, for example. If there are any others, add them to your list in the table above and state what benefit you got from that specific law.

**E - Ethical**

**P - Political**

The political situation within a country has an impact on business operations, and how they are able to function. Good political stability and support from government enables businesses to thrive and grow. But when there is political instability or public enterprise issues such as the misappropriation of funds which results in no service delivery or lack of upkeep on infrastructure, it can lead to social unrest and disruptions to business operations. This in turn affects the way foreigners view trade with a country, or the potential to invest. For example, the discriminatory laws of South Africa in the past (known as Apartheid) were totally unacceptable to the trading partners who applied *sanctions* [trade and other restrictions instituted against a country for political reasons]**;** this crippled the economy but brought about the change to a democratic government we have today. With the current political volatility, foreign investors are also often wary of investing in this country.

The more the economy shows stability, the more appealing it becomes to foreign investors to encourage them to invest here, presenting more business and employment opportunities to South Africans.

**I - International**

The International, or Global component includes other countries, with their own politics, laws, cultures and economies. Differences in language, cultures and currencies makes international trade very complicated.

Currency differences require an exchange rate to be established. Variations in the exchange rate have an effect on both imports and exports. Cheap imports may be beneficial to consumers as it results in lower prices, but it threatens local manufacturers and has serious negative consequences for labour. For example, cheap clothing imports from the Far East in the past have led to the closure of many clothing manufacturing industries in South Africa resulting in significant job losses.

**I - Institutional**

This refers to the various institutions of government and the influence they have on the economic operations. It is important because the government plays many roles:

*~~Entrepreneur –~~* ~~the government itself can take up certain production pursuits, where private enterprise shows no interest???; this is mainly in the production of “undervalued” goods like education, water and sanitation, parks and gardens etc. Other goods that require large capital investment which private individuals cannot afford, are also taken over by the government, for example the supply of power.~~

*Producer -* the government itself can take up certain production pursuits, especially in the process of providing the basic infrastructure for the country. This includes the production of goods and services such as education, water, sanitation, policing etc. which affect the basic rights of its citizens. Other industries that require large capital investment are also initially taken over by the government, for example the supply of power. This role is, however, changing with increased technology, economic growth and international collaboration opportunities, where the private sector is increasingly providing alternate solutions such as, for example, solar energy and private schooling.

*Consumer –* it buys large quantities of products for the services it provides, for example books, schools and teachers’ salaries for education. These have to be paid for and sourced from private suppliers. When the government changes its priorities in spending on these services, it has consequences for the suppliers of these items.

*Facilitator –* the government assists business by providing assistance in the form of subsidies to improve competitiveness; financial assistance through the Industrial Development Corporation (IDC), and several other growth plans all of which are aimed at stimulating the economy to grow and create employment. Furthermore it needs to regulate business to ensure fairness, by passing legislation to ensure fairness and justice.

**3.3.4 Inter-relationship between the micro-, market- and macro environments.**

While the environments are clearly identified and demarcated, it is important to note that they do not function in isolation. Every aspect of the business is influenced by other factors, for example:

**Figure X: Interaction between purchasing, sales and consumers**

Activity XX: Inter-relationship between environments

**Suggested time:**

45 minutes

**Aim:**

This activity will help you to see the interactions between different aspects of the business which function together across different environments.

**What you need:**

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers
* The diagram above to analyse

**What you will do:**

1. Using the diagram above (Figure ……) answer the following questions in your notebook:
   1. Which environment do each of the three cogs (customers, sales, purchasing) belong to?
   2. One of the environments is not represented on this diagram. If you could add another cog to the diagram to represent this third environment, what would it be? Explain your answer.
2. Copy the following table into your note book and complete it to show the links between different elements in the various environments. Note that there could be more than one correct answer. An example has been done for you.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Micro Environment** | **Market Environment** | **Macro Environment** |
| Paying of municipal rates and taxes  New fashion trend  Employing new workers  Strike at work  Community programme (CSR)  Marketing policy | Financial Department  Purchasing Department | Local Municipality  Overseas supplier | Government/  Institutional  International |

**Guided Reflection**

During this activity you should have noticed that for everything that happens in the micro environment, there are elements of the market- and macro environments that are affected. It is therefore safe to say that the environments are closely interrelated.

**Stop and Think**

Consider the way in which you interact with these environments. By making the decision to purchase a specific product, for example a piece of clothing, you are influencing the business’s sales department (micro), who in turn have to get it from the supplier (market) and your choice will be strongly influenced by the social (macro) society in which you live.

**3.3.5 Control over these environments**

Each of the environments will now be examined to determine to what extent they can be controlled and where the decision-making takes place.

**Macro Environment**:

In this environment the business has no control at all – they can only have policies and strategies for possible issues they need to address, for example:

* Physical environment: The business must develop an evacuation plan in the case of a fire.
* Technological environment – here, innovation is the key. The business must constantly look for ways to make production processes easier, cheaper and more efficient in order to stay competitive. (Sometimes this works against businesses, however, that have invested heavily in machinery that may become outdated or processes that may become redundant.)

In the same way, each of the other environments need to be analysed and possible threats addressed with strategic management by the business.

**Activity 1.16 Strategies to address macro environmental threats**

**Suggested time**: 1 hour.

**Aim**

To distinguish between the degree of control over some of the macro environmental factors.

**What you will need**

* Economics, Business and Finance Work book
* Pen and paper and a notebook to write your answers.

**What you will do:**

On the graffiti wall below are some examples of policies and strategies that the business can use to address threats from the macro environment. In your notebook, link each one to at least ONE of the macro environmental factors (the diagram is repeated to remind you what they are) and justify why you have made that link.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Research on overseas trends | | Canteen for workers | | Code of Conduct | |
| Training for all workers | | | Cost-saving measures on the production line | | |
| Policy of non-discrimination in workplace | Employment contracts | | Recycling policy | | Commitment to paying company tax |
| Fair internet use policy | | | Long term budgeting strategy | | |

**Guided Reflection:**

When you were trying to match the policies and strategies to the PESTLE – PII environments, you may have found that there are more than one that matches up: That is perfectly acceptable! For example, the training of workers is a legal requirement, it helps with social issues, it is ethical and could be done via computer and/or the internet which makes it technological as well. If you can link more than one factor with a good argument, it means that you truly understand this section.

**Market environment:**

In this environment, the business *may be able to influence* other stakeholders, but they cannot control them. For example:

Consumers – the consumer market you serve can change at any time, for example, clothing fashions change and some consumers will set the trend by being the first to purchase whatever is new. Others will follow. The business has no control over the choices consumers make, but they can try to influence them through advertising or specials. The current trend in organic foods is another example.

Intermediaries are those who provide the services of marketing such as the storage and transportation of goods on behalf of manufacturers, but they cannot be controlled. Agreements can be made by the business with intermediaries who will offer some guarantee of their services.

Unions and other organisations: unions have the interests of the workers (their members) at heart and will go out of their way to see that their members demands are met. This may be to the detriment of business, for example, if a strike is called. Community organisations like consumer watchdogs have the interests of the consumer at heart and may work against businesses. The business will interact and negotiate with these stakeholders but can at best influence them.

**Micro environment**

It is very important to note that all the business decisions are made IN the micro environment. Management in the business will decide what the vision, mission, strategy etc. is, and they will determine the culture, growth and development of each of the business functions. For example:

* Sales – the business must decide what their policies will be, for example, whether they will sell on credit or not. If they do they must be aware of the possibility of bad debts.
* Production – the business must decide whether to use mass production, batch production or production to order - this will depend on the product they are offering.
* Human resources – although the business decides whom to hire or not, the wages (remuneration) they are offering as well as the working conditions are largely determined by legislation which the business has to adhere to.

Note that in all three environments, the business has to make decisions and develop strategies. In other words, the decision making is done by management in the micro environment. Go back to the start of Section 3.3.5 and, using a highlighter or coloured pen, highlight the words ‘the business’ in each paragraph. It will give you a clearer insight in how important it is to understand the interactions and levels of control of the three environments.

**SUMMARY OF LEARNING UNIT THREE**

This unit concentrated on business environments. It attempted to show you that while we are concentrating on the business itself, this cannot be done in isolation. The business performs in an environment over which it exerts some control, but is also controlled to a large extent.

Some distinctions are made between the following:

Public and private sector

Formal and informal sector – besides the characteristics of these sectors we did spend some time looking at the importance of this sector; this is especially true of South Africa, where more than 25% of the population is without work. The informal sector makes up a significant part of the economy and has its importance.

Terms - privatisation and nationalisation – These concepts were discussed in some detail. There are obviously benefits of both. We looked at the situation in South Africa and tried to find out whether there is the correct mix that we have at the moment and more specifically whether the performance is what it should be. As a learner, you must be able to make an observation of the performance of each one and make suggestions whether some privatised institutions should be nationalised or the other way around.

The State was next discussed as it provides some very useful services. Each one of these functions was examined as it is one of the influences for business. The question of regulation came up once again. You would have realised that the market economy has its own requirements with respect to regulation of business activity.

Thereafter we looked at business environments – micro, macro and market. Each one of the components was examined. In the micro a discussion of the components was postponed to later where they will be discussed in more detail.

The components of the market and macro environments took some discussion.

Thereafter the discussion focussed on the interrelationship between these environments. You will have realised that, although they are studied separately, the one has influence on the other.

The unit concluded with a discussion of the control that businesses have over these environments. We concluded that the business has most influence over the micro environment, less over the market environment and little over the macro environment.

**SUMMARY ASSESSMENT**

**Unit : Three - Economic Environments**

**Purpose:**

This activity will consolidate the work covered in this unit and serve as revision.

**What you will need:**

Pen and paper to answer the questions.

Your EBF guide.

**What you will do:**

Answer the following questions:

Question 1:

a. Distinguish between public and private enterprises. 6

b. Give five examples of different types of private enterprises you are familiar with and their line of business 10

Question 2:

Give three examples of informal businesses in your neighbourhood and how they benefit the community.

9

Question 3:

Describe FOUR characteristics as well as disadvantages of informal trading ?

With respect to informal trading:

1. Describe FOUR characteristics
2. Describe FOUR disadvantages 16

Question 4:

Explain five functions of the state, giving examples.

15

Question 5

Give a brief description of any FIVE components of the micro environment. 20

Question 6

Give a description of any THREE components of the market environment. Describe the ability of the business to control this environment. 15 .

**Guided Reflection:**

This section will help you realise that businesses cannot operate on their own; they work within different environments which have differing degrees of control over them. it becomes challenging for business to develop strategic plans to overcome such challenges.

One of the main focusses was the state and the functions it performs especially in promoting business. It brought into question the issue of govern

Further you learnt about different types of businesses some formal and other informal.

Each one has a role to play in the economy .

This section illustrates that there are very difficult decisions to be taken both at country level, business level as well as individual level.

**Activity 1.9 Public and Private Sector Services**

**Suggested time:** 1 hour

**Aim:**

This activity will give you an opportunity to classify products and services provided by the government and those rendered by the private sector. It will strengthen the concept of “mixed economy”.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Local newspapers, magazines and/or an electronic device for research
* The wordsearch given below

**What you will do:**

In the Wordsearch below, search for clues to assist you with the activity questions.

