

SECTION 1 : THE ECONOMY

Introduction:

Economics is the study of human wants and needs and the production of goods and services to satisfy such wants and needs. In this section we study the forces that influence economic activity in any country. This is determined by choices that each individual makes in terms of what goods and services he requires to satisfy his wants and needs. The economy is the area where all these economic activities take place.

Satisfying wants and needs lead to the production of goods and services for the population and in some cases for people of other countries also (exports). Economic activity takes place with many challenges, with the government playing some role in the process. This study is essential because human wants and needs are unlimited while the means to satisfy them are limited, leading to the problem of making choices.

We make choices daily, for example,

- where we choose to work,
- what to buy with our limited income, and
- how to improve our standard of living.

The state of the economy is constantly changing; therefore, in the study of this subject you need to keep yourself well informed on the latest practices; this gives opportunity to question choices made by others, for example,

- why did the government prohibit a certain practice?
- what would you have done in this situation, and to
- debate these issues.

In this course we will keep the discussion limited to the economy of South Africa in the main, and to make sure that all the data we work with are current and relevant.

The material is broken down as follows:

Topic Heading	Topic (with Approximate Instructional Time)
Unit 1 : Economic Concepts 11 hours	The Economic Problem Economic concepts.
Unit 2 : Economic Systems 11hours	2.1 Centrally planned, Mixed and Market Economies 2.2 South Africa's Mixed Economy.

Unit 3 Economic Environments 20 hours	3.1 Economic Sectors 3.2 The State 3.3 Business Environments
Unit 4 The South African Economy 12 hours	The Structure of the South African Economy
Unit 5 Market Dynamics 20 hours	5.1 Price theory in the Perfect Market 5.2 Price theory in Imperfect Markets
Unit 6 Contemporary Economic Issues 10 hours	6.1 Inflation 6.2 Unemployment
Total 84	

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 these concepts so as to facilitate understanding of practices , procedures peculiar to the country.

1.1 The Economic Problem

After completing this section you should be able to:

- 1.1.1 Describe the scarcity problem
- 1.1.2 Explain alternatives and choices
- 1.1.3 Differentiate between economic goods and free goods
- 1.1.4 Describe the process of production, consumption exchange and distribution
- 1.1.5 Use the circular flow diagram to identify the participants and markets.

1.1.1 The Economic Problem of Scarcity

The problem of scarcity exists in all societies because of the fact that, while 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. This refers to the issue of **scarcity** .

A need is a desire for something that you cannot do without, for example food and shelter

A want is a desire for something you would *like* to have but can do without, like a fancy house, designer clothes and so on.

Scarcity : a situation where the needs and wants exceed the available resources to satisfy them

1.1.2 The Problem of Choice:

Because resources are limited, choices have to be made. This applies to producers as well as consumers have to make choices, which means choosing from **alternatives** that are available.

- Consumers have to choose wisely, between the products they purchase with their income.
- Manufacturers will have to choose the best way of using their labour force to produce goods and services.

Alternative: The possibility of choosing between things.

Scarcity also introduces another problem, that of alternatives. 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. 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.

The Basic Processes.

There are three basic questions that participants have to answer at the beginning:

What to produce?

This is the question a society will be asking itself. 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 manufacture of furniture, or clothing or toiletries, to name a few. They 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, which we shall not discuss here.

How to Produce?

Here we ask how to use the limited resources so that we get the best possible output, that is in what combination we should use them, so we can gain the most from it. Considering they will have to pay for the **factors of production**, they have to be careful on deciding what the correct combination will be. This will lead us later on to systems of production.

For whom to produce?

This decision you will take so that you will have a market for the goods and services you have chosen to produce. For example, when you choose to produce furniture, you will

Relative scarcity refers to the situation where goods and services are available but the resources to purchase them are not.

have researched the demand for furniture so that all your products get sold. This introduces us to the question of exchange which we will touch on.

1.1.3 Free Goods and Economic Goods

We mentioned earlier that goods and services are required to satisfy wants and needs. For example you need water to quench thirst, you need a car to be mobile. 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 we can conclude that anything that can satisfy a need or want has got utility. Sometimes the good is available to all, but nobody pays for them, for example the sun provides the warmth needed to grow crops without you having to pay for it, the air we breathe is also free. 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 demand for them and they come at a price. These goods are called economic goods.

The following table distinguishes between these two types of goods:

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

Activity 1.1

1. Explain the following terms

- Utility
- Scarcity
- Alternative

2. Distinguish between free goods and economic goods

3. Classify the following into *free* or *economic* good:

Sand in the desert

Water from the sea

Water from a well

Bottled water from a borehole

Sand for plastering your house.

4. Can you identify a good that was **previously** a free good, but is now an economic good?

Is there a justification for this? Explain.

1.1.4. The Processes:

Production:

Remember we said earlier we have to produce or manufacture goods to satisfy wants. We now take a look at this process of **production**.

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

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

The factors we identify are:

Land/ Natural Resources: this includes all the gifts of nature which we use either in the natural form or with processing. Examples are mineral resources (gold, coal..), fish, animals, soil fertility and so on. These are not limitless for example, the supply of gold can be exhausted.

Labour : is the human effort that is used in the process of production. This effort is rewarded by, usually, wages and salaries. There are various qualities of labour each requiring differing amounts of skills and effort. We usually use the terms unskilled, semi- skilled, skilled and professional to describe their importance and skills required.

Capital : refers to the money as well as other forms of money , (for example machinery) that are used in the production process. It is important to remember that only 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.

Activity 1.2

1. Provide examples of unskilled, semi-skilled and skilled labour. What do you think is the difference between them?
2. What do you understand by a “capital intensive” and “labour intensive” industry? Give an example of each.
3. Take a product from the home e.g, dining room table. See if you are able to identify the factors of production that were associated with its production.

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 consumer for himself and satisfy his want. Examples are clothing, food, music etc.

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

Activity 1.3

Classify the following goods into *consumer goods* or *capital goods*. For each consumer good, identify the want it satisfies.

Clothing in my wardrobe

Woodwork machinery in ABC Wood Turners

Family car used for transporting your child to school

Vehicle used to transport 15 children to and from nursery school.

Water in my kettle for my tea

Water used for baking at Laila's Bakery.

A drill I use when I want to make a shelf at home.

Exchange:

Remember above, we said that the aim of production is to create goods and services to satisfy 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 clear transfer from the producer to the consumer. This means the producer needs to find the

consumer and the consumer needs to find the producer. 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 he can use later for his exchange. .

This is the process of exchange.

Example:

When the farmer's crop of litchis is ready he needs to get it to the consumer as quickly as possible; 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 find each other is known as the market. In this example, the market that comes to mind is the fresh fruit market where you can purchase, other than the litchis, many other types of fruit and vegetables. You have other examples for primary products like, for example, the wool exchange (for wool).

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

Remember the market does not always have to be a place like used above, but used to describe certain sectors. For example:

- Youth market – for goods appealing to the youth.
- Coastal and inland markets- for goods used in these areas
- Summer market – for goods used in summer
- T.V. installers market

Activity 1.4

1. Give examples of two goods available at each of the above markets.
2. Can you spot a difference between the first three and the last one? What is it?

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 on.

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, (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. We will identify the main participants as the *household* and the *business* sector, to show the flow that exists between them and expand on it.

We use a diagram to show the flow of goods and services and the flow of income between them. . Very simply, the following activities will be depicted:

Householders 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).

Householders 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.

Further the buying and selling of each creates a market for each, that is:

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

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.

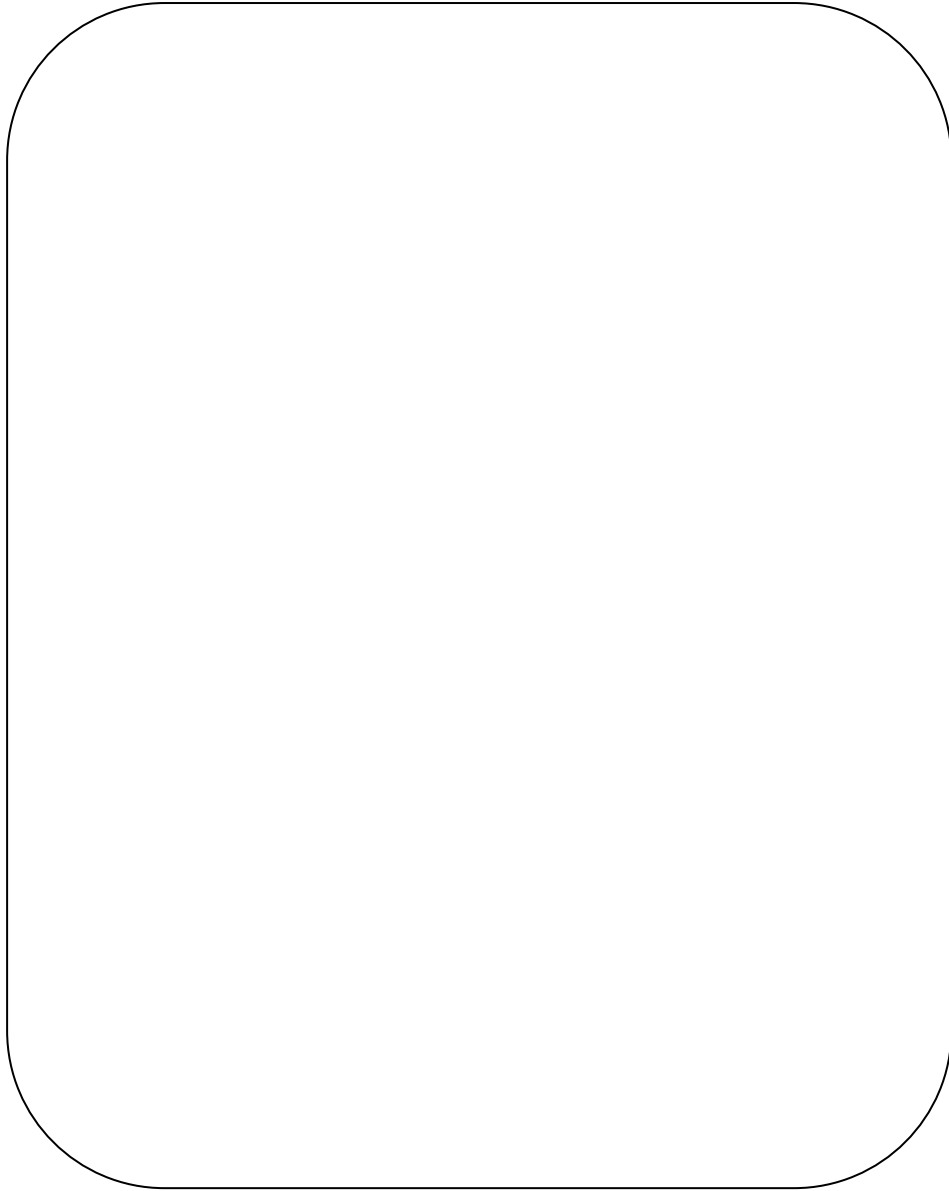
The factor market will be used to determine the price of, for example, labour. In this market, those with scarce skills, like engineers for example, are able to determine what they should be paid (they can demand high wages) as opposed to those in abundant supply like unskilled workers who are paid much 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 good is, the higher the price it commands. The opposite also applies, the more abundant the supply, the lower the price it commands.

Insert

diagram (1)



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 or require large amounts of capital with low returns.) These include services like education, health and power supply.

Further they also buy goods and services for the services they provide like defence equipment.

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.

Recall the various trade delegations from South Africa, to other countries, to promote our goods, the trade agreements signed between countries, trade fairs and so on. These are examples of efforts to promote our goods to foreign buyers

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

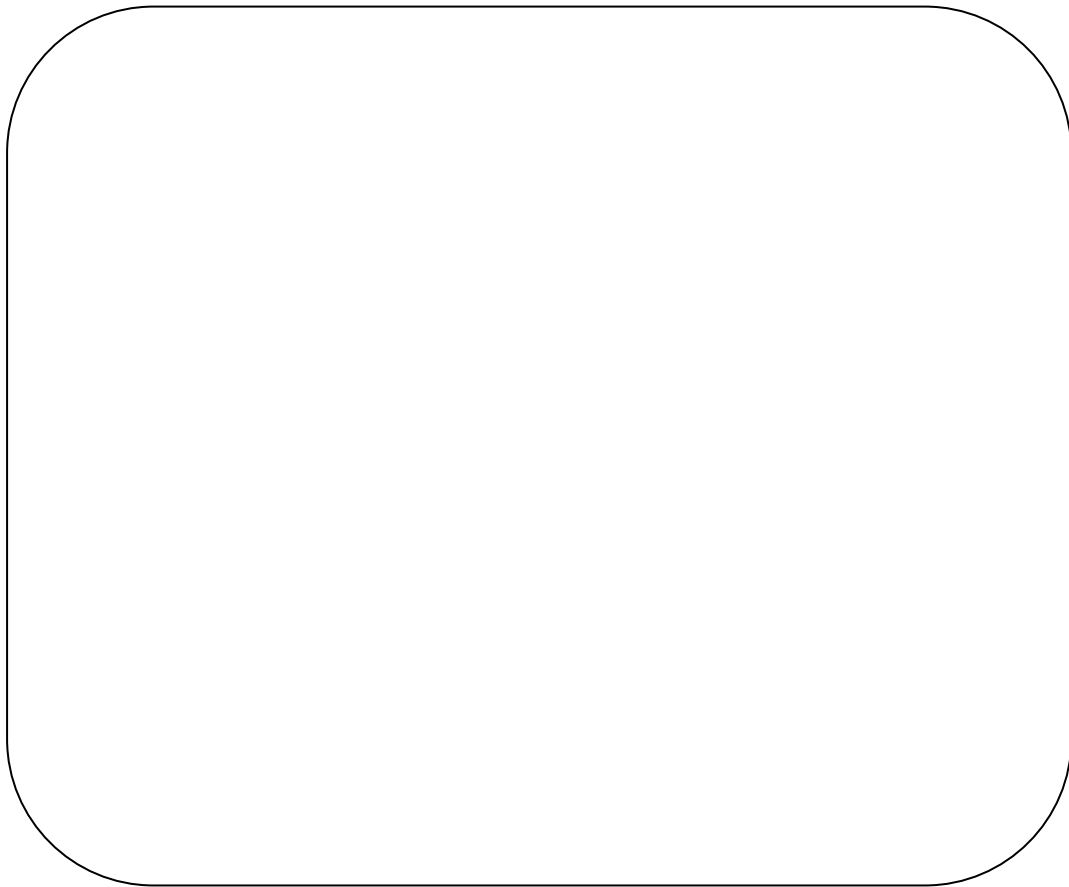
Open economy:
economy that engages in international trade.

Households and business sector are 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 in the above diagram:

Insert diagram (2)



Real flows and money flows:

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

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

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.

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)

ASSESSMENT UNIT ONE

Question 1 :

What are the three basic questions participants in the economy will have to ask at the beginning? Why is it 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

Question 4

Briefly describe four types of markets with examples (8)

UNIT TWO : ECONOMIC SYSTEMS

The economic problems mentioned in the previous unit all apply in a specific environment, the economic system that the country employs. Each one of these “systems” operates differently and therefore the same questions will have different answers in these environments.

The discussion will proceed as follows:

2.1 Centrally Planned, Mixed and Market Economies

2.2 South Africa’s Mixed economy.

2.1 Centrally Planned, Mixed and Market Economies.

Introduction:

We mentioned earlier, that in Economics, a country has to ask the following questions:

- What to produce
- How to produce
- For whom to produce.

The answer will depend on which one of the following three systems are chosen:

- Centrally Planned
- Market
- Mixed

Each one of these systems has its own characteristics. They can be summarised in the table below.

Depending on the type of Economic System it chooses, these questions will be answered differently as indicated by the table below:

	Centrally Planned	Market	Mixed
What to produce	State	Individuals	Govt. And individuals
How to produce	State	Individuals	Govt. And individuals
For whom to Produce	State	Individuals	Govt. And individuals

Centrally Planned Economy:

- This type of economy is also called a command economy/communism
- The State takes all the decisions for the population
- It follows a specific guideline for the country.
- The state owns the factors of production

- Everyone works for the state.
- There is no choice allowed.
- Ownership is communal, not private.

Advantages/ Disadvantages

- People's needs are fulfilled to a large extent
- The population is employed
- More equal distribution of income.
- Natural resources are protected from depletion.
- Resources are centrally controlled and managed.
- All 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
- Has proven to be less efficient than other systems

Market Economy

- Also known as Capitalist Economy
- Largely influenced by supply and demand (suppliers and consumers)
- Prices act as indicators for changes to be made.
- Profit motive is most important
- Individuals are free to choose what to do without any interference from the state
- Individuals own the factors of production
- There is complete flexibility regarding the decisions

Advantages /Disadvantages

- There is freedom of opportunity
- It is an efficient system as resources will be used most efficiently.
- Entrepreneurs will choose the most profitable activities and neglect others
- Profits attract newcomers to enter the market.
- Encourages creativity and innovation.
- Can lead to monopolies- consumers can be exploited.
- Not all needs are satisfied
- Unemployment is usually a problem
- There can be extremes of rich and poor.

Mixed Economy:

- As the name suggests, this system is located between the two mentioned above, that is, both command and market.
- The government controls some aspects and individuals the others.
- Profit motive is still present.
- There is a check on monopolies
- Usually those industries requiring large capital outlays and which also returns low profits are undertaken by the government.
- It is difficult to determine the correct mix for individuals and government.

Advantages/Disadvantages:

- 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.
- Taxes to fund public goods can be high.
- The government keeps a close watch on competition
- Unemployment may still be a problem
- Quality may suffer if there is too little state intervention.

Activity 1.5

1. Distinguish between the three systems mentioned above. Which, in your opinion is the best and why?
2. Which system does South Africa follow? Motivate your answer

2.2 South Africa's Mixed Economy.

We classify South Africa's economic system as mixed because both the state and individuals share the space. The Government provides basic services but private enterprise also provides goods and services.

For example:

The state provides education

There are many private institutions providing the same

The state provides telecommunication services.

There are private service providers also.

Telkom provides fixed line services

Neotel is the second fixed line operator

The state provides health services

There are many private health service providers.

The state provides housing

There are many private service providers.

Activity 1.6

Look at the statements above. Can you provide examples of the private service providers?

What can you say about petrol?

What can you say about electricity?

We now need to take a look at the performance of the economy to determine whether this system (mixed market) is the best choice for South Africa.

Source: **www.southafrica.info**

Note : The following information has been taken from the website indicated hereunder. The material has been selected and simplified. Read the article and decide whether you are happy with the performance of the economy and make your own suggestions if you have any.

The country is politically stable and has a well capitalised banking system, abundant natural resources, well developed regulatory systems as well as research and development capabilities, and an established manufacturing base.

South Africa's economy grew by a marginal 0.7% in the third quarter of 2015 following a 1,3% contraction in the second quarter.

Unemployment, at a rate of 25% (compared to an average of 11% for upper middle income countries, according to the World Bank), remains the most challenging of South Africa's hurdles: it is at the top of government priorities and at the heart of its economic policies.

Three of the 10 main industry groups shrunk in size: agriculture, mining, and electricity, gas and water supply. Manufacturing has recorded growth. Agriculture, mining and manufacturing, traditionally labour intensive sectors that employ unskilled workers now account for 19% of total employment, down from about 30% in 2000; the services sector now accounts for 72% of total employment.

South Africa has developed the National Development Plan 2030 which, among other things, intends to do the following :

- Improve infrastructure
- Diversify exports
- Reduce the cost of doing business with South Africa
- Reduce constricting elements
- Encourage entrepreneurship

South Africa is rated second (now third), after Nigeria. Its main aim through this plan is to:

- Double output
- Eliminate poverty

In December the country faced a downgrade in its investment category. This is a negative step and will make it difficult for the country to reach its goals. At present (2016) it is doing its best to prevent a further downgrade.

Read more: at Source

<http://www.southafrica.info/business/economy/econoverview.htm#.WBCxyvl97Z4#ixzz4OCO4DgRH>

SUMMARY OF LEARNING UNIT 2

This unit focussed on economic systems.

It introduced you to the systems that were are practices or were practised, with a discussion of the following:

Centrally planned economies (communism)

Market economies (capitalism) and

Mixed Economies (socialism).

After a discussion of the characteristics of each you went onto the advantages and disadvantages.

In the second part of this unit, you concentrated on the South African economy. After determining it was a mixed economy, you proceeded to justify why this was so.

Thereafter, you were introduced to some observations of the performance of the economy and if it was the best thing for this country.

ASSESSMENT – UNIT 2

Study the article below adapted from www.iol.co.za and answer the questions that follow:

The mixed economy is here to stay

OPINION / 1 February 2015, 05:59am

The public and private sectors are not perfect, but both have important roles to play in South Africa, so we should start focusing on strengthening their capacities, writes Ben Turok.

Can we really deny that we have a mixed economy, which will be with us for a long time to come? There is ample scope for discussing the best balance between the private and public sectors, but that both are with us is surely beyond doubt.

The reports on South Africa's economy by a variety of international agencies are all negative. Our leaders may continue to chant "*we have a good story to tell*" and indeed there is much to be proud of, but the economy is not one of them.

We are underperforming badly, with stagnation the trend. Perhaps it is because of dismay, in a country so rich in natural resources, that comments on our performance get increasingly harsh. In particular those who believe in market economics are getting agitated about state performance with some justification.

Poor management in several state-owned enterprises (SOEs) (state owned enterprises) provides ample scope for the critics of all government interventions in the economy. At the same time, government ministers seem to have their backs against the wall in defending state interests. "SOE's are first and foremost businesses and they must be run like businesses. If it serves a development agenda, then (it is) the wrong route. That is not their purpose."

Parastatal:

Company wholly/partly owned and controlled by the government whose activities serve the state.

Yet the ANC and the government insist the state does have a role to play and the government wants to protect its holdings in state-owned companies such as Eskom to ensure they pursue a "developmental role" in the economy as a whole.

And we are not alone. Nowhere, in the world is there an example of a pure free market economy. All economies, with the exception of North Korea, are mixed to some degree.

In short the either/or approach to the roles of the private and public sectors is not very helpful. There are things that the market delivers best and other things that governments deliver best. Where competition and proper allocation of risk exists, the market might be the best to deliver, but where there is no or limited competition, and where risk is not properly allocated to the owners of capital –, the owners of capital do not carry the loss – there might be a role for government.

We need to be careful about surrendering state enterprises. For instance, if Eskom was privatised but failed to deliver electricity, the government would have to bail it out. This is the problem called moral hazard. The state still bears the final responsibility with public services. In some cases private companies become inefficient because they know they will be bailed out.

The point is that in a mixed economy the relative strengths of the private sector vis-à-vis the public sector is fluid. We see how China has developed a robust economy by allowing great scope to private capital while retaining substantial powers in the state, especially where strategic interests are

involved. In oil-producing countries, the big oil companies are all state-owned and managed efficiently.

In South Africa the argument is often made that SOEs must be profitable even if they provide services. But there is a built-in contradiction. If they are to make a profit, they have to implement more than cost recovery and this can only be done by raising charges. Because of our highly skewed economic history, many areas were left unserved because neither the state nor the private sector wanted to go there.

Since 1994, many public services have been extended to areas and previously disadvantaged people. Some of us also use the term “developmental state” which is another of those broad, terms that cannot be defined clearly. The ANC aspires to creating a developmental state.

Having witnessed the collapse of the economies of the former Soviet Union and Eastern Europe, there is undoubtedly a great deal of scepticism about state control and interventions in the economy. History seems to teach us there is a great deal of importance in market signals about pricing and supply, which markets give us. But there is also a great deal of scepticism about “free markets”, which are not generally free

The IMF says that inequality stifles growth. “A severely skewed income distribution harms the pace and sustainability of growth over the longer term,” So there you have it. Capitalism favours the rich who get richer. But inequality, at least in the long run, is counter-productive to growth. Surely this makes a good case for the state, which if run for the benefit of society as a whole to ease the effect of pure market forces? None of this is to deny the serious managerial problems encountered in our parastatals.