NOTE: Words may go down or across but mark them with a pencil or highlighter as you find them. Note that you can use any word as a clue, for example, ‘soap’ is a product produced by the private sector, and ‘water’ a commodity supplied by die public sector. In some cases, you can use one answer for both purposes: The public sector supplies some ‘parks’ and the private sector others. You may also use examples not on the wordsearch. Think broadly.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **P** | **A** | **R** | **K** | **S** | **H** | **O** | **P** | **S** | **O** | **N** | **S** |
| **O** | **J** | **C** | **H** | **E** | **M** | **I** | **S** | **T** | **S** | **A** | **C** |
| **L** | **O** | **A** | **F** | **W** | **A** | **T** | **E** | **R** | **H** | **I** | **H** |
| **I** | **T** | **S** | **B** | **A** | **K** | **E** | **R** | **I** | **E** | **S** | **O** |
| **C** | **S** | **H** | **O** | **G** | **E** | **N** | **V** | **P** | **B** | **P** | **O** |
| **E** | **P** | **O** | **W** | **E** | **R** | **L** | **I** | **T** | **E** | **A** | **L** |
| **T** | **H** | **E** | **S** | **O** | **A** | **P** | **C** | **H** | **E** | **Z** | **S** |
| **H** | **O** | **S** | **T** | **O** | **K** | **V** | **E** | **L** | **N** | **A** | **N** |
| **O** | **N** | **I** | **X** | **K** | **E** | **O** | **C** | **A** | **R** | **S** | **T** |
| **T** | **E** | **L** | **E** | **C** | **T** | **R** | **I** | **C** | **I** | **T** | **Y** |

1. Give three examples of services performed by the government and give a reason for your answer.

2. List five examples of private sector businesses and the product/service they are engaged in. Why do you consider them to be private?

3. Which public enterprises do you consider to be the most important? Justify your answers.

4. Name at least two other PPP’s that were not discussed in the theory.

**Guided Reflection:**

This activity makes you aware that some services are provided by the government while others are provided by the private sector. When you are complete, take a look at the different between these services.

Which of the services you listed are ones that you use yourself?

**UNIT 4 THE SOUTH AFRICAN ECONOMY**

**Introduction:**

A country’s economy changes as it develops. In its initial stages, it usually revolves around primary industries (extracting natural resources such as farming). As an economy develops and expand, the emphasis changes to secondary activities which consists of industries processing the primary products, and with industrialisation and now globalisation, the situation changes even further to tertiary or service industries, which complement the work of both the primary and secondary industries. These topics will be the basis of this unit, as by understanding them, you will gain better insight into the economy as a whole.

**Learning Outcomes**

After completing this section you should be able to:

4.1.1 Distinguish between the Primary Secondary and Tertiary Industries

4.1.2 Provide appropriate examples of each sector

4.1.3 Research the contributions made by each sector

4.1.4 Analyse South Africa’s Infrastructure using statistical economic data

|  |
| --- |
| 4.1.4 Analyse South Africa’s Infrastructure using Statistical Economic Data |

**4.1.1 Sectors of the Economy**

**(NOTE: 4.1.2 Examples of each Sector have been included here).**

**A. Primary Sector**

Primary industries are those industries involved in the extraction, exploitation and cultivation of nature’s gifts, also known as natural resources. Examples of such industries include:

*Farming -* which includes Agriculture, the cultivation (growing and harvesting) of crops, and Animal Husbandry which is farming with livestock.

*Mining and quarrying –* mining is when minerals are extracted from the earth like gold, coal, copper and quarrying is the open-cast mining of stone and sand, mainly for construction purposes e.g. slate and rock.

*Forestry* – this is the cultivation of forests for wood.

*Fishing* – the catching of fish for commercial purposes.

Primary industries provide the raw materials for the secondary industry which processes it further, for example:

* Fish can supply the canning and fish meal industry
* Forestry can supply wood for furniture
* Mining can supply material for the manufacture of steel

It is the sole original source of food for the population, and as such needs to be strategically managed. All of our other needs and wants can also be traced back to its primary source.

Some of the primary industries can replace what they take from nature (e.g. farming land can be fertilised) while others cannot do this, such as mining - once the minerals have been mined it ceases to exist. This has enormous implications for the environment and choosing to use replenishable resources (where possible) is an important part of modern business management decision making.

**B. Secondary Sector**

These are industries that process the raw material obtained from the primary industries to make them more suitable for human consumption. They are used in the production of *consume*r goods (goods that satisfy needs and wants directly) like food, as well as *capital* goods (goods used to manufacture other goods) like machinery.

The secondary sector is broken down further into:

*Manufacturing Industries:* These are all the industries involved in making goods available for human use; they process the raw materials from the primary industry as described above. Car manufacturing and food processing industries are important role players in the South African Economy.

All processing industries e.g. food and textiles like

* processing wheat into flour then into bread
* processing cotton into cloth and then into clothing
* processing gold into jewellery

*Electricity, gas and water supply.*

* Electricity: The leading provider of electricity in South Africa is ESKOM. It provides both the household and the business sector with power. Eskom uses coal to generate power, but other sources are also used for example:
* Hydroelectricity – power from water
* Nuclear power – (Koeberg)
* Wind and Solar Power
* Gas: roop query? Intention here?
* Water:

*Construction-* this includes the building of houses, dams, bridges, roads both for the public and private sectors. Large projects like this are often put out to tender and allocated to contractors who will co-ordinate the entire planning and building of the structure or structures.

**C. Tertiary Sector**

These industries are service related and are vital in every part of the economy from the distribution of goods from the primary to the secondary sectors, and then on to the wholesalers and retailers. This distribution process includes aspects such as transport, insurance, financing and all the other elements needed to get the product from its original producer to the consumer in the form and shape they demand.

Wholesalers and retailers are part of the tertiary sector as they get the product to the end user (consumer). Other aspects of this service sector include:

* Banking – finance for the entire process
* Storage – both raw material as well as finished goods
* Personal services (doctors, hairdressers, tailors etc)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Activity 1.17 : Economic Sector Classification**  **Suggested Time :**  **Aim: This activity will enable you to use your knowledge of existing businesses and be able to classify them according to the economic sector they fall under.**  **What you will need:**   * Economics, Business and Finance Workbook * Pen and paper and a notebook to write your answers   The wordsearch given below  **What you will do:**   1. Draw the Primary, Secondary and Tertiary Sector table as shown below in your notebook with at least 12 lines under each one to write in. 2. From the grid, find key words and examples from each of the different sectors and fit them into the correct categories on your table.   NOTE: Words may go down or across but mark them with a pencil or highlighter as you find them. Note that you can use any word as a clue, *‘sport’* is found inside the word transport, but you can look at the secondary sector producing sports equipment. Think broadly.   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **F** | **A** | **R** | **M** | **I** | **N** | **G** | **O** | **L** | **D** | | **I** | **N** | **K** | **R** | **T** | **A** | **F** | **O** | **O** | **D** | | **S** | **D** | **S** | **E** | **R** | **V** | **I** | **C** | **E** | **S** | | **H** | **A** | **M** | **M** | **A** | **I** | **Z** | **E** | **C** | **B** | | **T** | **A** | **B** | **A** | **N** | **K** | **R** | **S** | **L** | **I** | | **R** | **O** | **C** | **K** | **S** | **S** | **W** | **O** | **O** | **D** | | **A** | **C** | **A** | **E** | **P** | **I** | **L** | **L** | **T** | **O** | | **P** | **E** | **T** | **R** | **O** | **L** | **E** | **A** | **H** | **G** | | **S** | **A** | **N** | **D** | **R** | **O** | **A** | **R** | **E** | **A** | | **E** | **N** | **D** | **O** | **T** | **R** | **A** | **I** | **N** | **S** |   **Primary, Secondary and Tertiary Sector table:**   |  |  |  | | --- | --- | --- | | **Primary Sector** | **Secondary Sector** | **Tertiary Sector** | |  |  |  | |  |  |  | |  |  |  |   **Guided Reflection**  As you find and classify each item, think about the role that it plays in the economy. Also consider how important it is in your life – it may be directly, such as the fact that you catch a train to work, or indirectly, such as the fact that trains deliver goods that you are buying. As end-users it is important for us to understand where the products we use come from – the farmer than grows the maize, the manufacturer that makes the maize meal as well as the transporters and shop owners that bring them to us. |

**4.1.3 Contributions by each sector**

You have already leant that the South African economy has undergone many changes to become what it is today. A brief look at these stages is summarised here:

* At the beginning, the South African economy relied on agriculture and mining as its main industries. They made up almost two thirds to the economy.
* Secondary industries began growing in importance after 1950.
* Tertiary industries grew in importance from the 1960’s onward, and today are still growing at an extremely fast rate.

*Note:* Read the following and then look at the summary table at the end of this section to see a comparison between a selection of different years.

1. **Contribution by Primary Industry:**

South Africa is unlikely to become a strong agricultural country because of the poor rainfall and the quality of soil. As a result it still has to import agricultural products from other countries. According to South African Market Insights agriculture was contributing about 2.5% to the economy in 2018. (Accessed from: [https://www.southafricanmi.com/south-africas-gdp.html (19](https://www.southafricanmi.com/south-africas-gdp.html%20(19) January 2019).

South Africa has done much better in mining. Mining contributes around 7% to the economy, as we are a country rich in minerals ranging from coal to platinum and gold. We are one of the top five countries as far as mineral reserves go.

Primary industries bring in foreign exchange when exports take place. Fruit, sugar, nuts and grain are some of our main exports. One of our key advantages is being in the Southern Hemisphere with opposite seasons to Europe – so we can supply many products that they demand when it is out of season, such as oranges during their summer and fresh flowers during their winters.

1. **Contribution by Secondary Industries:**

They contributed 21% to the national economy in 2015. Of this, the largest contributor was manufacturing industries. (13%).

South Africa can play an important part in the development of the rest of Africa, as we have built up a lot of expertise in developing this sector to ensure that we are moving towards a more developed economy.

1. **Contribution by Tertiary Industry:**

In 2015, the services sector contributed 69% to the National Economy. It is an important contributor as it creates 60% of the employment.

**Changes**

The contributions made by the various sectors are changing and these changes can be short term or long term. What is important is whether the changes in the economy manages to raise the economic welfare of the population. In other words you must ask: “How much of the populations’ needs are satisfied?”. This is measured by the range of goods and services produced to satisfy these needs. This is referred to as the Gross Domestic Product (GDP) [is the total value of goods and services produced within the borders of the country during a certain period e.g. one year.].

The **Quarterly bulletin of the South African Reserve Bank** keeps track of this.

https://www.resbank.co.za/Publications/QuarterlyBulletins/.../Quarterly-Bulletin.aspx

Look at the following:

The following table, indicating the contributions (%) of various sectors of the economy, was taken from the SA RB Bulletin. It identifies the contribution to the economy of various sectors, during various selected years. You will be able to see changes taking place over the years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **NOTE: Figures indicate % Contribution** | **1910**  **(data incomplete)** | **1992**  **(data incomplete)** | **2015** | **2018** |
| **Primary** | **48** | **14** | **10** | **9** |
| Agriculture | 20 | 4 | 2 | 2 |
| Mining | 28 | 10 | 8 | 7 |
| **Secondary** | **4** | **33** | **21** | **22** |
| Manufacturing |  |  | 13 | 14 |
| Electricity /Gas | 4 | 33 | 4 | 4 |
| Construction |  |  | 4 | 4 |
| **Tertiary** | **46** | **44** | **69** | **69** |
| Wholesale Retail | 12 | 14 | 15 | 15 |
| Transport | 9 | 9 | 10 | 10 |
| Finance/insurance |  |  | 20 | 20 |
| Personal Services |  | 2 | 2 | 6 |
| Govt. Services | 25 | 19 | 22 | 18 |
|  |  |  |  |  |

*Note: Figures are rounded off to the nearest whole number.*

Source: https://www.resbank.co.za/Publications/QuarterlyBulletins/.../Quarterly-Bulletin.aspx

Some of the observations you should have made from the statistics above are:

The growth in the fourth quarter of 2017 was due to expansion in economic activity in the secondary and tertiary sectors. By contrast, growth slowed notably in the primary sector, largely due to a contraction in mining.

The 2018 Budget Review proposed a number of measures to rebuild confidence. These included:

* Various tax increases, most notably the first increase in the value added tax (VAT) rate in 23 years,
* A marginal reduction in the government expenditure

Rising spending pressure came primarily from “free higher education” for students from poor households.

National government’s total loan debt is expected to continue rising gradually but should stabilise at around 56% of GDP.

**4.1.4 South African Infrastructure:**

Infrastructure refers to the system that provides services and facilities allowing an economy to function. It is the backbone of economic activity.

Examples of infrastructure include the provision of water, power (electricity) and the facilities for communication (e.g. landlines), transport (e.g. roads and rails and storage (e.g. government archives).