To the contrary, by accepting that neither the market nor government is perfect, we can recognise that both need to play a role and we should rather focus on solving their problems.

The real question becomes one of how we can harness and strengthen the capacity of both the private and public sectors.

www.iol.co.za (adapted)

Questions:

1. The article confirms that South Africa uses a mixed market system. List three observations mentioned in the article regarding their performance.
2. What are parastatals? List two of them you are familiar with. What does the article say about the performance of parastatals?
3. What do you know about the performance of the economy? Are you happy with it?
4. Make some suggestions to improve the situation.

UNIT 3: ECONOMIC ENVIRONMENTS

Introduction:

In this section we 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.

The material is broken down as follows:

3.1 Economic Sectors:

Public and Private Sectors

Formal and informal sectors.

After completing this section you should be able to:

3.1.1 Distinguish between public and private sectors

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

3.1.3 Argue for or against privatisation/ nationalization

3.2 The state

Functions of the state

The government's macroeconomics policy

Public sector intervention

After completing this section you should be able to:

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

- Security
- Social welfare
- Legislation
- Preserving resources
- Money and banking
- Providing infrastructure
- Encouraging business

3.2.2 Comment on the government's macroeconomic objectives:

- Economic growth
- Full employment
- Price stability
- Exchange rate stability
- Economic equity

3.2.3 Evaluate the achievements of interventions:

- Effects of the intervention, e.g. subsidies; Minimum wages; Price controls; etc.

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.

In a mixed economy like that in South Africa, they provide those goods that the private sector is not prepared to. When we use the word government here, we mean all the branches of government, that is

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 – these are enterprises that are owned by the government and provide common goods and services e.g. Telkom.

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.

The private sector covers a very wide variety of activities. Businessmen are free to choose any direction that will deliver the highest profit. The government has some control over them . The government usually regulates the private sector. All **businesses** operating within a country comply with the laws in that country. Some of the relevant laws regulating business are discussed later on.

Businesses are free to choose their product or service, their target market, their suppliers and their locations based on their expertise; industries and individual businesses choose to control themselves by setting their own standards and adopting a mission statement, which usually includes moral and ethical ideals. They apply higher standards for dealing with their workers, customers, as well as the natural environment than is required.

Activity 1.7

1. Give three examples of services performed by the government
2. List five examples of private sector businesses and the product/service they are engaged in. Why do you consider them to be private?

3.1.2 The Formal and Informal Sectors.

Informal sector

The informal sector is that part of the economy that engages in unrecorded economic activities mainly in consumer goods. They are usually individuals in business for themselves and fall outside the mainstream activities of the public and private sectors. Almost two million people in South Africa are engaged in informal activities. The informal sector is not a permanent solution; it cannot eliminate poverty although it provides an income. In the absence of any solution to the unemployment problem, it is fast becoming a permanent feature of the economy.

Features:

- It usually concerns small scale retailing
- Usually conducted by persons who cannot find work in the formal sector
- Easy to enter this sector
- Source of income for many householders
- Requires little capital
- Requires few skills and little training
- No regulated working hours
- No fringe benefits are provided (pension etc)
- No worker protection or union affiliation
- Output excluded from formal sector production figures
- Sometimes encourage illegal practices in these types of businesses.

The Formal Sector:

This is the regulated section of the economy. Workers

- work regulated hours
- receive recommended wages and
- enjoy protection.

In addition they receive fringe benefits in addition to their wages/salaries.

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

Incomes are taxed.

Activity 1.8

1. Briefly distinguish between the public and private sectors.
2. Give three examples of businesses in the informal sectors.

The importance of the Informal Sector

The informal sector as described above does have certain advantages and disadvantages:

Advantages:

- It provides goods and services in close proximity : the corner tuck shop is situated sometimes among the households and brings daily requirements within easy reach.
- It provides job opportunities for those who cannot find work in the formal sector : with the unemployment rate above 25%, those entering the work world find it increasingly difficult to find suitable work. This sector allows the entrepreneur to get a foothold and hopefully will lead to a formal business.
- It assists in the fight against poverty: the work in this sector is not of a permanent nature and also it is not regular. Unlike a worker in the formal sector who receives a fixed salary and who can budget his expenses, the informal sector cannot do this. It is however, allow a person to eke out a living .
- Running an informal business gives a potential entrepreneur a chance to develop the skills required to become successful should he decide to enter the formal market if he gets the opportunity to do so. It also gives the opportunity to experiment with different types of activities and be able to find the most suitable one without much investment.
- Informal business assists in care for the environment : with some innovation, people make use of scrap and change them into items of use. This also helps in the “green economy”.

The disadvantages include:

- Workers do not have any protection and can be exploited. No union representation exists in the informal sector.
- The output does not form part of the official GDP which is measured by the government. It is therefore difficult to measure the extent of 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 goods or even harmful goods.

Activity 1.9

Informal Business:

1. From your knowledge of informal activity give at least three examples of informal business in your neighbourhood.
2. What purpose does their establishment serve? .

3.1.3 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 the control, with or without compensation. The motivation is that the investment in such industries is so great and are usually unprofitable, that it supports the state taking over for the benefit of the general public. Transport and electricity are examples of such nationalised industries.

Supporters of Nationalisation argue as follows:

These industries usually run at a loss. The state can bear losses if such a situation occurs whereas private business cannot, without causing destruction. 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 communication.

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.

Prices are controlled and this helps especially during times of war.

Nationalised industries will be mindful of other government initiatives and will ensure that its activities do not clash with them, for example, care of the environment.

Pollution control is one such government priority and private industry will not take this seriously if it were to reduce their profit prospects.

Disadvantages:

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 lack of freedom. In the pursuit of profit people become more innovative and go to any extent to come up with original ideas to outwit the competition. This is now sadly lacking.

State enterprises are not run by people who are masters in this art and usually 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 best persons 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. They pursue the profit principle.

Some of the arguments to support privatisation:

Private firms are reported to operate more efficiently than public enterprises. The profit motive, being the main aim will ensure that all the resources are used to be best advantage – most productive staff employed, little or no wastage, money spent wisely etc.

State enterprises, on the other hand are usually poorly managed resulting in losses. This has implications of the taxation requirements.

Income from taxes is an important source of state revenue and can be used to fund projects and initiatives.

Good performance by private businesses makes the country a better investment opportunity and usually attracts outside investors. Credit ratings improve.

Some of the arguments against privatisation would be:

Workers are usually exploited in the pursuit of profits. The interest of the individual are placed before that of the country

Workers may find it difficult to find suitable work as businesses will be selective in their recruitment. .

Activity 1.10

Read the article below adapted for the mentioned source and answer the question that follows:

Privatisation or Nationalisation?

The age-old question of whether the state should run businesses or not may be ready to hit us with renewed vigour. Even in the debate on privatisation of state enterprises, the ghosts of the 1970s' nationalisation are invoked here and there. The pro-business group says that the nationalisation of the 1970s was an utter disaster and the state has no business running business enterprise. Marxists on the other hand think that state controlled enterprises are the holy grail of equitable economy. Just as in the case of any other economic debate, these sides have taken maximalist positions without realising 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 out nationalisation as a needed interventionist tool.

Those claiming to be disciples of Karl Marx or Adam Smith fail to realise one key similarity between the two great economic thinkers of human history: both were trying to solve the same problem of the Industrial Revolution. Both realised that distribution of capital can get skewed, which leads to an inefficient utilisation of resources. Adam Smith's solution for this was to create a perfectly competitive open market where market forces themselves would take care of inefficiency and the skewed distribution of capital through mechanisms like supply and demand based wage rate and individuals' respective competitive skills. Karl Marx on the other hand thought that human nature could not allow for market forces to correct on their own and thus required an external interventionist element in the form of the state. What Smith missed was the basic human instinct of being a capitalist giant leading to monopolies and cartelisation. What Marx failed to realise was that the power the state yields in the process makes those at the top of the state become dominating and thus lead to the creation of an oligarchy.

In reality, both offered solutions that were workable but were not the perfect solutions and, as the historical progression of the human race has shown since, economic progression has occurred as a result of switching between the two theories as and when the need arose. For instance, in the most open of markets — the US and UK — in the aftermath of 2008 financial crisis it became essential that the government take control of some of the largest financial institutions because without that the economy, financial system and even those institutions would collapse. And in the world's most populous socialist economy of China, the state realised it had to open up the economy gradually to let entrepreneurial zeal drive the most robust growth in human history. Neither did the US opt for nationalisation as the sanctum sanctorum of the state nor did China shun its socialist ideals where the state still remains the final decision maker in allocation of resources.

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 in an entrepreneurial economy. 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 overlook elements essential for long-term social benefit. 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 a vast swath of humanity benefits from.

Source: <http://dailytimes.com.pk/opinion/03-Dec-15/nationalisation-versus-privatisation> (Adapted)

Questions:

1. The article identifies some of the difficult decisions taken in the past regarding the issue of Nationalisation and Privatisation.

List some of the instances quoted and summarise the conclusion.

2. Here, in South Africa, we also have instances of protest action and demonstrations regarding issues related to Nationalisation and Privatisation.

2.1 What are these issues?

2.2 What is being proposed?

2.3 How do you feel about it?

3.2 The state

We shall be dealing with the state as follows:

3.2.1 Functions of the state

3.2.2 The government's macroeconomic policy

3.2.3 Public sector intervention.

3.2.1 Functions of the state:

We shall discuss the following functions of the state:

- **Security**

Adam Smith regarded security as the main function of the state. The government has a duty to ensure that its population is safe from attacks both from the outside as well as within the country.

The National Defence 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 able to care for themselves. For this they provide grants e.g. child grant, old age grant, and pensions to mention a few. For health security medical services are also provided. Housing is also one of the social needs catered for.

- **Legislation :** Because we have a mixed economy, there are private businesses supplying goods and services. The government ensures that firms compete with each other to offer the best deal 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;
- Labour relations Act
- Employment Equity Act
- Skills Development act

Some of the acts are designed to facilitate business operations while others tackle the issue of redress. We will be referring to these acts later in the following sections.

- **Preserving resources:** it is important that the resources which each country is endowed with, are preserved and used with care. Natural resources like gold and soil fertility must be preserved. At the moment, water conservation is the focus in South Africa more than anything else. The governments takes steps to ensure the populations if made aware of the situation and take part in usage initiatives to

conserve this scarce commodity. Presently the implementation of a levy for water is being considered. The Rhino campaign also deserves much attention.

- **Money and Banking** : A secure and solvent banking system is a requirement for trade and business. The country uses the South African Reserve Bank to administer this function, that is, to control the money and banking in the country. The Banks Act provides for the establishment of further banks.

The World Economic Forum's rating for South African Banking and reporting system is very favourable and considers it among the best in the world.

- **Providing infrastructure** : One of the main aims of the National Growth Plan is the provision of infrastructure. The country considers this as very important in encouraging industrial development. Special attention is paid to this aspect. Providing safe and economic transport and communication is at the heart of these initiatives. Numerous projects are being undertaken presently to see this to fruition. Sometimes the state takes over and establishes key industries itself that will service other industries economically for example, Eskom., South African Railways, South African Airways.
- **Encouraging business and providing guidance**: The state establishes organizations that will assist industry by providing guidance and support for example:
 - SABS for quality control
 - CSIR for technical assistance
 - Central Statistical Services for the processing information
 - Industrial Development Corporation for finance
 - Research laboratories for stock and plant diseases

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.

3.2.2 Macroeconomic policy of the state:

This refers to the interventions of the state in order to improve it. This is done to:

- Improve the standard of living of the inhabitants
- Improve the state of the economy by catering for the low profitability goods

This is achieved by the following:

Economic growth: this implies stimulating economic growth. 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. Workers will retain their jobs if there is an increase in consumption of the goods they are producing. This implies increasing consumer demand. Should this happen, then increased production will require more labour and hence the employment situation will improve.