When you look at industrial areas, you find that they have most of the services tailored to their needs, such as heavy-duty roads and bulk electricity supply capacity, and specialise security which attracts businesses with these needs.

The National Growth Plan for 2030 focuses heavily of the improvement of Infrastructure which is so necessary for economic growth. The government is committed to improve the infrastructure and have put into action many plans and projects in the recent years, with a vision for 2030.

**Activity 1.~~18~~ 1.18 Spending on Infrastructure**

**Suggested Time :**  1hour

**Aim:**

Infrastructure allows the economy to function. In this activity you are first going to look at a supermarket of your choice and how various aspects of infrastructure can assist it to be more successful and profitable. You will then look at the New Growth Plan and comment on one of the initiative and how it would benefit business in South Africa.

**What you will need:**

* Economics, Business and Finance Workbook
* Pen and paper and a notebook to write your answers
* Newspapers or an electronic device to do research

**What you will do:**

1. Draw the following table in your notebook (allowing 6 lines, one for each photo) and answer the questions below the photos on it. Use the name of the supermarket you have chosen in the heading. The first one has been done as an example for you:

|  |  |  |
| --- | --- | --- |
| **Heading** | **Type of Infrastructure** | **How it assists …………………………………….Supermarket to be successful and profitable** |
| Picture A | Trains/railways | Delivery of products and transport for workers. |
| Picture B |  |  |

1. Using a supermarket that you buy groceries from as an example, identify what type of infrastructure is shown in each photo and explain how it contributes to the success of the supermarket.

|  |  |  |
| --- | --- | --- |
| **Picture A** | **Picture B** | **Picture C** |
|  | **C:\Users\yruss\AppData\Local\Microsoft\Windows\INetCache\Content.MSO\E4AD2197.tmp**  [**https://commons.wikimedia.org/wiki/File**](https://commons.wikimedia.org/wiki/File)**:**  **FREE\_Electric\_power\_lines\_and\_blue\_sky\_**  **creative\_commons\_attribution\_(9368799968).jpg** | **School** |

|  |  |  |
| --- | --- | --- |
| **Picture D** | **Picture E** | **Picture F** |
|  | **Water dams** |  |

1. The National Growth Plan (NDP) sets out the following broad aim:

*The NDP is founded on 6 pillars that represent the broad objectives of the plan to eliminate poverty and reduce inequality. The NDP aims to****achieve****the following objective by 2030: Uniting South Africans of all races and classes around a common programme to eliminate poverty and reduce inequality.*

<Source: https://nationalplanningcommission.wordpress.com/the-national-development-plan/[Accessed: 21 january 209]>

Questions:

3.1 After doing the above exercise, redefine what you understand by the word *infrastructure*?

3.2 Do research on the NDP and discuss ONE aspect that you think will help business in South Africa.

3.3 Do you think the implementation of the NDP is progressing successfully? Give reasons for your answer by using examples.

**Guided Reflection:**

After completing this activity, you should have better insight into the various aspects of infrastructure that affect individual businesses. You have also been able to research parts of the NDP and will hopefully realise the value of the efforts made by government to stimulate economic activity by spending large amounts of money on infrastructure.

**SUMMARY OF LEARNING UNIT FOUR**

This unit focussed on South Africa. This was an application of theory to the South African economy.

You were first introduced to concepts like

* Primary Sectors are those industries involved in the extraction, exploitation, and cultivation of natural resources.
* Secondary Sectors are those that process the raw material obtained from primary industries to make them more suitable for human consumption.
* Tertiary Sectors are involved in the distribution and other services to assist the flow of products and services through the economy.

After looking at examples of such industries here in the country, you went on to study the infrastructure and the details of spending by the government on infrastructure.

Thereafter you were exposed to data from national accounts and statistics to get an idea of how the economy was performing. Having identified the sectors in the accounts and making comparisons, you determined whether they were expanding or not. This was to give you an idea of how the South African economy was made up, and the changes taking place therein.

It is important to note that you cannot understand the economy unless you keep up with current affairs and updated information, as it is a volatile space with a lot of change happening. The purpose of exposing you to the specific articles in this Unit was for you to make an evaluation regarding the spending by government and the wisdom of such spending.

# SUMMARY ASSESSMENT

# Original Task:

**Unit : Four – The South African Economy**

**Purpose:**

To bring reality to discussions on government spending by consulting the national accounts and examining spending on infrastructure.

**What you will need:**

The extracts included hereunder and any other you are able to access.

**What you will do:**

Read the following extracts taken from the indicated sites and answer the question that follow:

Some of the efforts made by government to improve the infrastructure .

# Water

**April 2014**

Launch of the R12.5-billion **Mzimvubu Water Project** at Tsolo Junction near Mthatha in the Eastern Cape

One the key projects in the government's strategic infrastructure development programme, the Mzimvubu project will involve the construction of two dams, a hydropower plant, bulk water distribution infrastructure and infield irrigation developments

The **Ntabelanga Dam**, will be South Africa's 10th largest dam once completed to

help to meet the province's water requirements,

possibly supply the Nelson Mandela Bay Municipality and the Orange/Vaal River System in the longer term.

The second dam, the **Laleni Dam**, will be used for hydro power generation and operated jointly with the **Ntabelanga** Dam.

The project was expected to create about 6 700 jobs during the construction phase and 6 500 jobs during the operational phase.

The development will indeed accelerate the social and economic upliftment of the communities in this region, supplying water to over 720 000 households

Source:  <http://www.southafrica.info/business/economy/infrastructure/water-140414.htm#.WB9r-i197Z4#ixzz4PFhXDM5Q>

***June 2014***

The Lesotho Highlands Development

The massive joint project between South Africa and land-locked Lesotho will generate hydro-electric power for Lesotho while increasing the volume of water transferred to South Africa.

The first phase of the project - comprising a series of dams, hydropower stations and tunnels between South Africa and mountainous, landlocked Lesotho - was funded by the World Bank and completed in 2004.

The second phase will involve building the **Polihali Dam**

A new tunnel will also be built from from **Polihali** Dam to **Katse Dam**, along with new hydropower features and other advanced infrastructure.  
  
Source:  <http://www.southafrica.info/business/economy/infrastructure/lesotho-240614.htm#.WB9rvS197Z4#ixzz4PFfcu1et>

**Transport – Roads, Rail and Air**

***July 2014***

Gibela Transport has begun manufacturing the 600 state-of-the-art passenger trains, comprising 3 600 coaches, that are set to revitalise South African rail transport while giving a major boost to the industrialisation of the economy.

Source :  <http://www.southafrica.info/business/economy/infrastructure/rail-030714.htm#ixzz4PFfOF8zX>

***January 2015***

The N3 Toll Concession is investing more than R1-billion to expand the N3 toll route over 3years, the company has said.

The N3, between South Africa's inland provinces and Durban, is one the country's most strategic freight and logistics corridors. N3TC manages a portion of the road, between the Cedara interchange near Hilton, in KwaZulu-Natal, and the Heidelberg South interchange in Gauteng.

Work on the rehabilitation project between Mooi River and Estcourt began in 2013 and will be completed towards the end of 2015.

In addition, a 60km section between Harrismith and Warden will be reconstructed The existing road surface in both directions will be reconstructed and will receive a new asphalt overlay.  
  
Source:  <http://www.southafrica.info/business/economy/infrastructure/n3-upgrade-13115.htm#.WB9gaC197Z4#ixzz4PFTUKPDd>

***January 2015***

A new batch of diesel locomotives was unloaded off the ship at the Cape Town harbour on 14 January.They would go a long way in reducing travel time, providing comfort and reliability, and improving efficiency.

One of the key things the government is focusing on, between 2014 and 2019, is to improve public transport, in particular our drive to move people from road to rail. This will deal with the carnage on the roads, reducing the number of people who actually die."  
  
Source :  <http://www.southafrica.info/business/economy/infrastructure/new-trains-16115.htm#.WB9gIS197Z4#ixzz4PFTBWkh2>

***May 2015***

Cape Town International Airport is set for an overhaul with the upgrading of its domestic and international terminals planned for the airport, forming the bulk of Airports Company South Africa’s R7.7bn expansion plans.

The expansion is set to be completed over the next three years.

Source: <http://www.southafrica.info/business/economy/infrastructure/acsa-110515.htm#.WB9dvy197Z4#ixzz4PFR3eJ21>

**Energy**

*March 2015*

The government is making progress on its nuclear new build programme and is in discussions with various countries to expand the programme.

The government has entered into several negotiations with vendor countries and has signed inter-governmental framework agreements (IGFAs) with Russia, France and China. An IGFA is a requirement for countries to participate in nuclear vendor parade workshops.

The nuclear new build programme is part of a sustainable energy mix that South Africa is pursuing to ensure energy security. The government aims to add 9 600 megawatts of nuclear energy to the national electricity grid.

Source: : <http://www.southafrica.info/business/economy/infrastructure/nuclear-build-240315.htm#.WB9faC197Z4#ixzz4PFSV7RMw>

***April 2015***

Eskom's Sere Wind Farm near Vredendal in the Western Cape has achieved its full commercial operational capacity of 100 megawatts (MW).

Sere is Eskom's first large-scale renewable energy project and forms part of our commitment to renewable energy and reducing our carbon footprint.

"The Sere plant adds 100MW to the national power grid and will contribute to saving nearly six million tons of greenhouse gas emissions over its 20 years expected operating life, enough to supply about 124 000 standard homes.

All wind turbines had been erected and energised, and the construction of the Skaapvlei substation had been completed.

Source: <http://www.southafrica.info/business/economy/infrastructure/sere-210415.htm#.WB9eai197Z4#ixzz4PFRS2zSc>

**April 2015**

Kathu solar thermal plant, the latest solar plant to be constructed in sunny Northern Cape

Kathu is a 100MW plant will begin operations in 2018 and will be able to supply electricity to 80 000 homes. The building consortium will also use local suppliers, as the project is fully committed to contributing to the local community.  
  
Source: <http://www.southafrica.info/business/economy/infrastructure/kathu-builders-100415.htm#.WB9eyi197Z4#ixzz4PFS2vwya>  
  
***August 2014***

The National Development Plan (NDP) report states that rail provides the lowest-cost service and is safer than cars. Statistics South Africa's National Household Transport Survey for 2013 showed that the percentage of car ownership in South Africa rose from 23% in 2003 to 33% in 2013.

The government will invest billions of Rands in South Africa's transport infrastructure over the next three years in a bid to reduce road deaths and traffic congestion in the country.

R51-billion would be spent on commuter rail infrastructure and new rolling stock ,while a further R14-billion will be channelled towards bus subsidies in order to encourage a shift from private cars to public transport.

A total of 20 billion will be spent to upgrade the country's ageing road infrastructure in order to ensure quality and safer roads.

Source: <http://www.southafrica.info/business/economy/infrastructure/transport-120814.htm#.WB9mNi197Z4#ixzz4PFZgzygF>

***December 2014***

A five-point plan will address South Africa's electricity challenges following Cabinet concerns about the disruptive effects of the recent power outages on the daily lives of citizens and their impact on households and businesses.

"The lack of sufficient capacity to meet the country's energy needs remains a challenge and all attempts are being made to ensure that we overcome the tight energy situation,"

Five-point plan

The plan covers:

* Harnessing *cogeneration* opportunities through the extension of existing contracts with the private sector;
* Accelerating the programme for substitution of *diesel* with *gas* to fire up the diesel power plants;
* Launching a coal-independent power producer programme; and,
* Managing demand through specific interventions within residential dwellings, public and commercial buildings and municipalities through *energy efficient technologies*.

To meet the country's future energy requirements, the government is implementing an energy mix comprising coal, solar, wind, hydro, gas and nuclear energy. In future biomass, wind power, solar power and hydro power

Questions:

1. From the above extracts, list the main developments in respect of:

Water

Transport

Energy

2. These reports are a few years old. Do some research and add any new information of the implementation/ continuation of the actions mentioned in the extract.

3. From your reading of these developments, do you believe the government is doing all it can to improve the infrastructure? Motivate your answer.