Price stability:

Inflation - Is one of the causes of price increases. Inflation causes hardship for many households. 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, 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 part as the value of the goods to be purchased or sold can change when the exchange rate changes. Example when our Rand is weakening (losing against other countries) then, by implication, foreign currency is strengthening. It would be gainful 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 - 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 which quite simply requires those who can afford more to pay more.

Activity 1.11

In October 2016, the Minister of finance presented the medium term budget.

In this budget, he mentioned the steps that the government will take to bring about economic equity. List some of the concerns briefly.

Look at the following explanation of the Medium Term Budget Policy offered by

“www.treasury.gov.za”

What is the Medium Term Budget Policy Statement?

The Medium Term Budget Policy Statement (MTBPS) is a government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the three-year expenditure period.

The policy statement is an important part of South Africa's open and accountable budget process. It empowers Parliament to discuss and shape government's approach to the budget. The government has to table the MTBPS in Parliament at least three months before the national budget is presented.

The statement must include:

- A revised framework for the current financial year and the proposed framework for the next three years.
- An explanation of the macroeconomic position, projections and assumptions.
- The spending priorities of government for the next three years.
- The proposed division of revenue between national, provincial and local government for the next three years.
- Any proposed adjustments to conditional grant allocations to provinces and local governments.
- A review of spending by each national department and each provincial government between 1 April and 30 September of the current financial year.

Source:

<http://www.treasury.gov.za/documents/mtbps/2016/mtbps/MTBPS%202016%20Full%20Document.pdf>

3.2.3 Government intervention

Markets usually work properly and if left on their own, they work out the prices according to the theory of demand and supply. There is no need for the government to intervene.

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

The economy is not growing at a satisfactory pace to absorb the new workers entering the job market. This would lead to a rise in unemployment. They can 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*.

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*.

Let us examine each one of these :

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 decreases, which should lead to the lowering of the final price of maize. 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:

- 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 a cost to the government.

There can be various types of subsidies:

Subsidy for wages, relocation, rentals, modernisation, rural development, subsidies for housing, government guarantees and so on.

Price controls:

The market as we mentioned works perfectly and is able to determine the equilibrium price. While this may be so, the government sometimes feels the need 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.

This will benefit consumers as those who could afford it before will now purchase more, while those who couldn't will now be able to. 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.

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, the government may decide to introduce minimum wages. This sets out the minimum wage the an employer will be obligated to pay the employee.

This move may benefit the worker who may now enjoy a better quality of life. However, this may have negative consequences also. 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 gains. Furthermore, employers may find it necessary to reduce the workforce, or reduce the workdays of those it employs. This will hort 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.

Activity 1.12

South Africa announced a proposed minimum wage of R3 500 per month in November 2016.

1. Various organisations have expressed their views on this announcement. What are they?
2. How do you feel about it?

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.

Insert diagram 14

Micro

Market

Macro



3.3.1 The Micro Environment :

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

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 great detail in Section 3 (Business Operations)

Vision: this is the dream of the founders; the entrepreneur has a dream of what the future of the business should be, and devises strategies to take the business there. Strategy relates to the plans management draws up in order to achieve the vision. This can be done only if the available resources are used wisely so as to beat the competition.

Mission: this is a statement indicating what the business wishes to achieve, in other words why it exists in the long term. A school, for example, also has a mission statement and it may be stated as :

“To produce learners of high quality who become employable and use their skills to serve the nation”

Objectives: this is an elaboration of the mission statement and is more specific. Businesses may have more than one objective; we know that the primary objective of businesses is to make profit but further than that it may also include service to the community. For example, a business may have, in addition to profit an objective to provide training skills to the community.

Organisational culture: the organisational culture is based on the values, expectations and beliefs, for example the determination and commitment of workers can lead to great success.

The Business Functions

As mentioned above this aspect will be done on greater details in later sections. We can just mention the business functions here:

- General management
- Marketing
- Financing
- Production
- Procurement
- Administration
- Human resources
- Public relations
- Risk management
- Information Technology

3.3.2 The Market Environment:

The market environment lies immediately outside the micro environment. It is made up of the following components:

- Consumers
- Suppliers
- Competitors
- Intermediaries
- Community based/non- governmental organisations
- Unions
- Regulators

Consumers:

A consumer 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 business is to have the correct goods at the correct time at the correct price to cater for the varying needs of the community. The consumer market is heavily influenced by competing branding and pricing and their wants keep changing.

The consumer market can be broken down into the following:

- *Market for non durable goods* – those that do not last and is used up e.g. food
- *Semi durable goods* those that can be used over a short period of time e.g. clothing
- *Durable goods* – those that can be used over and over again e.g. refrigerator, tools etc.
- *Services* – e.g. plumbing and motor repairs.

Suppliers

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

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

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 as you do. Because of our economy (which is mixed) free competition is allowed and encouraged. Competition is beneficial to the consumer because he is the one who gains in the end in terms of either better quality or lower prices. Competition keeps a business on its toes to be able to keep up with the competitor; to counteract any attempt by the competition to increase their market share especially if it means reducing your share.

While competition is encouraged, it still has to be fair and follow some rules. Here in South Africa the Competition Commission takes care of that, and is able to intervene in disputes with regard to unfair competition. The Advertising Standards Authority is the

body that entertains complaints regarding advertisements that may be harmful or offensive to any group of people or a competitor. We will be looking at this aspect later under marketing.



RULINGS

Please see a list of ASA rulings below

18NOV2016

SECURITY OUTFITTERS SAFETY GEAR / L MUNIAN / 2016-4420F

This ruling provides clarity on the practice of advertising VAT exclusive prices.

18NOV2016

BMW FUEL CONSUMPTION / V DEMRUGARAM / 2016-4806F

A discrepancy between claimed fuel consumption and actual fuel consumption gave rise to this dispute.

15NOV2016

ISUZU / B RUBULUZA / 2016-4905F

This matter considers whether or not a fleeting scene depicts / encourages or condones a potentially unsafe practice.

14NOV2016

UNILEVER ORIGINAL RAMA MARGARINE / Y SHAIK / 2016-4918F

The complainant took issue with the reduction in fat on this product variant, arguing that this negated the reference to "original".

7NOV2016

MTN SAMSUNG NOTE 4 / J STEYN / 2016-4794F

The fact that the Samsung Note 4 did not have the CPU advertised gave rise to this dispute.

Community organisations/ regulators/unions

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 community, which the government is failing to provide properly. They are run mainly by volunteers and rely heavily on public support. They are active in areas such as health care, education, social services, and environmental awareness.

A number of regulatory bodies control the way business is conducted in the country.

- Consumer watchdogs like *Housewives League*, the Consumer Council, and Chambers of Commerce are mindful of the consumers plight and do their share
- Consumer related TV Programmes warn consumers of exploitation and scams
- Consumer columns in newspapers expose bad business practices.

[insert newspaper column]15 Wendy Knowles (Ask Wendy)

[insert newspaper column]16

Unions

Trade unions represent workers in a dispute with (usually) management ; this can be a problem to business as they can influence workers to **strike**, or engage in a "go slow " , all of which are harmful to the smooth running of the business.

Strike refers to the situation where the worker withholds his labour, and refuses to work.

Workers may have issues with the working conditions, or salary or unfair dismissal, but whatever the cause it leads to losses for both the business as well as workers. It is therefore important that the business maintains good relations with workers.

3.3.3 The Macro Environment

The macro environment exists outside both the micro and market environment and has an effect of most businesses. Businesses need to identify those elements from the macro environment that are most likely to have an impact on their operations and develop strategies to overcome them.

The components of the macro environment are:

- Physical (natural) environment
- Economic environment
- Social Cultural and Demographic environment
- Political environment
- Legal environment
- Technological environment
- International environment
- Institutional environment

Physical Environment

Consists of scarce natural resources and infrastructure

These are used by 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 need to be protected

Waste discharge leads to air and water pollution and also leads to legislation

Economic Environment

This environment includes economic forces such as interest rates, exchange rates and the general performance of the economy. High interest rates have the following effect:

- Consumers borrow less and therefore spend less which affects business negatively
- Businesses borrow less and therefore limit growth and expansion possibilities therefore impacting negatively on employment
- 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.

Social Cultural and Demographic Environment

Here we are dealing with the society within which the business operates. Factors like unemployment crime, education levels trends and new developments all have an impact on the success or failure of businesses. For example catering for younger generation as opposed to older generation, (they have different likes and dislikes) catering for an educated population as opposed to illiterate population . All have serious implications in being able to satisfy varying and changing needs.

Differences in cultural preferences 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 during different times, or certain classes of meat at all.

Unemployment brings with it other social evils like crime and HIV Aids.

Political Environment

The political situation within a country also has an impact on business operations. Within the country there can be misappropriation of monies resulting in no service delivery and which lead to social unrest and disruptions; we also need to be take into account how we are viewed by foreigners. For example the discriminatory laws of South Africa in the past, was totally unacceptable to the trading partners who applied

sanctions; this crippled the economy but brought about the change to a democratic government we have today.

Sanctions: in this context, sanctions refers to restrictions instituted against a country for political reasons

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

Legal Environment

Business needs to operate in a protected environment with the government passing laws to allow this to happen; this, for example keeps competition fair giving all an equal opportunity to prove themselves. Some of the areas where this occurs are:

- 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

Activity 1.13

Give one example of a law mentioned in each of the above cases. The last one is done for you

Law to promote skills development	Skills Development Act No 97 of 1998

Technological Environment

This is the latest threat to present itself; with the advance in technology the face of business is sure to change in terms of :

The way business operates – new production methods, mechanisation with a reduction of human participation; products and production methods become outdated making it compulsory for businesses to change to newer and more efficient methods of production .

The way information is recorded and used for business purposes; computers allow vast amounts of data to be stored and recalled almost instantly;

Banking practices - these have become more streamlined and convenient; with the introduction of EFT much of the laborious payment methods have been replaced.

Activity 1.14

Write one paragraph giving an example of how each one of the scenarios mentioned above, has changed . Add your comment on whether you think we are heading in the right direction or not.

International Environment

This includes other countries, with their own politics, laws, cultures and economies. Differences in language, cultures and different currencies makes international trade quite complicated.

Currency differences require an exchange rate to be established. Changes in the exchange rate have an effect of 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.

Cheap Chinese imports in the past have led to the closure of many clothing manufacturing industries resulting in serious job losses.

Institutional environment:

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 and so on. Other goods that require large capital investment which private individuals cannot afford, are also taken over by the government, for example supplier of power.

Consumer – it buys large quantities of products for the services it provides, for example books, schools and teachers 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 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, several growth plans all of which are aimed at stimulating the economy to grow and create employment. Further it needs to regulate business to ensure fairness, by passing legislation to ensure fairness and justice.

3.3.4 Interrelationship between these environments.

While the environments are clearly identified and demarcated, it is important to note that they do not function in isolation. One influences the other. We can find numerous examples of these for example:

The performance of the Sales department affects the Procurement (purchasing).

Procurement influences sales

Consumers affect sales

Unions affect Human Resources.

Economic environment (interest rates) affects sales which affects procurement.

Political environment influences sales (sanctions).

It is therefore safe to say that the environments are closely interrelated.

3.3.5 Control over these environments

Each of the environments will now be examined to determine to what extent they can be controlled, in other words, how much control has the business over the environment.

Micro environment

Commencing with the microenvironment we note that the vision, mission and the objectives can be controlled. The business will identify and draw up its vision and mission statement, where it sees itself and how it wants to get there. Here we can say that the business has full control. After doing market research, and finding its place in the market, business take the decisions themselves as to how to fill the gap they have identified as to where to place themselves. They themselves will find out how accurate and reliable their market research was when they examine the results of their trading at the end of the year.

The business functions; here businesses have much control. For example:

Purchasing – businesses decide who their suppliers will be , how much to purchase from them and whether they will have other suppliers to use in case of emergencies.