Guided Reflection:

This activity will assist you in appreciating the huge efforts and money that is spent in improving the country’s infrastructure.

You will now realise that, in spite of these achievements, there still remains huge backlogs in service delivery.

**Suggested changes but see note…………**

# SUMMARY ASSESSMENT

**Unit 4**

**Purpose :**

This activity will highlight the government’s spending on infrastructure. From all the projects that are funded, the following have been selected for discussion:

* Water
* Transport
* Energy

The funding has been summarised in the form of case studies below.

**Introduction**

The Government provides infrastructure and administers the budget of the country, but, as you learnt in Unit 1, the problem of scarcity means that choices have to be made regarding how money is spent as it is a limited resource. With so many aspects of infrastructure to consider, it is not possible to complete all the proposed plans in the given time periods.

**What you will do:**

Below you will find a selection of articles on various aspects of infrastructure. NOTE the dates of each article, as they indicate either the planning or the progress of each project. Now choose ONE aspect to concentrate on, and do the following:

Research the progress that has been made to date on that project.

Write an essay on the government’s efforts to improve the economic situation in the country by drawing up, amongst others, the New Growth Plan. Structure your essay as follows, and follow the rubric for guidelines during your research and writing:

Your essay should include the following:

**Introduction**

What do you understand by the New Growth Plan? What are the aims of the New Growth Plan?

How does the plan relate to infrastructure?

**Body**

Give a brief introduction to the ***aspect of infrastructure*** that you have chosen (for example, energy or rail transport).

Identify and describe ***the specific project*** that you have chosen (e.g. Eskom's Sere Wind Farm or the N3 Toll Concession) by comparing the planning or progress in these articles to the current position you have researched.

Give your views on that project’s contribution to the New Growth Plan, and how the economy as a whole has benefitted (in the case of successful implementation) or been deprived of this service (in the case of non-execution or failure).

**Conclusion**

What suggestions would you give the Minister of that specific portfolio (e.g. Minister of Energy……) to move forward in the future? (Hint: Consider aspects such as level of completion of the project, new initiatives, alternatives – e.g. more sustainable use of resources – learning from mistakes and the current political and economic climates etc.)

**Assessment:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Rubric |  |  |  | Marks |
| **Structure** | **0 - 2** | **3 - 4** | **5 - 6** |  |
| Introduction | No introduction or one that does not address NGP. | Some attempt at an introduction, but not meeting the specified criteria. | A good or excellent introduction addressing all aspects of the NGP specified. |  |
| Body |  |  |  |  |
| Conclusion |  |  |  |  |
|  |  |  | SUB-TOTAL | /18 |
| **Content** | **0 - 3** | **4 - 5** | **6 - 8** | **Marks** |
| Research | No updated research done or irrelevant articles. | Some evidence of research but not related to the specific project. | ……………. |  |
| Discussion on aspect of Infrastructure |  |  |  |  |
| Comparison of progress in project |  |  |  |  |
| Suggestions for moving forward |  |  |  |  |
|  |  |  | SUB-TOTAL | /32 |
|  |  |  | **TOTAL** | **/50** |

Scan through the following extracts taken from the indicated sites and choose ONE aspect and ONE project to work with for the essay above, for example TRANSPORT and N3 Toll Concession.

# Water

April 2014

Launch of the R12.5-billion Mzimvubu Water Project at Tsolo Junction near Mthatha in the Eastern Cape ; the Mzimvubu project will involve the construction of two dams, a hydropower plant, bulk water distribution infrastructure and infield irrigation developments.

The Ntabelanga Dam, will be South Africa's 10th largest dam once completed to meet the province's domestic, agricultural and industrial water requirements, may also supply the Nelson Mandela Bay Municipality and the Orange/Vaal River System in the longer term.

The second dam, the Laleni Dam, will be used for hydro power generation. The dam will generate up to 180 MW of peaking power..

The project was expected to create about 6 700 jobs during the construction phase and 6 500 jobs during the operational phase.

It will supply water to over 720 000 households in the OR Tambo, Alfred Nzo and Joe Gqabi districts.

This is an important part of equity and distribution, ensuring an increase on the 95.2% [of South Africans] who now have access to clean water.  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/water-140414.htm#.WB9r-i197Z4#ixzz4PFhXDM5Q>

*June 2014*

The Lesotho Highlands Development Authority expects the R11.2-billion second phase of the Lesotho Highlands Water Project .

The massive joint project between South Africa and land-locked Lesotho will generate hydro-electric power for Lesotho while increasing the volume of water transferred to South Africa from the current 10-billion to about 15-billion cubic metres a year.

The first phase of the project - comprising a series of dams, hydropower stations and tunnels between South Africa and mountainous, landlocked Lesotho - was funded by the World Bank and completed in 2004.

The second phase will involve building the Polihali Dam in the Mokhotlong district, which is located in the north eastern part of Lesotho and, includes both the highest terrain in the Maloti mountain range and the source of the Senqu River, Lesotho's primary watershed.

A new tunnel will also be built from from Polihali Dam to Katse Dam, along with new hydropower features and other advanced infrastructure.  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/lesotho-240614.htm#.WB9rvS197Z4#ixzz4PFfcu1et>

1. **Transport – Roads and Rail and Air**

*July 2014*

Gibela Transport, has begun manufacturing the 600 state-of-the-art passenger trains, comprising 3 600 coaches, that are set to revitalise South African rail transport while giving a major boost to the industrialisation of the economy.

Gibela signed the contract to supply the trains, and one of the biggest in rail transport worldwide - with the Passenger Rail Agency of South Africa (Prasa)  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/rail-030714.htm#ixzz4PFfOF8zX>

*August 2014*

The National Development Plan (NDP) diagnostic report states that the commuter rail fleet needs to be renewed, and commuter rail provides the lowest-cost service and is safer than cars.

The government will invest billions of Rands in South Africa's transport infrastructure over the next three years in a bid to reduce road deaths and traffic congestion in the country.

A commuter rail infrastructure, widely identified as the safest mode of transport, will receive the lion's share of the allocation as the Department of Transport moved to shift passengers from road to rail.

R51-billion would be spent on commuter rail infrastructure and new rolling stock over the next three years, while a further R14-billion will be channelled towards bus subsidies in the 2014/15 financial year in order to encourage a shift from private cars to public transport.

A total of twenty billion will be spent to upgrade the country's ageing road infrastructure in order to ensure quality and safer roads.

Read more: <http://www.southafrica.info/business/economy/infrastructure/transport-120814.htm#.WB9mNi197Z4#ixzz4PFZgzygF>

*January 2015*

The N3 Toll Concession is investing more than R1-billion to expand the N3 toll route over next three years.

The N3, between South Africa's inland provinces and Durban, is one the country's most strategic freight and logistics corridors. N3TC manages a portion of the road

Work on the rehabilitation project between Mooi River and Estcourt began in 2013 and will be completed towards the end of 2015.

In addition, a 60km section between Harrismith and Warden will be reconstructed   
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/n3-upgrade-13115.htm#.WB9gaC197Z4#ixzz4PFTUKPDd>

*January 2015*

A new batch of diesel locomotives was unloaded off the ship at the Cape Town harbour on 14 January.

This would go a long way in reducing travel time, providing comfort and reliability, and improving efficiency.

One of the key things the government is focusing on is to improve public transport, in particular our drive to move people from road to rail to reduce the number of people who actually die."  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/new-trains-16115.htm#.WB9gIS197Z4#ixzz4PFTBWkh2>

*May 2015*

Cape Town International Airport is set for an overhaul with the upgrading of its domestic and international terminals planned for the airport, , forming the bulk of ACSA’s R7.7bn expansion plans.

Airports Company South Africa (Acsa) said the developments were aimed at improving South Africa's airports, set to be completed over the next three years.

Read more: <http://www.southafrica.info/business/economy/infrastructure/acsa-110515.htm#.WB9dvy197Z4#ixzz4PFR3eJ21>

1. **Energy**

*December 2014*

There is a five-point plan to address South Africa's electricity challenges following Cabinet concerns about the disruptive effects of the power outages on the daily lives of citizens and their impact on households and businesses.

"The lack of sufficient capacity to meet the country's energy needs remains a challenge and all attempts are being made to ensure that we overcome the tight energy situation,"

Five-point plan

The plan covers:

* Harnessing *cogeneration* opportunities through the extension of existing contracts with the private sector;
* Accelerating the programme for substitution of *diesel* with *gas* to fire up the diesel power plants;
* Launching a coal-independent power producer programme; and,
* Managing demand through specific interventions within residential dwellings, public and commercial buildings and municipalities through *energy efficient technologies*.

To meet the country's future energy requirements, the government is implementing an energy mix comprising coal, solar, wind, hydro, gas and nuclear energy. In future biomass, wind power, solar power and hydro power will contribute to the grid.  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/electricity-plans-121214.htm#.WB9lVy197Z4#ixzz4PFZ3jE3e>

*December 2014*

Financial data indicates intensive investment in infrastructure by players in the electricity, gas and water supply industry. It rose by *R13- billion* in 2014 to *R24 billion* in 2014

Capital expenditure is for plant, machinery and equipment.

*March 2015*

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"Eskom announced that first power was produced out of Medupi's Unit 6, making it the first of Medupi power station's six units to be synchronised," Eskom said.

Synchronisation, is connection to the national power grid in such a way that its power is aligned with all the other generators to generate and deliver electricity into the national power grid.

This is the final stage marking an exciting milestone towards full commercial power of the plant located in Limpopo.  
  
Source : <http://www.southafrica.info/news/medupi-030315.htm#.WB9f0C197Z4#ixzz4PFSrdw9S>

April 2015

Kathu solar thermal plant is the latest solar plant to be constructed in sunny Northern Cape.

Kathu is a 100MW plant with troughs located in the town of Kathu, near Upington, in Northern Cape Province, begins operations in 2018 and will be able to supply electricity to 80 000 homes.

The building consortium will also use local suppliers, as the project is fully committed to contributing to the local community.  
  
Read more: <http://www.southafrica.info/business/economy/infrastructure/kathu-builders-100415.htm#.WB9eyi197Z4#ixzz4PFS2vwya>

April 2015

Eskom's Sere Wind Farm near Vredendal in the Western Cape has achieved its full commercial operational capacity of 100 megawatts (MW).

It achieved full capacity on 31 March, in line with the commitments by Eskom in terms of both time and cost.

Sere is Eskom's first large-scale renewable energy project and forms part of our commitment to renewable energy.

"The Sere plant adds 100MW to the national power grid and will save nearly six million tons of greenhouse gas emissions over its 20 years expected operating life,

All 46 wind turbines had been erected and energised and the construction of the Skaapvlei substation has been completed.

Read more: <http://www.southafrica.info/business/economy/infrastructure/sere-210415.htm#.WB9eai197Z4#ixzz4PFRS2zSc>

Yvette:

Nice change to the rather bulky question which I had included. These case studies are probably the only exposure most of the students have to the reality of the situation, with most of them relying on the text only.

Unfortunately this subject relies a lot on this type of material and learners need to understand this early. Updates are necessary but they will also become outdated in a few years. Learners need to know how to access this type of information for themselves.

Roop.