Sales – businesses decide what their policies will be for example whether they will sell on credit or not. If they do they are aware of the possibility of bad debts. But if they take the decision to do so, it means that they are doing this because it may give them an advantage over a competitor who may not be granting credit. We can see therefore, that, although the decision is let to the business itself, it is influenced to some degree by the competition.

Production – they decide on mass production or production to order- this will depend on the product or service 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 influenced by the workers who are aware of legislation in this regard and usually seek

the help of labour unions to get what they want. They may have to engage in strike action to effect this.

Business has control of most of the other functions. We can conclude therefore, that the business has considerable control of the micro environment.

Market environment:

In this environment, there is much less control that businesses can exert. For example:

Consumers – the consumer market you serve can change at any time; when goods come into fashion, some consumers (brand conscious) will set the trend by being the first to purchase whatever is new. Others will follow. You have no control over the choices consumers make.

Intermediaries are those who provide services of marketing storing and transporting goods on behalf of manufacturers. Agreements can be made with intermediaries who will offer some guarantee of their services. Some intermediaries may have specialised interests like serving one area only or specific products only.

Unions and other organisations – here there is little control ; unions have the interests of the workers (their members) at heart and will go out of their way to see that their members demands (of legitimate) are met. This may be to the detriment of business. Community organisations like consumer watchdogs have the interests of the consumer at heart and may work against businesses.

Macro Environment- in this environment the business have very little control. For example:

Technological environment – in this environment, innovation is the key. They are constantly looking for ways and means of making production processes easier, cheaper and more efficient. Sometimes this works against businesses that have invested heavily in machinery that may become outdated or processes that may become redundant.

We can examine each of the other components also.

Activity 1.15

Take each one of the following components of the macro environment.

- Institutional Environment
- Legal Environment
- Political Environment
- Economic Environment
- Social Environment

Give a very brief description of this particular environment and then indicate how much control the business has over these 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 controlled by to a large extent.

Some distinctions were 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.

ASSESSMENT UNIT THREE

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 five examples of informal businesses in your neighbourhood and their line of business 10

Question 3:

Describe FOUR characteristics as well as disadvantages of informal trading? 16

Question 4:

Explain five functions of the state. 25

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 .

UNIT 4 THE SOUTH AFRICAN ECONOMY

Introduction:

A country's economy changes with growth. In its initial stages, a country will rely on primary industries to contribute to the economy the most. Later on with development and expansion, the economy changes to secondary and with industrialisation and now globalisation, the situation changes even further. Before we analyse the South African economy, let us first familiarise ourselves with some of the basics to understand changes later.

We will be approaching this section as follows:

1. Primary, Secondary and Tertiary Industries
2. Infrastructure

Communication
Transport
Energy

After completing this section you should be able to:

- 4.1.1 Distinguish between Primary Secondary and Tertiary Industries with examples
- 4.1.2 Research contributions made by each sector
- 4.1.3 Analyse South Africa's Infrastructure using economic data.

4.1.1 Primary Industry

Primary industries are those industries involved in the extraction, exploitation, and cultivation of nature's gifts. Examples of such industries include:

Agriculture - cultivation of crops

Mining - minerals extracted from the earth like gold. coal, copper and so on.

Forestry – cultivation of forests for wood.

Fishing – catching fish for commercial purposes.

Primary industries provide the raw materials of 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 manufacture of steel

They also supply the food for the population

Some of the primary industries can replace what they take from nature (e.g. farming land can be fertilised) while others cannot do this (mining- once the minerals have been mined it ceases to exist.)

Secondary Industry

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

Examples

Examples of secondary industry include:

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

The secondary sector is broken down further into:

Manufacturing Industries: these are all the industries involved in making goods and services 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

Electricity ,gas and water supply. – 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

Construction- this includes the building of houses, dams, bridges, roads and so on.

Tertiary Industry

These industries are concerned mainly with distribution involving collection of raw materials to the processing (transport)

Wholesalers and retailers are part of this sector. Other are:

Transport - Distribution of manufactured goods as well as

- banking
- insurance
- storage

- personal services (doctors, lawyers etc)

Quaternary industries are the latest branch of industries which involves the research using technology.

4.1.3 Contributions by each sector

We mentioned above, that the South African economy has undergone many changes until it is 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 of the economy.
- Secondary industries began growing in importance after 1950.
- Tertiary industries grew in importance from the 1960's.

Primary:

South Africa cannot 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. The table below indicates that it contributes 2% to the economy.

It has done much better in mining. Mining contributes around 8% to the economy.

In the 1970's South Africa was the world's leading producer of gold (more than 60%), but this has since decreased to around 8%. We are reasonably well off with respect to minerals.

Primary industry brings in foreign exchange when exports take place. . Fruit , sugar, nuts and grain are some of our main exports. We are one of the top five countries as far as mineral reserves go.

Secondary industries

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

South Africa can play an important part in the development of the rest of Africa.

Tertiary :

In 2015, they contributed 68% to the National Economy.

This sector accounts for 60% of employment.

Changes

The contributions made by the various sectors are changing; changes can be short term or long term. What is important is whether the changes in the economy managed to raise the economic welfare of the population. By this we mean how much of the population's 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).

The **Quarterly bulletin of the South African Reserve Bank** keeps track of this, and the following become evident:

Look at the following:

	1910	1992	2015
Primary			10
Agriculture	20	4	2
Mining	28	10	8
Secondary			21
Manufacturing			13
Electricity/construction	4	33	4
Construction			4
Tertiary			68
Wholesale Retail	12	14	15
Transport	9	9	10
Finance/insurance			20
Govt	25	2	
Services		19	22

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

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 are, , provision of water, power, communication facilities, transport/storage facilities. Some of the facilities are state owned but not all.

When you look at industrial areas, you find that such areas has most of the services supplied. Hence the concentration of industries.

The National Growth Plan 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. The following are simplified extracts from some of these plans taken from the sits mentioned:

Sectors

The transport, storage and communication industry recorded the second largest increase in capital expenditure followed *by community, social and personal services* and other business services (excluding financial intermediation and insurance) and *mining and quarrying*

Decreases were recorded for *construction trade and manufacturing*

All industries in the economy recorded R108-billion as capital expenditure in the third quarter.

Source: *Statistics South Africa*

Activity 1.16

Read the article below and answer the questions set:

Over the past decade, substantial increases in government social service spending have helped reduce poverty, but now the government has begun to place a greater emphasis on infrastructure, employment and economic growth.

South Africa will spend R813-billion on infrastructure over the next three years, and in the 2015/16 financial year, its capital expenditure programme will come to R274- billion.

In a massive public-sector investment, in the previous three-year budget cycle it spent R642-billion on infrastructure development – and it plans to spend more than R827-billion over the next three years to improve access to export markets and reduce costs in the economy.

In the 2015 budget, South Africa included an update on its infrastructure plan, saying infrastructure spending has been quite high for some time. Between 2009 and 2014, the country spent just over a R1-trillion on infrastructure.

In this fiscal year, (2016) most infrastructure spending will be on

- *transport and logistics* at R339-billion,
- followed by *energy* at R166-billion,
- and *water and sanitation* at R117- billion,

over the next three years. At national government level, infrastructure spend will come to R451-billion over the medium term framework.

Most of the infrastructure projects undertaken by national government (83%) are co-ordinated by the Presidential Infrastructure Co-ordinating Commission

Source:

<http://www.southafrica.info/business/economy/econoverview.htm#.WDMvzbJ97Z4#ixzz4QfL6u1Eo>

Questions :

1. What do you understand by “infrastructure?”
2. How important is this for business?
3. Does South Africa take this aspect seriously? Refer to the extract above for reference.

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, secondary and tertiary industry and found examples from the country. Thereafter you went on to study the infrastructure and the details.

Thereafter we began to look for data from national accounts and statistics to get an idea of how the economy was performing. Having identifies the sectors the accounts showed whether they were expanding or otherwise. This was to give you an idea of how the South African economy was made up, and the changes taking place therein.

After studying the infrastructure you were exposed to articles showing the efforts made by the government to improve the infrastructure.

The purpose of exposing you to these articles is for you to make an observation regarding the spending by government as the wisdom of such spending.

ASSESSMENT – UNIT FOUR

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 include:

Water

April 2014

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

One of 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. It will help to meet the province's domestic, agricultural and industrial water requirements, as well as 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. The dam will be able to generate 35 megawatts (MW) of base load power, or up to 180 MW of peaking power when 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 of this Mzimvubu catchment will indeed accelerate the social and economic upliftment of the communities in this region, supplying 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 to be completed by 2023, the project's executive manager announced.

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 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>

Transport – Roads and Rail and Air

July 2014

Gibela Transport, a joint venture 61% owned by French company Alstom, 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 - the largest deal ever struck by Alstom, 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>

January 2015

The N3 Toll Concession is investing more than R1-billion to expand the N3 toll route over next three years, 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. The left lane – or truck lane – is being rehabilitated and the project includes a new asphalt pavement surface to all lanes on this section.

In addition, a 60km section between Harrismith and Warden will be reconstructed with working beginning this month. The existing road surface in both directions will be reconstructed and will receive a new asphalt overlay.

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.

The delivery of the locos was an exciting moment for the government and the Passenger Rail Agency of South Africa (Prasa) because they would go a long way in reducing travel time, providing comfort and reliability, and improving efficiency.

"At different times this year, trains will be delivered... 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 is part of the initiative because in that way, we will be able to deal with the carnage on the roads. We will be able 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, along with the realignment of its runway, forming the bulk of Airports Company South Africa's R7.7bn expansion plans.

Airports Company South Africa (Acsa) said the developments were part of Acsa's new operating model aimed at improving South Africa's airports. The expansion is set to be completed over the next three years. The 21-year-old company is run by the Department of Transport . More than 38-million passengers move through South Africa's nine airports every year.

Read more: <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.

It had held consultations with, the United States, Republic of Korea, Russia, France, Japan and China. They all make use of pressurised water reactor nuclear technology, similar to that used at the Koeberg nuclear power plant in the Western Cape. South Africa has been safely using this technology for the past 30 years.

"The National Development Plan enjoins us to do thorough investigations on various aspects of the nuclear power generation programme before a procurement decision is taken.

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.

Agreements with Canada and Japan were at an advanced stage of completion and were expected to be concluded soon. It had also signed similar agreements with the US and South Korea.

Read more: <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).

The national electricity supplier said that the wind farm achieved full commercial operational 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 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, with average annual energy production of about 298 000 megawatt hours – enough to supply about 124 000 standard homes.

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

The first wind turbine at the farm was erected in December 2013. The project took the first step towards the goal of synchronising wind turbines to the grid when the first string of seven turbines was energised in 2014.

Read more: <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 with troughs located in the town of Kathu, near Upington, in Northern Cape Province, the 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.

Read more: <http://www.southafrica.info/business/economy/infrastructure/kathu-builders-100415.htm#.WB9eyi197Z4#ixzz4PFS2vwya>

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. 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.

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>

December 2014

A war room has been set up to oversee the implementation of a five-point plan to 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,"

"The Cabinet adopted a five-point plan to address the electricity challenges facing the country,"

"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#.WB9IVy197Z4#ixzz4PFZ3jE3e>

December 2014

With the current electricity supply problems gripping South Africa, some comfort can be drawn from recent financial data that indicates intensive investment in infrastructure by players in the electricity, gas and water supply industry.

The recently published quarterly financial statistics report, shows that capital expenditure in the electricity, gas and water supply industry rose by 91,8% from *R13- billion* in 2014 to *R24 billion* in 2014

Capital expenditure provides an indication of an industry's investment in long-term physical assets, such as plant, machinery and equipment. A rise in capital spending indicates an intention to increase the scope of operations in the future.

March 2015

The first power has been produced out of the Medupi power station's Unit 6, South Africa's energy utility Eskom announced on Monday morning.

"Eskom is pleased to announce 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, or first power, is the process in which the unit's generator is electrically connected 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.

Read more: <http://www.southafrica.info/news/medupi-030315.htm#.WB9f0C197Z4#ixzz4PFSrdw9S>

Question:

Suitable for a 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. Touch on the following:

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

How the plan relates to infrastructure? Mention some recent initiatives mentioned above, to action the plan?

Your views on the success of the New Growth Plan?

UNIT 5 MARKET DYNAMICS

Introduction:

This section deals with price formation in a perfect market. 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 still in the perfect market.

In this section we will be studying the following

5.1 Price theory in Perfect Market

- Demand and supply with tables
- Graphical representation of the above
- Movements along the curve
- Shifting of curves.

5.2 Imperfect Markets

- Monopolies
- Oligopolies
- Monopolistic Competition

After completing this section you should be able to:

- 5.1.1 Draw up demand and supply tables from given data
- 5.1.2 Use Graphs to illustrate the above.
- 5.1.3 Determining the Market Equilibrium Price.
- 5.1.4 Explain changes in demand and changes in supply and graphically illustrate them.
- 5.2.1 Distinguish between imperfect market structures.

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”.

Unlike popular belief, that a market is a physical place (morning market, fresh produce market), a market is much more than that. The requirement is, that this is a 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

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 on the one hand 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 understanding between buyers and sellers, otherwise no goods are sold. This is done through bargaining.

Our study is restricted to a perfect market. In other types of markets, the interaction can become very complicated; therefore we shall only refer to the other types, without going into details.

The Perfect Market:

The perfect market is one where:

Requirement	Effect of such requirement
Many buyers and many sellers.	Having few buyers or sellers gives either one an advantage
Products are exactly the same – no packaging or advertising	Having brand names influences buyers through advertising by making products look different
Full information easily available to make proper decisions.	Incomplete information allows for hasty and wrong decisions
Easy entry and exit (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

We 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 is 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 changes all the time, because increases or decreases in the price of one commodity may affect the quantity demanded of another for example, if the price of meat goes up the quantity of meat demanded will decrease, but the demand for chicken may increase.

Demand table

To summarise, let us draw up a demand table. This table will indicate the quantities of the product that will be demanded at varying prices. It explains the behaviour 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

The demand table above shows:

- The individual demand on the column to the right
- The *relationship* between quantity demanded and the price that is:
 - the quantity demanded will *decrease* if the price *increases*
 - the quantity demanded will *increase* if the price *decreases*

Law of demand: when price increases, the quantity demanded decreases and vice versa.

The relationship above indicates the **Law of Demand**.

Activity 1.17

Choose either your parents and/or close relatives for this exercise. Ask them to indicate, in the columns that are blank, the quantities they are willing to purchase at the indicated price, during the month, for the following 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?

5.1.2 The Demand Curve

Now that we have drawn up the table it is very simple to represent the table in the form of a graph. The table in the above example will be 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, we examined the behaviour of the buyers, which represents demand. 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 demand we are able to capture the preferences of sellers in a table:

Example:

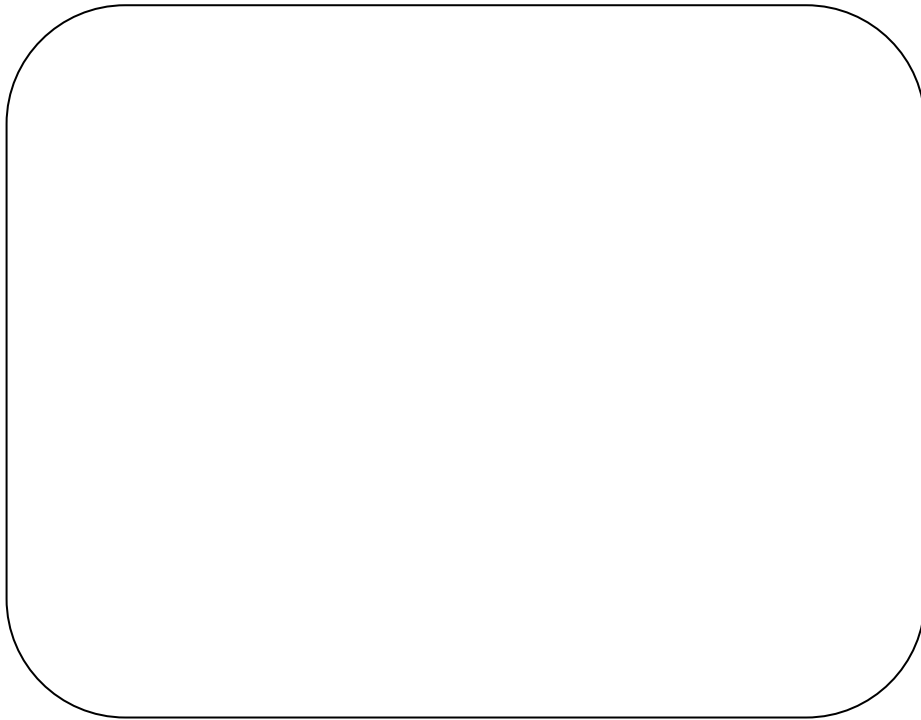
Product: 500ml milk as above

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 for demand we are able to deduce from the above:

1. It slopes downwards from right to left, indicating that supply is high when prices are high.
2. The entire supply column on the right is represented above.
3. The curve represents the **Law of Supply**.

Law of supply:

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

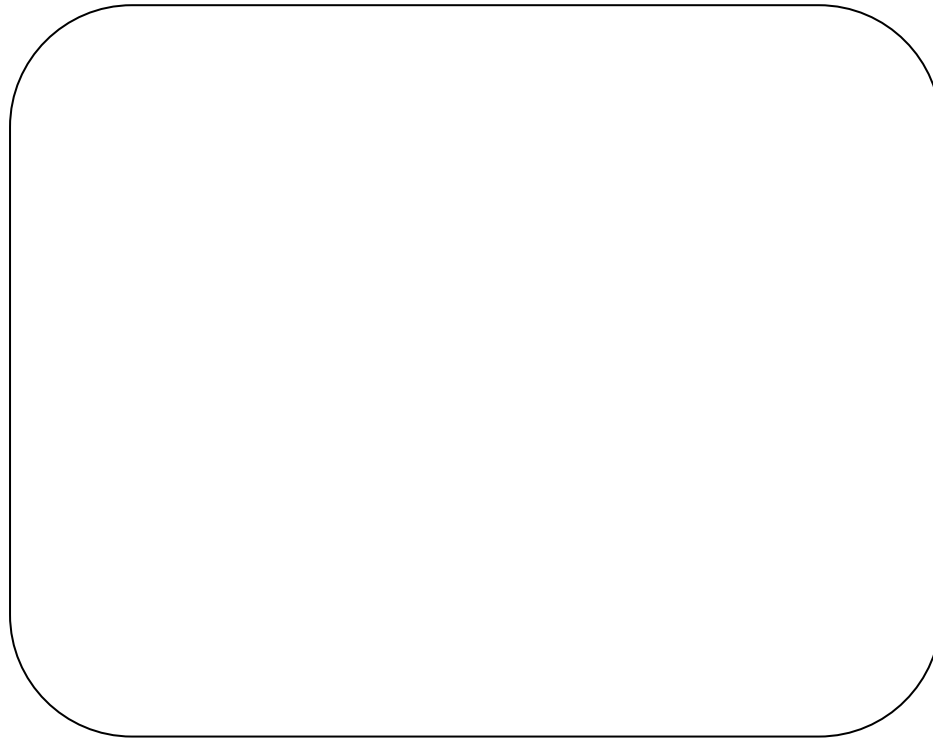
5.1.3 The Market Equilibrium Price.

Now that we 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 is equal to the quantity demanded. In other words, all the goods that are offered for sale are sold. There are no shortages. There are also no surpluses.

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

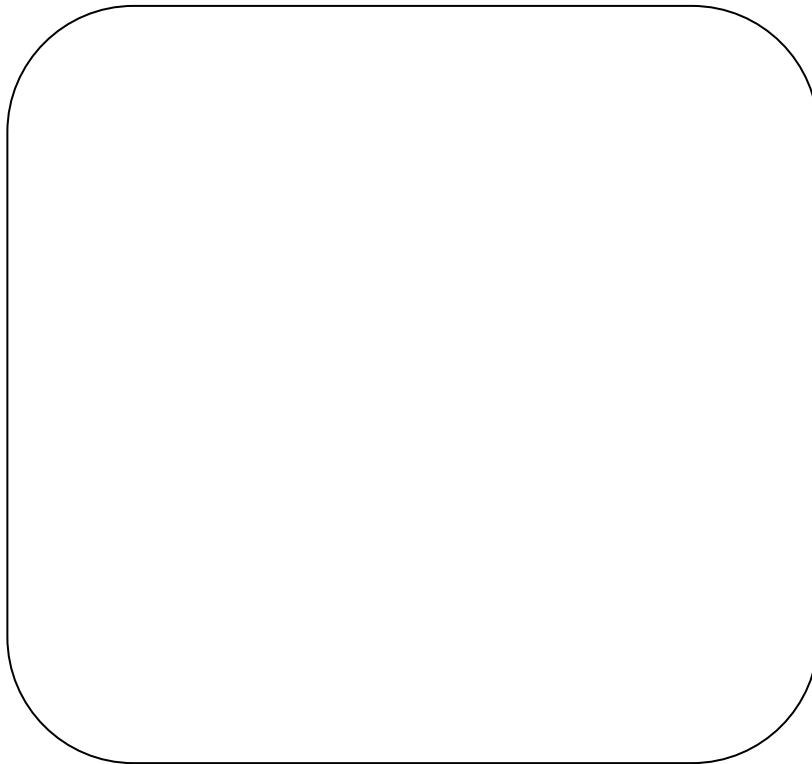
All goods are sold, that is, no surpluses or shortages.

Surpluses and shortages:

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

A **surplus** occurs when there are more goods available than the quantity demanded. These are the goods that remain unsold.

Insert
diagram 6



Activity 1.18

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 price were R6,20 then we will have a shortage . it is shown in the above diagram as Q_1Q_2 . What is the amount of the shortage?
4. If the price were R10,25 would have had a surplus. It is reflected in the above diagram as Q_3Q_4 . What is the amount of the surplus?
5. What do you think will happen to price if there is a shortage and demand remains the same?
6. What do you think will happen to price if there is a surplus and demand remains the same?

5.1.4 Changes in demand.

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

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 **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 the **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 good (example chocolates) although this increase does <u>not</u> come from a change in the price of chocolates.	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 applies if a person begins to earn less, because he can afford less	The price of the hairstyle or shoes did not change to cause this.
Substitute Products: when the price of <u>substitute products</u> 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 for specific reasons.	Products become more expensive and less is consumed.

Effect on the demand curves. (Shifting)

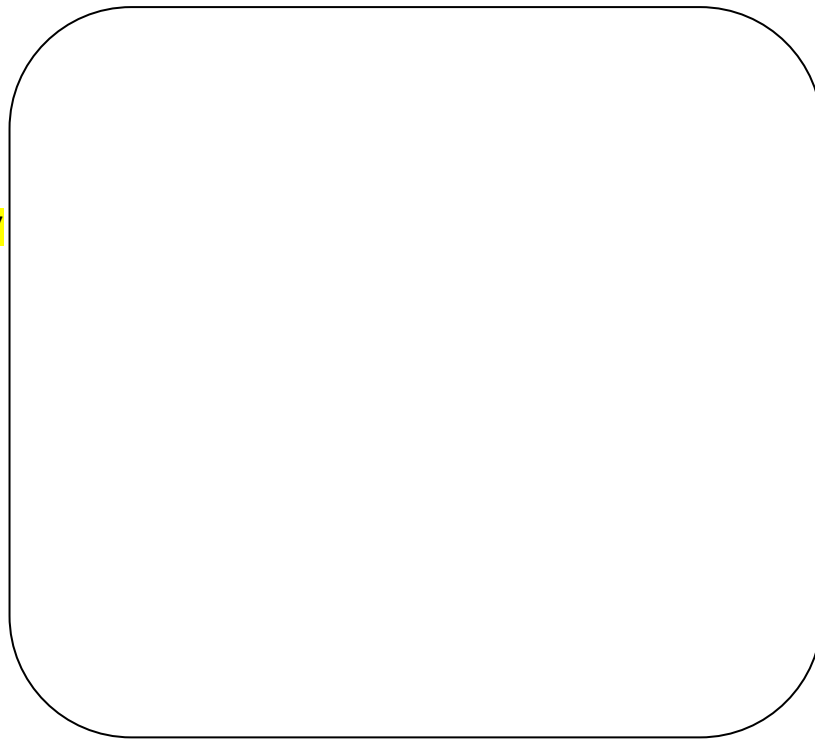
When changes in demand take place, then the demand curve is displaced. That means the entire curve moves to a new position.