**SOLUTIONS to new exercises**

**Activity 1.17 : Economic Sector Classification**

**What you will do:**

**From the grid, find key words and examples from each of the different sectors and fit into the correct categories in the table below:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **F** | **A** | **R** | **M** | **I** | **N** | **G** | **O** | **L** | **D** |
| **I** | **N** | **K** | **R** | **T** | **A** | **F** | **O** | **O** | **D** |
| **S** | **D** | **S** | **E** | **R** | **V** | **I** | **C** | **E** | **S** |
| **H** | **A** | **M** | **M** | **A** | **I** | **Z** | **E** | **C** | **B** |
| **T** | **A** | **B** | **A** | **N** | **K** | **R** | **S** | **L** | **I** |
| **R** | **O** | **C** | **K** | **S** | **S** | **W** | **O** | **O** | **D** |
| **A** | **C** | **A** | **E** | **P** | **I** | **L** | **L** | **T** | **O** |
| **P** | **E** | **T** | **R** | **O** | **L** | **E** | **A** | **H** | **G** |
| **S** | **A** | **N** | **D** | **R** | **O** | **A** | **R** | **E** | **A** |
| **E** | **N** | **D** | **O** | **T** | **R** | **A** | **I** | **N** | **S** |

|  |  |  |
| --- | --- | --- |
| **Primary Sector** | **Secondary Sector** | **Tertiary Sector** |
| Fishtraps (for fishing) | Gold (once processed) | Transport |
| Farming | Maker (Manufacturer) | Trains |
| Maize | Pill | Services |
| Food (in raw state) | Cloth | Dog (Security Industry) |
| Ocean | Ham |  |
| Wood | Ink |  |
| Gas | Food (in processed state) |  |
| Sand | Fishtraps (being made) |  |
| Solar | Silo (construction for storing raw materials) |  |
| Rock |  |  |
|  |  |  |

Note that can also pick up other words and use them but justify why you are putting them in a specific category. For example ‘Bid’ is a form of buying at an auction that you could put in the Tertiary Sector.

**UNIT 5 MARKET DYNAMICS**

**Introduction:**

This section deals with price formation in a perfect market. It introduces you to the forces of demand and supply which determines the prices you pay for your goods. it is important for you to know how these forces influence your lifestyle. You will often have experienced the situation where you want something that you can’t get (it has sold out, or you can’t afford it), or walked past shops having sales because they have excess stock (supply) that cannot be sold. In clothing, for example, this happens at the end of each season where they have to make place for the new season’s stock.

Our discussion takes place in a perfect market with a brief explanation of imperfect market**.** The forces of demand and supply are explained and the formation of an equilibrium price is developed. Thereafter you will be introduced to changes in the market forces but still in the perfect market.

**Learning Outcomes:**

**Students Should be Able to:**

5.1.1. Draw up demand and supply tables from given data;

5.1.2. Use graphs to illustrate demand and supply from given data and/or from demand and supply schedules;

5.1.3. Determine the Market Equilibrium Price and show graphically.

5.1.4. Illustrate increases in demand and supply and show graphically.

5.2.1. Distinguish between imperfect market structures: monopolies, oligopolies and monopolistic competition.

In this section we will be studying the following

**Price theory in Perfect Market**

Demand and supply with tables

Graphical representation of the above

Movements along the curve

Shifting of curves.

**Imperfect Markets**

Monopolies

Oligopolies

Monopolistic Competition

**5.1.1 Demand and Supply tables in a Perfect Market**

Demand and supply are economic forces that apply in a market in order to determine a price. Before studying these forces, let us spend some time on the term “market”.

As discussed in the previous Unit, a market is not always a physical place (morning market, fresh produce market), it is any place where there are buyers and sellers who are willing to *exchange* goods and services at an agreed price. Examples of markets are:

* Market for commodities e.g. wool market, gold market, money market
* Inland market as opposed to coastal market
* Market for women’s’ clothing as opposed to men’s
* Labour market
* The internet/virtual markets

Our interest in the market is that it is a place where buyers indicate their demand and sellers express their supply. These are the two forces that will determine the final price. Buyers will want to pay as little as possible for the goods and services, while sellers on the other hand will ask for the highest price possible. If a sale is to take place, then there has to be an agreement between buyers and sellers, otherwise no goods are sold. This is done through bargaining.

Our study is restricted to a perfect market here, and then we will briefly discuss the other types of markets at the end, as there the interaction can become very complicated.

**The Perfect Market:**

Even though the concept of a ‘perfect market’ does not exist in practice, we need to explain our activities knowing that it is being done in the process of trying to achieve those aims.

The perfect market is one where:

|  |  |
| --- | --- |
| **Requirement** | **Effect of such a requirement** |
| There are many buyers and many sellers. | Having few buyers or sellers gives either one an advantage |
| Products are exactly the same – no packaging or advertising to differentiate them. | Having brand names influences buyers through advertising by making products look different |
| Full information is easily available to make proper decisions. | Incomplete information allows for hasty and wrong decisions |
| Easy entry and exit into and from markets. (Free Competition. ) | Preventing sellers or buyers from entering the market creates surpluses or shortages. |
| No preferential treatment | Decisions are based solely on the price. |

**Demand**

You will now commence with the first of the market forces, *demand*.

Demand is closely linked to wants and needs. When an article is required, (there is need for it) and the person wanting it is prepared to pay for it, then it becomes a demand.

Demand determines the quantity of an article that is purchased at a given price at a certain time. Demand changes with many factors like income (more money available to purchase more goods at the same price), changes in consumer taste (buying more or less at the same price because of likes and dislikes). The situation is hard to predict, because increases or decreases in the price of one commodity may affect the quantity demanded of another, for example, if the price of red meat goes up the quantity of the amount demanded will decrease, but the demand for chicken may increase.

**Demand table**

You will learn to draw up a demand table. This table will indicate the quantities of the product that you will demand at varying prices. It explains the reaction of consumers to changes in prices.

Let us illustrate with an example:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Product : 500ml milk.   |  |  | | --- | --- | | **Price in Rand** | **Quantity demanded per month** | | 3,00 | 45 | | 3,50 | 38 | | 4,00 | 32 | | 4,50 | 28 | | 5,00 | 25 | | 5.50 | 22 | | 6.00 | 18 | | 6.50 | 17 | | 7.00 | 14 | | 7.50 | 12 | | 8.00 | 10 | | 8.50 | 10 | | 9.00 | 9 | | 9.50 | 8 | | 10,00 | 7 | | 10,50 | 6 | | 11,00 | 6 | | What does the demand table on the left illustrate?   * The individual quantity demanded is in the column to the right * The *relationship* between quantity demanded and the price is that:   + the quantity demanded will *decrease* if the price *increases*   + the quantity demanded will *increase* if the price *decreases*   The relationship above indicates the **Law of Demand.**  **Law of demand**: when price *increases,* the quantity demanded *decreases*  When price *decreases,* the quantity demanded *increases.* |

**Activity 1.~~19~~20 Drawing up a demand table**

**Purpose:**

Use actual responses to draw up a demand table.

**What you will need:**

Involve your parents, friends and relatives in this activity.

**Suggested time: 1 hour**

**What you will do:**

Choose either your parents and/or close relatives for this exercise. You will need three participants. Ask them to indicate, in the blank columns on the table below, the quantities they are willing to purchase at the indicated price, for one month, for the indicated product. NOTE, you can use an alternate product of your choice if your target audience does not buy Brown Bread. Just substitute a similar table with a price range above and below the current price. It must be a consumer product, e.g. eggs or margarine that is bought regularly.

**Product: 1 LOAF OF BREAD (BROWN)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Price in Rand** | **Person 1** | **Person 2** | **Person 3** |
| 8,00 |  |  |  |
| 9,00 |  |  |  |
| 10,00 |  |  |  |
| 11,00 |  |  |  |
| 12,00 |  |  |  |
| 13,00 |  |  |  |
| 14,00 |  |  |  |
| 15,00 |  |  |  |
| 16,00 |  |  |  |
| 17,00 |  |  |  |

Examine their responses and then answer the questions.

1. When will the most bread be sold?

2. How does this relate to the law of demand?

3. Can you suggest why the answers were not all the same?

**Guided Reflection:**

From the responses you should be able to see the law of demand in action. Question three will explain why all the responses were not the same although they followed the same pattern.

**5.1.2 The Demand Curve**

Now that you have drawn up the table, it is very simple to convert the same table into a graph. You need some Mathematical or Quantitative Literacy knowledge to be able to do this, but you can also do it online if you prefer.

The table in the above example is converted to the diagram below:

Insert

Diagram 3

What do you observe from the curve above?

1. It slopes downward from left to right indicating that quantities will decrease when price increases.

2. It represents the whole demand at differing prices.

3. It clearly illustrates the Law of Demand.

**Supply:**

* In the above discussion, you examined the behaviour of the buyers, and this represented demand. We have made the assumption that there are sellers present, who are offering such goods to the buyers. Remember, buyers will only be able to buy if there are sellers who are willing to sell. In the same way as buyers want to pay as little as possible for the product, the sellers want to sell at the highest price possible. In the same way as you drew up the demand table (refer to it again if you need to), we are able to capture the preferences of sellers in a table:

Example:

Product: 500ml fresh milk

|  |  |
| --- | --- |
| **Price in Rand** | **Quantity supplied per month** |
| 4,00 | 5 |
| 4..50 | 12 |
| 5.00 | 18 |
| 5.50 | 22 |
| 6.00 | 24 |
| 6.50 | 28 |
| 7.00 | 32 |
| 7.50 | 34 |
| 8.00 | 37 |
| 8.50 | 39 |
| 9.00 | 40 |
|  |  |

We are now able to also represent the above data as a graph:

Insert

Diagram

In the same way as you did for demand, you are able to deduce from the above:

**Law of supply:**

When price *increases*, the quantity supplied *increases*, and vice versa.

1. The entire supply column on the right is represented above.

2. It slopes downwards from right to left, indicating that supply is high when prices are high.

3. The curve represents the Law of Supply**.**

**5.1.3 The Market Equilibrium Price.**

Now that you have studied these forces separately, we need to bring them together in a market situation, because, if you remember, the market is a place where buyers and sellers meet. This is the place we are likely to see a price being formed that we will call the equilibrium price. This is the price at which the quantity offered for sale (by sellers) is equal to the quantity demanded (by buyers) -i.e. balance is achieved. In other words, all the goods that are offered for sale are sold. There are no shortages. There are also no surpluses.

Surplus : the situation where the quantity supplied exceeds the quantity demanded .

Shortage: the situation where the quantity demanded exceeds the quantity supplied.

Graphically, we represent the curves as follows:

Insert Diagram 5

[Bring the two curves together here]

The diagram above indicates:

The equilibrium price is R5, 50

At this price, the quantity demanded is 22, the quantity supplied is 22

All goods are sold, that is, no surpluses or shortages.

**Surpluses and Shortages:**

A shortage occurs when the quantity of goods made available is not enough to supply the demand for it. All the goods offered are sold, but there is still demand that is not satisfied, because the goods ran short.

Insert

diagram 6

**Activity 1.~~20~~21 : Determining Prices**

**Purpose:**

This exercise gives you practice in interpreting graphs. Graphical representation is an important tool used in economic analyses and is used to represent trends. It is useful as it is a visual tool, so it is often a lot easier to understand than tables or paragraphs with a lot of data.

**What you will need:**

Graphs above

Some Mathematical or Quantitative Literacy knowledge on graphical representations.

**What you will do:**

Refer to the above diagram to answer the following questions:

1. What is the equilibrium price? (E)

2. What quantities will be sold at this price?

3.. If the equilibrium price were R6,20, the diagram shows we will have a shortage . It is shown in the above diagram as Q1Q2. What is the quantity representing the shortage?

4. If the price were R10,25 would have had a surplus. It is reflected in the above diagram as Q3Q4. What is the quantity represented by the surplus?

5. What do you think will eventually happen to price if the quantity demanded remains the same, and the shortage continues?

6. What do you think will happen to price, if the quantity demanded remains the same there surplus continues?

**Guided Reflection:**

**5.1.4 Changes in demand.**

You need to make a clear distinction between a change (increase or decrease) in *demand* and changes in *quantity demanded.*

**To Revise:** When the price *increased*, we noted above that the *quantity demanded decreased*. This is the Law of Demand. Now we are discussing a situation when changes are taking place in the quantity demanded **while the price remains the same**. We are saying that people will buy either more (or less) of the article at the same price. These are called non**-price factors**.

What are the causes of such a change?

|  |  |
| --- | --- |
|  | **Remember** |
| **Changes in income**: When a person gets an increase in salary, then he able to buy more of the same goods (for example chocolates) although this increase does not come from a change in the price of chocolates. The opposite applies if a person begins to earn less, because he can afford less. | The price of chocolates remains the same and did not cause this change. |
| **Changes in fashion/tastes**: when new goods are introduced, not everybody is willing to try it at first. But when it becomes popular, (for example a new hairstyle, new colour in shoes) then more people are willing to buy it at the same price. The opposite happens if the goods go out of fashion. | The price of the hairstyle or shoes did not change to have brought about this change. |
| **Substitute Products:** when the price of substitute products changes**,** then the quantity demanded of other products will be affected. For example, should the price of meat rise, there may be an increase in quantity demanded for chicken. | The price of chicken did not change to bring about this change. |
| **Taxes :** the government may impose taxes and import duties on products to reduce demand e.g. liquor and cigarettes, for specific reasons. | Products become more expensive and less is consumed. |

**Effect on the demand curves. (Shifting)**

When changes in demand take place, then the demand curve is displaced. That means the entire curve moves to a new position.

When there is an *increase* in demand the curve is displaced *to the right*. (A in the diagram)

When there is a *decrease* in demand the curve is displaced to the *left*. (B in the diagram)

Illustrated below:

Insert diagram 7

**Shifting of the supply curve:**

In the same way as illustrated above (changes in demand) there are also changes that take place regarding supply. That is:

Changes in the quantity take place without the price of the good changing. Suppliers are prepared to supply more at the same price.

What causes this situation?

|  |  |
| --- | --- |
| **Causes** | **Effect of such causes** |
| More suppliers enter the market | Production increases due to more participants |
| Improved production methods | Goods can be produced more cheaply |
| Changes in the cost of production | Reduces the quantity if the raw materials become more expensive, and vice versa. |
| Natural causes | A drought will lead to a decrease in supply |

If there is an *increase in supply*, then the supply curve shifts to the right (C in diagram) as illustrated below.

Similarly if there is a *decrease in supply* then it moves to the left (D in diagram)

**Insert**

**Diagram 8**

**Some market activity:**

There are many different situations that can arise when the changes mentioned above occur. You will be able to touch on a few only.

The diagram below illustrates this situation:

**a. Demand changes but supply remains constant: (Increases and decreases in demand)**

insert diagram 9

**Activity 1.~~21~~22 : Illustrating Increases and Decreases in both Demand and Supply.**

**Purpose:**

This activity will improve your graphical representation skills. You will be better able to understand and interpret economic issues represented graphically.

**What you will need:**

Graphs above and some Mathematical or Quantitative knowledge.

**What you will do:**

Refer to the above diagram: (diagram 9) and answer the following questions:

1. What was the original equilibrium price?

2. What happened to the price and quantity when demand increased with supply remaining the same? Curve D1 D1)

3. What happened to the price and quantity when demand decreased with supply remaining the same?

**Guided Reflection:**

This activity will demonstrate that economic activity can be clearly illustrated by using graphical representations.

**b. Supply changes (Increases and decreases)but Demand remains the same**

**Activity 1.~~20~~ 23: Interpreting Changes in Supply**

**Purpose:**

This activity will improve your graphical representation skills.

**What you will need:**

Graphs below and some mathematical knowledge.

**What you will do**

From your experience in the previous activity, comment on the changes you see in the diagram below. (diagram 10)

Answer in the same order: (Number you answers correctly)

1. What was the original equilibrium price? (curve SS)

2. What happened to the price and quantity when supply increased with demand remaining the same?)

3. What happened to the price and quantity when supply decreased with demand remaining the same? Curve S2S2

Guided Reflection:

You will have realised the importance of showing economic data through graphs.

Insert

Diagram 10

**5.2. 1 Imperfect market structures**

In the discussion above, you confined your observations to the perfect market. This made the discussion simple and easy to understand. In practice, however, markets are not perfect, yet the same activity has to take place. The results will obviously be different.

In this section you will be required to explain the term “imperfect market” briefly and give some examples of them.

**Activity 1.~~21~~24 Comparing the Perfect Market**

**Purpose:**

This activity will clearly indicate that our markets are not perfect by comparing the characteristics

**What you will need:**

Pen, paper and a keen sense of observation through experience in shopping for household goods.

**Suggested time:** 30 minutes.

**What you will do:**

In the first column, the characteristics of a perfect market are listed. The second column explains the implications of these to allow you to make comparisons with actual situations (in practice). You need to note your observations in column 3, the first one is done for you as an example.

**The Imperfect Market: Characteristics**

|  |  |  |
| --- | --- | --- |
| **Characteristics** | **Effect of this in a Perfect Market** | **Your observations of real life practical situations.** |
| Heterogeneous (Diverse) products | Products are all the same no brand names etc. | Products packaged differently or made to look different. |
| Many buyers / sellers | Producers cannot directly influence the market price. |  |
| Information | Complete information to buyers immediately; they can make useful comparisons. |  |
| Restrictions | No restrictions- anyone can enter and leave whenever they please. | . |
| Advertising /Packaging | No need to advertise and influence decisions – products are all the same |  |

Right at the start you leant that a true perfect market does not exist. Let us look at some examples imperfect markets which exist in our economy.

**Monopoly:**

Monopoly refers to a market situation where a single seller or producer sells products to a large number of buyers.

* Only one supplier
* No substitutes for the product
* Eskom Locally Armscor is an example as they are the only supplier of military weapons. But an interesting example is Tanzanite – a precious stone that is only mined in one area worldwide, and that is at the foot of Mount Kilimanjaro in Tanzania.

**Oligopoly:**

An Oligopoly is when there are a few sellers who control the market which has many buyers. This puts them into a very strong position as they can often control prices.

Many purchases that individuals make at the retail level are produced in markets that are neither perfectly competitive, monopolies, nor monopolistically competitive. Rather, they are oligopolies. **Oligopoly** arises when a small number of large firms have all or most of the sales in an industry. Examples of oligopoly abound and include the auto industry, cable television, and commercial air travel. Oligopolistic firms are like cats in a bag. They can either scratch each other to pieces or cuddle up and get comfortable with one another. If oligopolists compete hard, they may end up acting very much like perfect competitors, driving down costs and leading to zero profits for all. If oligopolists collude with each other, they may effectively act like a monopoly and succeed in pushing up prices and earning consistently high levels of profit. Oligopolies are typically characterized by mutual interdependence where various decisions such as output, price, advertising, and so on, depend on the decisions of the other firm(s). Analyzing the choices of oligopolistic firms about pricing and quantity produced involves considering the pros and cons of competition versus collusion at a given point in time.

http://pressbooks.oer.hawaii.edu/principlesofmicroeconomics/chapter/10-2-oligopoly/

Few suppliers

* They produce similar products
* Large number of buyers.
* Example: ~~motor cars manufacturers.~~ OPEC (Organization of the Petroleum Exporting Countries) is an intergovernmental organization of 14 nations that control the petroleum worldwide.

**Monopolistic Competition:**

Monopolistic Competition combines elements of both monopoly and competitive markets, as the name suggests. This is when there are many businesses offering services that are similar, but not perfect substitutes.

Monopolistic competition involves many **firms** competing against each other, but selling products that are distinctive in some way. Examples include stores that sell different styles of clothing; restaurants or grocery stores that sell different kinds of food; and even products like golf balls or beer that may be at least somewhat similar but differ in public perception because of advertising and brand names.

Differentiated Products

A firm can try to make its products different from those of its competitors in several ways: physical aspects of the product, location from which the product is sold, intangible aspects of the product, and perceptions of the product. Products that are distinctive in one of these ways are called **differentiated products**.

Physical aspects of a product include all the phrases you hear in advertisements: unbreakable bottle, nonstick surface, freezer-to-microwave, non-shrink, extra spicy, newly redesigned for your comfort. The location of a firm can also create a difference between producers. For example, a gas station located at a heavily traveled intersection can probably sell more gas, because more cars drive by that corner. A supplier to an automobile manufacturer may find that it is an advantage to locate close to the car factory.

http://pressbooks.oer.hawaii.edu/principlesofmicroeconomics/chapter/10-1-monopolistic-competition/

* There are many suppliers
* They produce similar goods
* They concentrate on a specific market
* Example: ~~Petrol manufacturers~~; ~~Fast food Industry or~~ Non-franchise restaurants or independent schools that do not belong to a specific corporate group.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Monopoly** | **Oligopoly** | **Monopolistic competition** |
| No of participants | One | Few -Around 10 | Large number |
| Product differentiation | Extreme – unique product | None to substantial | Slight |
| Control over price | Considerable | Some - less than monopoly | Some |
| Competition | Nil | Stiff competition between firms | Little |
| Barriers to entry | Many – blocked | From free to restricted | none |
| Market knowledge | Not perfect | Not perfect | Perfect information |
|  |  |  |  |

Source : [http://keydifferences.com.html#ixzz4PuDfejuV](http://keydifferences.com/difference-between-monopoly-and-monopolistic-competition.html#ixzz4PuDfejuV)

Answer to 1.24

|  |  |  |
| --- | --- | --- |
| **Characteristics (Perfect)** | **Effect of this** | **What actually happens** |
| Heterogeneous products | Products are all the same no brand names etc. | Products packaged differently or made to look different. |
| Many buyers / sellers | Producers cannot directly influence the market price. | Competition restricted; producers can directly influence the market price |
| Information | Complete information to buyers immediately;  they can make useful comparisons. | Incomplete information to buyers – they cannot make useful comparisons |
| Restrictions | No restrictions- anyone can enter and leave whenever they please. | Competition is hindered through patents and other restrictions; supply is manipulated, affecting price. |
| Advertising /Packaging | No need to advertise and influence decisions – products are all the same | Advertising and other promotion influences choices significantly. Consumers are tempted by advertisements. |

**SUMMARY OF LEARNING UNIT 5**

This unit focussed on the dynamics of a market, something that is of personal interest to you as you buy (and may sell) products and services regularly. It is the introduction to price theory. You were first introduced to the term “market”, and you first worked with the concept of a perfect market. Rather than the restricted meaning of the term you were used to, you realised that it could be expanded to include other meanings. Now you are beginning to learn about the “workings” of the market, where the “market forces” are at work.

Market forces: The first market force you studied was demand. After the definition, you proceeded to draw up a table to reflect a demand table. This introduced you to the law of demand. The table you then converted to a graphical representation. After drawing the graph, you made certain observations using the graph with respect to the relationship between the quantity demanded and price.

From demand you moved on to supply and followed the same steps – first the table and then the graph. Here also you made certain observations. This led you to the law of supply.

What was left was to bring the market forces of demand and supply together, in order to explain how prices are formed in a perfect market. This you illustrated in a graphical format again, showing the “equilibrium price” (the price at which there are no shortages or surpluses with all the stock being sold). From these initial steps you moved to changes (both increases and decreases in supply and demand) and you were able to see how they affected price.

~~You made the assumption at the beginning that all the activity described above took place in a perfect market, the characteristics of which you also studied in order to identify it, if it exists at all. Then you realised that our markets are not perfect.~~ Realistically though, it is does not take long to realise that these perfect markets cannot exist in real life, so you were introduced, in brief, to imperfect markets and their characteristics. Lastly you were able to compare the characteristics of these markets alongside each other.

Stop and think how much this affects your daily life, such as the prices you pay for products. There are some things you have to buy (such as food and clothing), but the quantity and quality of those are determined by how much you have to spend. Other things you buy by choice, and on these you may be more price sensitive (only willing to spend if it is at the right price. Next time you are out shopping, think how all these factors interact in the market and look for examples.

**ASSESSMENT**

**UNIT : 5 – Market Dynamics**

**Purpose:**

This assessment exercise will test your knowledge of all the different aspects covered in this unit, to prepare you for a test/examination.

Suggested time:

**Question 1**

Examine each of the following statements. Some are true and others are not. Identify the correct statements and write TRUE. Identify the incorrect statements write FALSE.

When price increases, demand decreases

When price increases, demand increases

When price increases, quantity demanded decreases

When price increases, quantity demanded increases.