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

When there is n *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. Supplies are prepared to supply more at the same price.

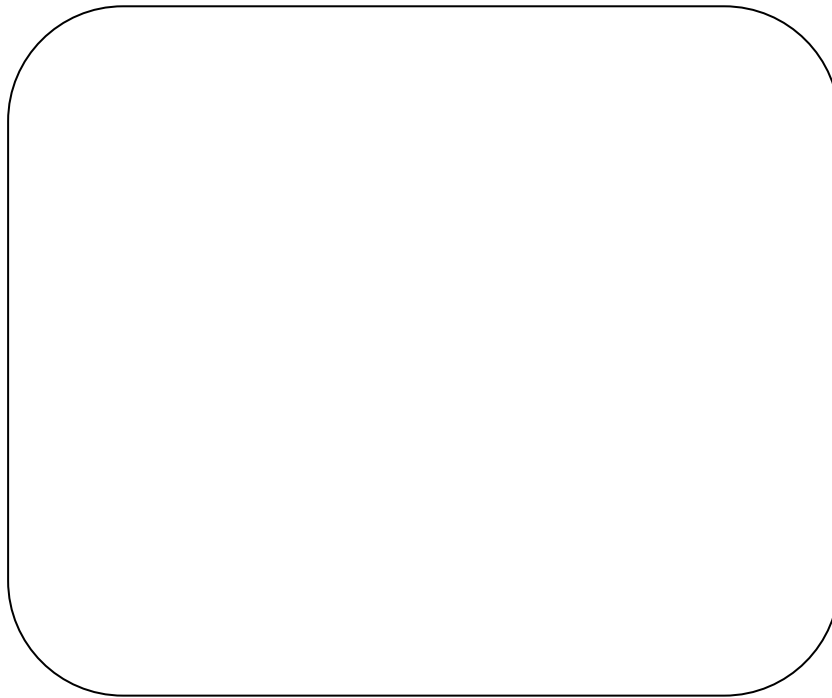
What causes this situation?

Causes	Effect of such causes
More suppliers enter the market	Production increases due to more participants
Improved production methods	More goods are produced more cheaply.
Changes in the cost of production	Reduces the quantity if the raw materials become more expensive
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 different situations that can arise when the changes mentioned above occur. We will 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 1.19

Refer to the above diagram: (diagram 9)

1. What was the original equilibrium price?
2. What happened to the price and quantity when demand increased with supply remaining the same? Curve D_1 D_1)
3. What happened to the price and quantity when demand decreased with supply remaining the same?

b. Supply changes but demand remains the same (Increases and decreases in supply)

Activity 1.20

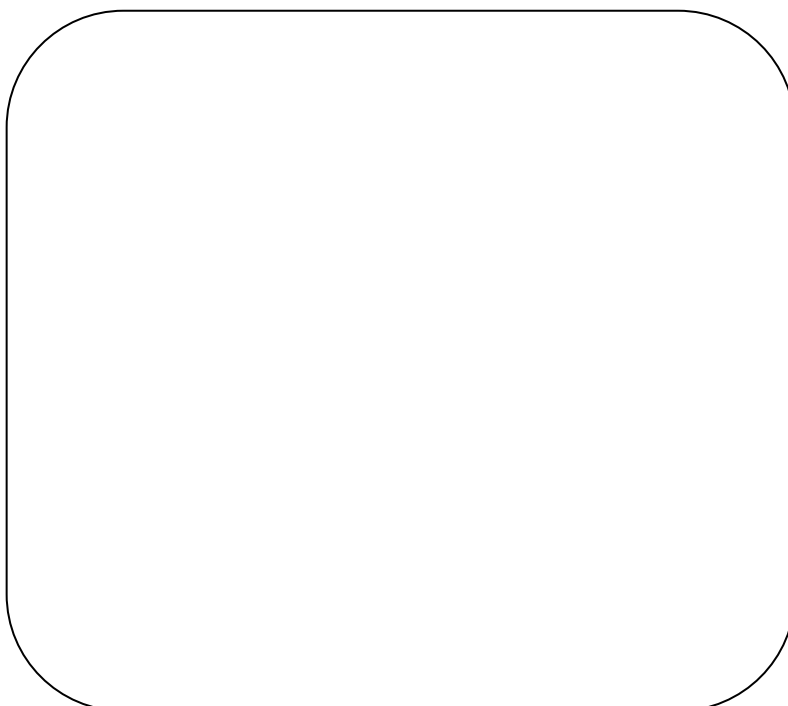
From your experience in the previous activity, comment on the changes you see in the diagram below . (diagram 10)

Answer in the same order:

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 S_2S_2

Insert

Diagram 10



5.2.1 Imperfect market structures

In the discussion above, we confined our 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 we shall very briefly explain the term “imperfect market” and give some examples of them. We cannot go into discussion of the market activity.

The Imperfect Market: Characteristics

Characteristics	Effect of this
Heterogeneous products	Products are different from each other; consumers look for specific brands
Few sellers	Competition restricted; producers can directly influence the market price.
Information	Incomplete information to buyers; they cannot make useful comparisons.
Restrictions	Competition is hindered through patents and other restrictions; supply is manipulated, affecting price.
Advertising /Packaging	This influences choices significantly. Consumers are tempted by advertisements.

What are some of the types of imperfect markets?

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
- Example : Eskom

Oligopoly:

- Few suppliers
- They produce similar products
- Large number of buyers.
- Example: motor cars manufacturers.

Monopolistic competition:

Monopolistic competition is a competitive market structure wherein there are many sellers who offer differentiated products to a large number of buyers.

- There are many suppliers
- They produce similar goods
- They concentrate on a specific market
- Example: Petrol manufacturers; fast food outlets' toothpaste manufacturers.

The following comparison has been adapted from:

<http://keydifferences.com.html#ixzz4PuDfejuV>

	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

SUMMARY OF LEARNING UNIT 5

This unit focussed on the dynamics of a market. It is the introduction to price theory. You were first introduced to the term market. Rather than the restricted meaning of the term you were used to, you realised that it could be expanded to include other meanings.

Market forces: the first market force you studied was demand. After the definition, you proceeded to draw up a table to reflect the law of demand. This introduced you to the law of demand. From the table you were able to convert to a graphical representation. After drawing the graph you made certain observations regarding the graph.

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 together to explain how markets are formed in a perfect market. This you illustrated in graphical form. From these initial steps you moved to changes in both supply and demand and you were able to see how they affected price.

All the above activity took place in perfect markets the characteristics of which you also studied in order to identify it, if it exists at all. Then 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.

ASSESSMENT UNIT 5

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. (10)

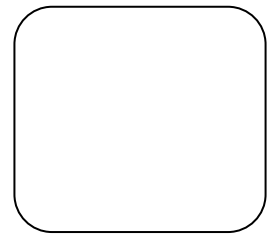
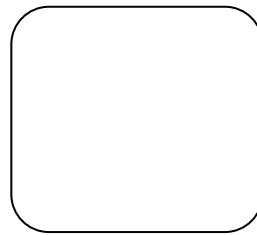
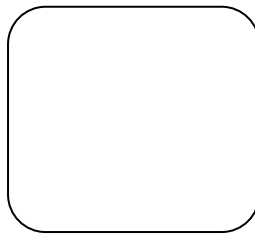
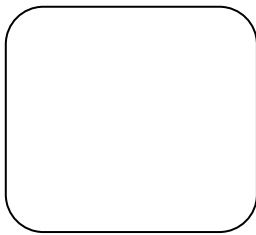
Question 5.

Identify the activity represented by following diagrams:

(8)

Diagrams 10,11,12 and 13

[Insert diagrams mentioned above.]



UNIT 6 CONTEMPORARY ECONOMIC ISSUES.

Introduction:

In this section we shall be discussing issues of topical interest. They present themselves as challenges for any economy and are very complicated in nature. Finding solution to these challenges can be a daunting task.

There are many such topics that we could discuss. For our purposes, we shall focus of the following two only :

6.1 Inflation

6.2 Unemployment

Inflation

After completing this section you should be able to:

6.1.1 Distinguish between the types of inflation

6.1.2 Explain the impact of inflation on salary negotiations

6.1.3 Describe measures to combat inflation

Unemployment

6.2.1 Describe different kinds of unemployment

6.2.2 Describe the causes and effects of unemployment

6.2.3 Discuss approaches to solve unemployment

6.2.4 Evaluate the effectiveness of measures to curb unemployment

6.1 Inflation

Introduction:

The term inflation is used to describe the loss in the purchasing power of money as a result 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 determines prices) that causes an extraordinary increase in prices.

One of the ways of determining inflation is the use of price indexes. This is done by comparing the prices of a basket of goods from one time period to another(e.g. a year)

to compare the difference. The same goods are priced at the second date and the difference (usually 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

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

Some features:

- 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 monies before prices rise again
- Spending is on luxury items
- 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.

Features:

- 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.
- Reduced productivity, but increases the cost of production
- The government increases taxes which push up the cost of goods.
- 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 is a means of addressing inflation by encouraging savings; this, however, adds to the cost of production.
- Natural disasters e.g. floods, increase the cost of production and reduce supply.

6.1.2 The impact of inflation on salary 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 like working hours, additional benefit,s dismissal and so on.

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% or 12%.

Activity 1.21

Read the article below and answer the questions that follow:

The Financial Impact of Strike Actions

22/02/2013 by GAA Accounting

By Johannes de Wet

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

The recent strikes at Marikana and its tragic loss of lives mark one of the darkest chapters in the history of our country. The ripple effect of what happened at Lonmin mining company may have consequences beyond what is currently foreseen. The impact of the ‘Marikana massacre’ will be felt for many years into the future, particularly by the ruling party, union politics, industrial relations and policing.

Excessive wage increases could push inflation out of its 4% to 6% target range, with increased interest rates the inevitable consequence. South Africa scored 57% (out of a 100% for maximum risk) in its 2009 risk rating for labour market risk.

Employees in South Africa currently face considerable erosion in their lifestyle levels and quality of life. 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.

Background

South Africa is ranked as one of the most unequal societies in the world. With South Africa being the largest economy in Africa, employees are becoming more restless in their need to gain better wages. Labour unions have justified their demands for above-inflation wage increases by pointing to the fact that workers need to feel an improvement in their living standards and not just keep abreast with inflation.

Case studies

Data from three big South African business institutions that had recent strike activity is included. The profitability of 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 1

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.

It was widely reported that the economy lost R7 billion as a result of the prolonged strike action. In this case workers ended up accepting managements' initial offer of 11%, as it was significantly above the inflation rate of 5.7% that prevailed at that time. Although the settlement did result in employees getting a premium above inflation, the industrial action eroded those gains as a result of lost wages incurred during the period. The net result of the industrial action for workers was that they were worse off, both in nominal terms and present value.

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 Shosholoz 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 SETTLEMENT

	TRANSNET	PRASA	MAMEO
Employers initial wage offer	11%	8%	7%
Workers initial wage demand	15%	16%	15%
Increase settled on	11% plus 1% once-off on annual salary	10% plus R1000 once-off.	10%
Period of Strike	17 days	13 days	8 days
Annual salary after settlement (A) (Note 1)	R139 545	R141 970	R140 151
Annual salary adjusted for initial offer (B)	R144 300	R136 500	R139 100
Difference A - B Nominal benefit/(loss)	(R4 755)	R5 470	R1 051
Net present value of benefit/loss (Note 2)	(R4 675)	R5 102	R909

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

Note 1

This annual salary not only includes the increase settled on, but also the wages not earned because of the strike.