When price increases, quantity supplied decreases

When price increases, decreases quantity supplied increases

When price increases, supply increases

When price increases, supply decreases. (16)

**Question 2.**

**Match the statements in column A with the terms in column B. Write the number and the letter of the answer only for example:**

**2.8. Z**

|  |  |  |
| --- | --- | --- |
| **A** | | **B** |
| 2.1 | When demand increases , and quantity supplied remains the same, price will | A. shortage |
| 2.2 | When the quantity supplied exceeds the quantity demanded, it results in a | B. maximum |
| 2.3 | The price at which the quantity demanded and the quantity supplied are the same | C. Law of Demand |
| 2.4 | When price increases, quantity demanded | D. increase |
| 2.5 | Market where there is one supplier and many buyers | E. surplus |
|  |  | F. decreases |
|  |  | G. equilibrium |
|  |  | H. oligopoly |
|  |  | I. Monopoly |

(10)

**Question 3.**

Briefly explain three causes of an increase in demand. (9)

**Question 4**

List FIVE characteristics of a “perfect” market.

Reflect on the markets you are exposed to, and comment on the degree to which they conform to the requirements of a “perfect” t market. (20)

**Question 5.**

Identify the activity represented by following diagrams: (8 )

Diagrams 10,11,12 and 13

[Insert diagrams mentioned above. ]

Guided Reflection:

This section is very important as this theory of demand and supply can and will be used over and over again in Economics , in discussions involving not only goods but many other commodities like labour (demand and supply of labour determines wages) investments, foreign currency. And so on. It is therefore important that you master this simple introduction as a basis for your future studies.

**UNIT 6 CONTEMPORARY ECONOMIC ISSUES.**

**Introduction:**

We live in an interesting world, one that is constantly changing and with technology and access to happenings across the globe it is an exciting opportunity to keep up with current affairs and know more about contemporary Economic Issues. In this section you will be investigating some of these issues of topical interest. They present themselves as challenges for any economy as they are complicated and affected by so many different factors, as you have learnt in the previous Units. Finding solutions to these challenges can be a daunting task, as any government spokesperson will tell you.

There are many such topics that you could discuss. In this module, you will be concentrating only on Inflation and Unemployment:

**Learning Outcomes:**

**Students Should be Able to:**

6.1 Inflation

6.1.1. Distinguish between cost-push and demand-pull inflation;

6.1.2. Explain how inflation impacts on salary and wage negotiations

6.1.3. Describe measures to combat inflation

**Students Should be Able to:**

6.2 Unemployment

6.2.1. Define different forms of unemployment:

* + 1. Describe the causes of unemployment;
    2. Describe the effects of unemployment;
    3. Discuss approaches to solve unemployment:

6.2.5. Evaluate the effectiveness of the measures to curb unemployment.

**6.1 Inflation**

**Introduction:**

Inflation is the loss of purchasing power of money due to the increase in prices.

The term inflation is used to describe the loss in the purchasing power of money because of prices increasing. In other words, we are able to buy less with the same amount of money.

Inflation originates when there is a disturbance in the normal balance between demand and supply (which you know, from Unit 5, determines prices) which causes an extraordinary increase in prices.

One of the ways of measuring inflation is the use of price indices. This is done by comparing the prices of a basket of goods from one time period to another (e.g. one year to the next) to compare the difference. The same goods are priced at the second date and the difference (usually an increase) is used to calculate the index.

Some of the characteristics of inflation are:

* There is a spirit of optimism
* Money is easily available
* Increasing prices lead to demand for higher wages which increases prices again and again.

**6.1.1 Types of inflation**

We distinguish between two types of inflation: Demand Pull Inflation and Cost Push Inflation.

**Demand Pull Inflation**

This type of inflation results from an exceptionally high demand for goods and services that are in short supply.

Some features of Demand Pull Inflation:

* Demand exceeds supply causing prices to rise.
* People are not willing to save; they spend most of their money
* This rise in prices reduces the value of their money.
* As a result, people want to spend their money before prices rise again
* This type of spending is often on luxury items
* The lack of saving reduces capital investment; goods are now in short supply worsening the situation
* Banks lend money more freely and increase the money supply; this makes it easier to spend, increasing demand further
* Consumers, businesses and the government all contribute to demand inflation.

**Cost Push Inflation:**

Here the cost of production is the main cause of inflation. The cost of production raises prices which lead to a demand for higher wages, which, once again, increases costs.

Some features of Cost Push Inflation:

* Workers demand higher wages through their unions
* Employers grant the wage increases
* The wage increase adds to the cost of production
* This causes an increase in the price of goods and services.
* Labour once again asks for an increase and thereby creates a spiral effect
* This leads to reduced productivity, but increases the cost of production
* The government increases taxes which push up the cost of goods even further
* Other taxes may also increase – VAT and customs duties which all have the same effect of increasing the price of goods and services.
* High interest rates are a means of addressing inflation by encouraging savings; this, however, adds to the cost of production.
* Natural disasters e.g. floods, or earthquakes can also increase the cost of production and reduce supply.

**6.1.2 The impact of inflation on salary and wage negotiations**

Negotiations for salary increases is ongoing; workers demand higher salaries because, they say, inflation erodes the spending power of their salaries. If there is no adjustment by employers, then it usually leads to a strike. Strikes are common nowadays and demand for higher salaries features as one of the most common causes. There are other causes for strikes too, such as for example better working hours, additional benefits, unfair dismissal.

Workers demand an “above inflation increase”; this means that:

If the inflation rate is 5% and a 5% wage increase is granted, then the worker is no better off than he was before the increase.

If the inflation rate is 5%, workers are demanding anything more than 5%. Nowadays it is not uncommon for the demand to be double digit for example 11% to 15%.

The inflation rate, therefore, sets a starting point for salary demands.

Activity 1.~~23~~25 : Strike Action

**Purpose :**

This activity will illustrate the financial impact of strike action.

**What you will need:**

**What you will do:**

Read the short case study and the three different scenarios that follow.

After reading the details in the first part, examine the summary of all three, which follows. The summary gives the statistical details that may not be included in the theory but will be used when you answer the questions.

**Introduction:**

The Financial Impact of Strike Action

*Strikes can be effective in raising actual worker income, but not if these continue beyond ‘tipping points’.*

Employees in South Africa currently face considerable deterioration in their lifestyle levels. This is due to, among other factors, increases in energy and food costs and the general upward trend in consumer price inflation. Workers seek relief from these economic hardships through the wage negotiation process.

In South Africa the major bargaining tool at the workers’ disposal is industrial action. In order for the wage negotiation process to benefit workers, it must leave them in a better position than if they had accepted the employers’ initial offer.

Data from three big South African business institutions that had strike activity is included.

The gain from industrial action is measured as the difference between the final increase settled on and the employers’ initial offer. Each of the three scenarios is based on actual wage negotiations where industrial action was employed by workers as a negotiation tool. These are now briefly discussed

.

**CASE STUDY : Transnet**Workers of this major publicly owned enterprise embarked on strike action in early May 2010 that lasted for 17 days, demanding an across-the-board wage increase of 15%. Management’s initial wage offer was an 11% increase. The parties finally agreed on the following:

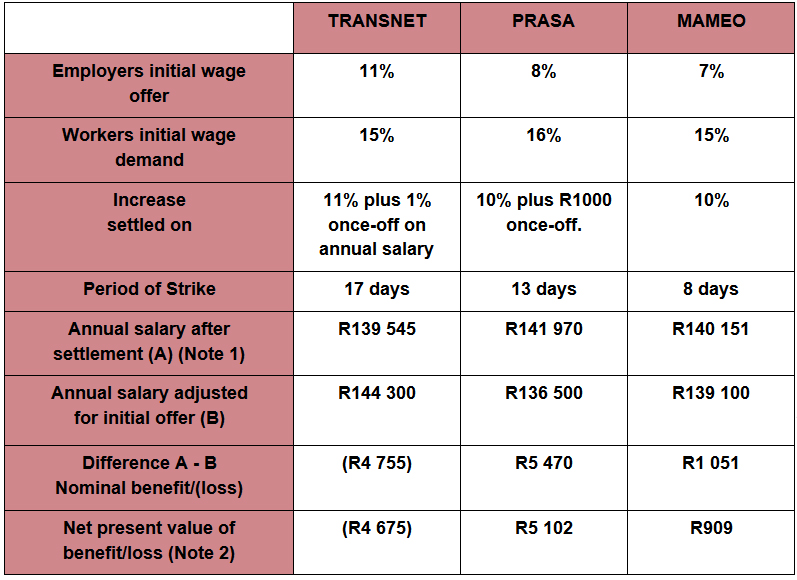
* An 11% across-the-board increase
* 1% one-off increase in May based on annual salaries
* 1000 contract workers were to be given permanent employment by October 2010 and an agreement was reached regarding the placement of the remaining contract workers.

The economy lost R7 billion as a result of the prolonged strike action.

**CASE STUDY 2 Passenger Rail Agency of South Africa (PRASA)**On 17 May 2010 workers declared a dispute with management, demanding a 16% wage increase, while management revised its initial offer from a 3% to an 8% wage increment. The industrial action lasted for 13 days and 12,000 workers engaged in the strike, disrupting train operations of both Metro Rail and Shosholoza Meyl.

**CASE STUDY 3 Members of Automotive Manufacturers Employers’** **Organisation (MAMEO)**On 11 August 2010, 31 000 workers in seven vehicle manufacturing plants embarked on industrial action. The strike lasted for 8 days. Workers demanded an across-the-board increase of 15%, while employers offered a wage increase of 7%.

**SUMMARY OF SETTLEMENTS**



Adapted from: <http://www.gaaaccounting.com/the-financial-impact-of-strike-actions/>

**Questions:**

1. What was the initial offer in each of the three cases? (%)

2. What was the final offer in each of the three cases? (%)

3. What was the final outcome of the Transnet strikes?

**Guided Reflection:**

From the exercise above you will realise that it is not always wise to refuse the initial offer depending on the length of the strike and the difference between the rate asked for and that which is initially offered.

**6.1.3 Measures to combat inflation**

Despite continuing efforts to curb inflation, it remains one of the biggest challenges to the economists and the government, but as it affects each citizen, and can have critical consequences for the poorest part of the population, it is something that needs to be constantly addressed:

These measures to combat inflation can be divided into:

1. **Fiscal measures: (Controlled by the Minister of Finance)**

* Reduction of demand by increasing both direct and indirect taxation.
* Reduce government spending on projects.
* The government financing its deficits without involving banks.
* Raising the surcharge on imported goods.
* The government can assist by:
  + Decreasing tax on businesses to allow them to invest more
  + Encouraging savings by reducing tax on it

1. **Monetary Measures: (Controlled by the SARB – South African Reserve Bank)**

* The Monetary Authorities can make sure that the amount of money in circulation is well controlled;
  + not too much (as it will increase inflation),
  + not too little (as it will decrease demand)
* Increase the bank interest rate – this will reduce the demand for credit and encourage savings
* Restrict credit granting by banks to reduce demand.
* Relax exchange control measures.

**Activity 1.~~24~~ 26 Fiscal Measures to curb Inflation.**

**Purpose:**

This activity will test your understanding of fiscal measures by providing further information.

**What you will need:**

Economics, Business and Finance Work book

Pen and paper and a notebook to write your answers.

Electronic device for research.

**What you will do:**

Take three of the fiscal measures mentioned above.

* Note the one you have chosen.
* Give a practical example of how the government would achieve it.
* How would this measure have an effect on combatting inflation?

**Guided Reflection:**

If you are able to take each measure and answer each of the aspects asked, it means that you will have understood the measures that the government can take to assist in combating inflation.

Now check your answers to the back of the workbook. As you were giving examples, yours will differ to the ones given, but make sure that you have interpreted it correctly in that your answers follow the general guidelines.

Remember that inflation affects the costs of all the goods and services that you buy, so it is important to understand the effect it is having on your life.

**6.2 Unemployment**

Introduction:

We usually use this term loosely to describe a person without a job. However, for the purposes of further discussion, you need to understand the formal definition of unemployment.

Unemployment refers to the situation where those who are able and willing to work are not able to find employment.

What we should be clear on is that the definition refers to:

* a person who is able to work – this implies that he is qualified to do so, with the necessary skills and training;
* He has made attempts to find work
* He is willing to sell his labour

We use the following formula to calculate the unemployment rate:

*Number of unemployed / economically active population*

In South Africa, the rate consistently exceeds 25% and with new entrants into the job market, the situation could deteriorate.

**6.2.1 Describe different kinds of unemployment**

**Structural unemployment:**

This form of unemployment is also known as technological unemployment, because changes in technology is one of the main causes of this situation. When production techniques change, it is accompanied by modernisation and usually advanced technological adjustments, with machinery taking over the jobs of manual labourers. The labour force needs to be retrained, if they are not able to adapt, they become unemployed. This applies usually to workers with low level skills.

**Frictional unemployment**

This describes job seekers who are in transit, that is:

* From one job to another
* From being students to becoming workers
* From rejoining the workforce after leaving

**Seasonal unemployment:**

This applies to workers who are hired for the season, for example for harvesting. Their labour is required only for that season and after that they are unemployed until the next season.

**Cyclical unemployment:**

A country’s economy undergoes changes. There are economic upswings and downswings called business cycles. During a downturn, the economy the economy contracts - there is reduced demand for goods and services resulting in reduced demand for labour. This leads to unemployment. It is usually the government that has the responsibility to introduce measures to stimulate the economy and this create jobs themselves or incentivises businesses to create employment.

**6.2.2 Causes of unemployment**

Unemployment affects every single sector of society: At times, even highly qualified people battle to find jobs due to various factors:

* The economy needs to expand at a certain rate so that the newcomers to the market can be accommodated. If this does not happen, then there is an oversupply of labour and people are not absorbed into the workforce. They remain unemployed until they either improve their skills, or expanded economic activity presents opportunities for them.
* Structural changes in the economy because of modernisation makes certain jobs redundant; this applies to people who have been trained for one kind of activity and are not able to tackle other types of jobs, for automated switch-boards, many switch-board operators have become redundant.
* Shortage of skills training/ educational qualifications: in addition to having an educational qualification, some type of skills training is also required – that is why both qualifications and experience are important on a CV. People who have not undergone such skills training are not suitably empowered to become employed.
* Work seekers are often also not familiar with the job situation: Where jobs are available, and how to look for them. Failure to find such information in time leaves them unemployed.
* In addition, the population growing too fast produces more work seekers than the opportunities the economy is creating. They will only be able to find work once the economy expands or some intervention by the government takes place.
* Business cycles cause periods of employment and periods of unemployment. Sometimes globalisation and the effect of other economies on our own can cause either prosperity or hardship, affecting the job opportunities available.

**6.2.3 Effects of unemployment:**

Very early in this Section you learnt that households sell their labour to the market so that they can earn money to satisfy their needs and wants. Unemployment is therefore a major social issue, as it disempowers people from earning money, even for the most basic needs such as food, clothing and shelter.

* The country loses valuable talent and expertise because qualified people who cannot be gainfully employed, leave to seek opportunities elsewhere and other countries benefit from their knowledge and expertise.
* The threat of unrest and social instability comes with unemployment. The need for necessities leads to stealing, and not being busy can lead to other crimes. This hinders peaceful coexistence.
* The welfare level of the inhabitants is lower than it could be if there was full employment. This generally causes a sense of pessimism and uncertainty.
* The Market economy is portrayed negatively as it cannot sustain itself.
* The person unemployed is totally devastated; and often has to compromise his standard of living, his place in society and his self esteem. It also affects the family that is dependant on that breadwinner.
* It hinders other initiatives (like transformation) which may have to be shelved because of the unemployment problem.

**6.2.4 Approaches to solve unemployment**

This is a problem that needs to be tackled with a definite plan in mind; it is a long term problem and has to be tackled in stages:

* Immediately providing relief – food and shelter
* Improving skills for the unemployed
* Creating opportunities for them to be employed

6.2.4. Discuss approaches to solve unemployment:

* Growth of production;
* Public works programmes;
* • Unemployment insurance;

Population – the economy has to grow at a certain rate to accommodate the newcomers to the job market; if the population grows faster than the economy there is an imbalance and unemployment results. Control of the population is therefore a requirement to relieve the pressure placed on the economy.

Grow the informal sector- the formal sector may not be able to absorb all the work seekers because of either the skill or education level, but the informal sector can provide temporary relief. While it will provide the owner with an income it will also provide him with the necessary skills that will allow him to enter the formal sector more easily.

Grow the economy: South Africa tried to grow by 5% for many years to create this opportunity, but unfortunately this optimism had to be downgraded yearly when the performance of the economy was measured. Each of the different sectors have to be encouraged . The government has been trying many initiatives which have all not been as successful as they promised.

Balance: South Africa has an abundance of unskilled and semi skilled labour; while modernisation is desirable, it should not work to the disadvantage of the population if it takes away a job. It needs to be balanced with the needs of the country.

Education and Training: this can prove to be the most reliable suggestion to relieve the unemployment situation in the country. While the number of universities and colleges may still be insufficient to relieve the skills shortage, access to tertiary education and skills training still remains a problem. Several protests and campaigns are being used to bring this matter to the attention of the authorities.

Subsidies : governments resort to subsidies in order to encourage economic activity; export subsidies to encourage production for export implies expansion of production which will translate into more job opportunities. Further, wage subsidies may be used. Special concessions were provided in the past for the decentralisation programme to encourage businesses to relocate. This idea of special zones is being considered now.

**Activity 1.25 : Addressing Challenges.**

**Purpose:**

This activity will provide concrete examples of government’s attempts to address the challenges of unemployment. You will have to decide on how effective they have been/are.

**What you will need:**

Case study below; any more recent information.

**What you will do:**

Read the following extracts and answer the question/s set:

The President has pledged to tackle inequality in South Africa, tabling a series of measures, ranging from job creation to youth development and infrastructure investment, in order to address the challenge over the next five years.

In the State of the Nation address of the new administration, delivered to Parliament, he called for the economy to take centre stage in the government's transformation agenda, which includes

* Embarking on radical social and economic transformation;
* Investing in infrastructure;
* Promoting small business;
* Fighting wage inequality and
* Growing foreign investment.

#### Economic transformation

"The economy takes centre stage in this programme,".

"It remains our strong belief that the most effective weapon in the campaign against poverty, is the creation of decent work, and that creating work requires faster economic growth.

"We have set a growth target of 5 percent by 2019. To achieve this, we will embark on various measures and interventions to jump-start the economy."

*Measures to assist the youth*

The government would introduce further measures to speed up the employment of young people, consistent with the Youth Employment Accord.

These would include expanding the number of internship positions in the public sector, with every government department and public entity being required to take on interns for experiential training.

"The private sector has responded positively to the introduction of the employment tax incentive. In only five months, there are 133 000 employees who have benefited and 11 000 employers who have participated in the incentive scheme."  
  
Read more: <http://www.southafrica.info/about/government/sona-170614f.htm#.WCsNPbJ97Z4#ixzz4Q5GNJkEn>

Question:

Now that you are aware of the efforts made by the government, are you able to comment on the success of otherwise of such efforts

**Guided Refection:**

This activity illustrates the difficult task the government has, to ensure the population is gainfully employed. Some efforts may show results, while others may not.

**6.2.5 Effectiveness of measures to curb unemployment**

The government has tried many incentives to alleviate poverty and create jobs; unfortunately these have not delivered the desired result and unemployment remains still at unacceptably high levels. *The National Development Plan* is the next step and will hopefully be more effective.

The [National Development Plan (NDP)](http://www.gov.za/issues/national-development-plan-2030), South Africa’s strategy for reducing unemployment, inequality and poverty by 2030, provides a strong platform for collaboration among business, government, labour and civil society.

The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities, and accelerated rural development. It prioritises measures to build a capable, effective state that delivers services to citizens while encouraging business investment and growth. To counter unemployment levels, especially amongst young people, government aims to create six million work opportunities over the next five years.

<https://www.gov.za/issues/national-development-plan-2030>

Now study the following adapted extract:

FISCAL POLICY: The idea that government expenditure would lead to the creation of job, and produce income makes sense in theory and may have worked for many countries. However, mere increase in government expenditure itself, without targeting job creation, would not have that effect.

The building of roads, power dams, etc. in the US had helped the US out of recession, but similar effect is difficult to repeat in other countries. Poorly managed fiscal policy generally lead to irregular spending or corruption and the regular citizen and his family do not see a cent of the "trickle down effect" that is supposed to come.

If a tax incentive is used to attract foreign investors to come and invest---and create jobs, this would be more targeted fiscal policy. Generally, the policy would target a certain territory or industry sector to help ease unemployment through its tax incentive tools. However, fiscal policy alone may not be enough to curb unemployment especially in a case such that of South Africa where unemployment is 25%.

MONETARY POLICY: generally, emerging economies, such as India for example, would use monetary policy to target employment. The rationale is that if the interest is low, companies would borrow money to expand and the expansion leads to job creation. Low interest also helps stimulate spending. The combined effect is to fuel the economy and reduce unemployment. South Africa has 27% unemployment and a large pool of unskilled workers; both fiscal and monetary policy tools could be used if carefully crafted and implemented.

UNSKILLED LABOUR FORCE: This input factor should be exploited. Thirty years ago, the ASEAN countries were an unskilled labour region. It attracted labour intensive manufacturing, such as textile manufacturing for export to the advanced economies. In time, the economy grew and employed people. Today, these countries move up to semi-skilled and skilled manufacturing assembly.

South Africa, having its own deep sea port and strategically located in the continent of a large market and well connected to the outside world--could use the large pool of unskilled labour to its advantage. Tax incentive (fiscal policy) and interest rates (monetary policy) may be used to attract foreign inflow and relieve the current job market stagnation.

<https://www.researchgate.net/post/Is_the_fiscal_policy_effective_enough_to_curb_unemployment_in_emerging_market> this is ref for article,

### Job creation

Study the following statistics:

* Government support helped the automotive sector to produce over 566 000 units in 2014, whereas 356 800 units were produced in 2000. This support has improved auto exports from 11 000 units in 1995 to over 270 000 units in 2014. As a result, 300 000 jobs have been created in the automotive sector.
* Government’s intervention aimed at stopping the decline in the clothing, textiles, leather and footwear sectors resulted in the retention of 68 000 jobs.
* The environmental programmes such as Working on Waste, Working for Wetlands, Working for Water and Working on Fire have created more than 30 000 work opportunities ,.
* The [Department of Communications'](http://www.doc.gov.za/)  digital migration will result in more than 23 500 jobs created in the manufacturing value chain including installers and warehousing, logistics and repairs.

***http//beta2.statssa.gov.za***

**SUMMARY OF LEARNING UNIT 6**

This unit concentrates on two of the many challenges facing the country:

* Inflation and
* Unemployment.

The unit discusses the types of Inflation:

Demand pull – caused by high demand for goods and services , and

Cost Push – caused bu increases in cost of production, leading to demand for higher wages which in turn will increase the cost of production .... and so on.

Thereafter the focus shifted to inflation and salary negotiations. Salary negotiations usually lead to strike action with labour making their own demand and employers making their own offer. Then the analysis is made of the final situation - when the employees accept the final offering and how much the employees benefit taking into account the time lost and wages forfeited for the duration of the strike.

Thereafter, the discussion moves to unemployment – focussing on the causes of unemployment and measures take to curb it.

The unemployment topic took a look at the types of unemployment and then proceeded to explore the causes of unemployment. Thereafter some measures already taken to curb this challenge was included and a critical analysis followed.

For these topics, it is always recommended to keep abreast of latest developments and to comment on it objectively

ASSESSMENT – UNIT 6

Of all the challenges facing the country, unemployment is probably the most serious. Although various attempts have been made to address this it is accompanied by a host of declining indicators.

Write essay unemployment as an economic problem and refer to the South African situation.

40 Marks

1. <http://www.statssa.gov.za/?s=unemployment+rate&sitem=content> (Accessed: 15 June 2018) [↑](#footnote-ref-1)
2. <https://tradingeconomics.com/south-africa/inflation-cpi> (Accessed: 15 June 2018) [↑](#footnote-ref-2)