Note 2

For the purpose of calculating the net benefit or loss of the strike action from a worker's perspective, the difference between what was settled on and what was offered initially was first determined on a monthly basis for one year.

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 strikes?

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 challenges of the economists.

These measures can be divided into :

Fiscal measures: those of the Minister of Finance

Monetary measures : those of the South African Reserve Bank.

Fiscal measures:

- Reduction of demand by increasing direct taxation.
- Reduce demand by increasing indirect taxation.
- Reduce government spending on projects
- The government can finance its deficits without involving banks.
- Raise the surcharge on imported goods.
- The government can assist in the following:
 - Decrease tax on businesses to allow them to invest more
 - Encourage savings by reducing tax on saving

Monetary Measures:

- The Monetary Authorities can make sure that the amount of money in circulation is well controlled;
 - not too much (it will increase inflation),
 - or not too little (it will decrease demand)
- Increase the bank rate – this will reduce the demand for credit and encourage savings
- Restrict credit granting by banks to reduce demand.
- Relax exchange control measures.

Activity 1.22

1. Take five of the fiscal measures mentioned above. In a few sentences explain how they would actually work

6.2 Unemployment

Introduction:

We usually use this term loosely to describe a person without a job. However, for the purposes of further discussion, let us define this term properly.

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 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 unemployment rate:

$$\text{Unemployment Rate} = \frac{\text{Number of unemployed}}{\text{Economically active population}} \times 100$$

In South Africa, the rate exceeds 25% and with new entrants into the job market, the situation could deteriorate.

Recent figures (end 2016) indicated the figure has exceeded these figures and reached 27% !!

6.2.1 Describe different kinds of unemployment

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.

Structural unemployment:

This form of unemployment is also known as technological unemployment, because changes in technology are one of the main causes of this situation. When production techniques change, it is accompanied by modernisation and usually advanced

technological adjustments. 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.

Cyclical unemployment :

A country's economy undergoes changes. There are economic upswings and downswings called business cycles. During a downturn, 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 incentivise firms to create employment.

6.2.2 Describe the causes and effects of unemployment

Causes:

- 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. They become unemployed.
- Shortage of skills training/ educational qualifications: in addition to having an educational qualification, some type of training is also required; this is usually the job of skills training. People who have not undergone such skills training are not suitably empowered to become employed.
- Work seekers are not familiar with the job situation- as to where jobs are available, and where to look for them. Failure to find such information in time leaves them unemployed for some time.
- The population growing too fast produces work seekers who are more 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 cause either prosperity or hardship resulting in either more or less job opportunities.

6.2.3 Effects of unemployment:

- The country loses valuable talent and expertise because people cannot be gainfully employed; they leave to seek opportunities elsewhere and other countries benefits from their knowledge and expertise
- The threat of unrest and social instability comes with unemployment. This hinders peaceful coexistence.
- The welfare level of the inhabitants is lower than it could be if there was full employment. There is generally a sense of pessimism and uncertainty.
- Crime increases as a result of people being unemployed.
- The Market economy is portrayed negatively. – that is, cannot sustain itself.

- The person unemployed is totally devastated; he has to compromise his standard of living, his place in society and his self esteem.
- It hinders other initiatives (like transformation) which may have to be shelved because of the unemployment problem.

6.2.4 Combating 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 of the unemployed
- Creating opportunities for them to be employed.

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 1.23

Study the following extract:

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 first 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:

What are your views on the measures mentioned above?

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), 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.

www.gov.za

Now study the following extract, adapted from the acknowledged source:

FISCAL POLICY: The idea that government expenditure would lead to the creation of job, and therefore, per capita 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 deficit 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 25% 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 labour interest rate (monetary policy) may be used to attract foreign inflow and relieve the current job market stagnation.

Job creation

- 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 and aim to create more than 60 000.
- The Department of Communications' 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 discussed the causes of unemployment and measures take to curb it. Thereafter a look at the link between inflation and wage negotiations was included. This takes a very practical view of the effectiveness of strikes arising out of inflation and the success or otherwise of such actions.

The unemployment topic took a look at the types of unemployment and then proceeded to explore the causes of unemployment. Thereafter some measures already employed 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 the South African situation.

40 Marks

SOLUTIONS TO ACTIVITIES

Activity 1.1

Answers

1.

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

Scarcity : a situation where the need exceed the available resources to satisfy tem

Alternative : The possibility of choosing between things.

2.

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

3.

Sand in the desert - free

Water from the sea - free

Water from a well - free

Bottled water from a borehole - economic

Sand for plastering your house – economic

4.

Water.

Previously free. Now we pay for the services attached to it- storage, purification, pumping it to the areas where required etc.

Activity 1.2

Answers

1.

Unskilled: labourer , cleaner

Semi skilled – gardener, driver , clerk

Skilled – electrician, accountant, motor mechanic

The difference is the amount of learning, training and skills development that goes into the job. The higher the job, the more skills it requires. The higher the job, the more salary it commands.

2. Capital intensive describes an industry where the investment in capital, (e.g. machinery, equipment and money is very high by comparison to the other inputs. Example oil production, railways..

Labour intensive describes an industry where the largest portion of the input investment is in labour. Examples: fruit farming, personal services.

Dining Room Table (Wooden)

Primary : cultivation of the wood;

Natural resources – climate, soil etc

Labour – tending to plants until ready for cutting.

Capital – money and machinery for production

Entrepreneurship – farmer with farming expertise.

Secondary : Logging and timber manufacture.

Logging

Raw materials – wooden logs

Treating and preparation for manufacture

Labour – loggers, machinists etc

Capital – machinery for logging

Entrepreneurship – saw mill owner/operator

Table manufacture:

Raw material – treated and prepared timber

Labour – furniture craftsmen

Capital - machinery to manufacture furniture

Entrepreneurship – owner of furniture manufacturing unit.

Activity 1.3

Answers

Clothing in my wardrobe	Consumer - need for protection
Woodwork machinery in ABC Wood Turners	Capital
Family car used for transporting your child to school	Consumer – transport (mobility)
Vehicle used to transport 15 children to and from nursery school.	Capital
Water in my kettle for my tea	Consumer – food and drink
Water used for baking at Laila’s Bakery.	Capital
A drill I use when I want to make a shelf at home.	Consumer – organisation

Activity 1.4

Answers

1.

Youth market – music videos, beach clothing, cellphone, cosmetics

Coastal– beachwear, sunglasses;

Inland – protective clothing (cold), firewood, off road vehicles

Summer market – suntan lotion, swimwear, beachwear, sunglasses

T.V. installers market – dish, installation tools , ladders, gloves

2.

The first three are products/ goods.

The last one is a service.

Activity 1.5

Answers

CENTRALLY PLANNED	MARKET	MIXED
<ul style="list-style-type: none">• This type of economy is also called a command economy/communism	<ul style="list-style-type: none">• Also known as Capitalist Economy• Largely influenced by supply and demand (suppliers	<ul style="list-style-type: none">• As the name suggests, this system is located between the two mentioned that is, both

<ul style="list-style-type: none"> • The State takes all the decisions for the population • It follows a specific guideline for the country. • The state owns the factors of production • Everyone works for the state. • There is no choice allowed. • Ownership is communal, not private. 	<p>and consumers)</p> <ul style="list-style-type: none"> • Prices act as indicators for changes to be made. • Profit motive is most important • Individuals are free to choose what to do without any interference from the state • Individuals own the factors of production • There is complete flexibility regarding the decisions 	<p>command and market.</p> <ul style="list-style-type: none"> • The government controls some aspects and individuals the others. • Profit motive is still present. • There is a check on monopolies • Usually those industries requiring large capital outlays and which also returns low profits are undertaken by the government. • It is difficult to determine the correct mix for individuals and government.
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2.

South Africa follows a mixed economy. Some of the industries are owned by the state – (power, communication etc) while others are privately owned.

Activity 1.6

Answers

PRIVATE Colleges – Oval college, Durban Business School Varsity College etc.

TELECOMMUNICATIONS – Mobile networks Vodacom, MTN and Cell C

MEDICAL - Life Hospitals, Shifa, Medicross etc

HOUSING - Mt Edgecombe Country Estate, Brettonwood, Isinga etc.

Petrol companies are controlled with respect to the price of petrol. It is controlled.

Eskom provides electricity. The price is regulated.

Activity 1.7

Answers

1.

- Education
- Health
- Power

2.

- Retailing - Pick n Pay; Shoprite etc.
- Cellphone repairs - AB Cellphone Repairs
- Surveying Firms – Samsara Surveys and Solutions
- Accounting firms – Excel accounting
- Beauty Parlours – Sara’s Boutique

- They are owner privately;
- They all charge different rates /prices
- They compete with similar businesses
- They advertise for business
- They have their own operating hours

Activity 1.8

Answers

1.

The public sector refers to all those organisations owned and controlled by the government. They provide public goods

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 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.

2.

Informal Businesses

Raja's Taxis

Marie's Homebake

Nandipa's Hairdressing

Activity 1.9

Answers

1.

Ndlovu's Spaza Shop (from home)

Mike's scrap (in the backyard)

Wilma's Arts and Craft.

2.

- It provides goods and services in close proximity to users.
- It provides job opportunities the owners
- Running an informal business gives a potential entrepreneur a chance to develop the skills required to become successful
- Care for the environment : people make use of scrap and change them into items of use.

Activity 1.10

Answers

1.

There are two differing views – those who propose nationalisation maintain the state intervention is needed and necessary while the other side (privatisation) believes that the state has no right to run businesses and any such decision is a disaster.

The one believes privately run enterprises have “more zeal and incentive” to grow business and resources will be used more efficiently (no wastage). But thus approach leads to greed and self gratification which can lead to exploitation.

2.

2.1 The issue of late is the nationalisation of mines.

2.2 It is being proposed that mines be nationalised.

2.3 This is a personal view. Learners must be encouraged to express this point of view.

Activity 1.11

Answers

In summary:

- an additional R17bn for universities and students over the medium term;
- a planned total tax increase of R28bn in 2017/18;
- a downgrade of SA's economic growth rate for the current year from 0.8% in the February budget to 0.5%; a narrowing of the budget deficit from 3.4% to 2.5% of gross domestic product in 2019/20;
- and sustaining government spending with containing measures on non-essentials.

The medium-term budget policy statement (MTBPS) is a government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented.

Finance Minister Pravin Gordhan presented a cautious medium-term budget policy statement, tailored for an economic environment that is "a challenging one, but not an impossible one".

Some of those unknowns are:

- Will economic growth pick up or slow?
- Is a credit rating downgrade coming in December, and, if it happens, how will it affect the South African economy?
- What unexpected demands might arise, placing further pressure on the tax coffers?

Quite simply, the economy has slowed and so tax revenues have fallen short of expectations. To plug the widening shortfall, spending must be further cut and taxes must be raised.

The expected budget shortfalls are R36-billion and R52-billion in the next two years, respectively.

Following a series of expenditure cuts, the medium-term budget policy statement proposes a further R26-billion in reductions to the public expenditure ceiling over the next two years.

New proposed tax measures amount to R13-billion in the 2017-2018 financial year. Combined with the higher taxes signalled in the 2016 budget, total revenue increases will amount to R43-billion over the next two years.

The higher taxes outlined in the 2016 budget comprised

- higher excise duties,
- an increase in the fuel levy and other environmental taxes, and

- adjustments to capital gains tax and transfer duty.
- Allowing for higher income earners to shift into a higher tax bracket would also contribute.

Higher education

One priority is the funding of higher education.

The demand for free higher education has persisted, and chaos has erupted at campuses across the country as police have clashed with protesting students.

Still, the treasury said subsidies to universities will grow at 10.9% each year and transfers to the National Student Financial Aid Scheme (NSFAS) will grow at 18.5%. Universities and students will now receive an additional R17-billion over the medium term.

In 2017, the government will fund a fee increase at higher learning institutions of up to 8% for students from households earning up to R600 000 per year.

The MTBPS is the last opportunity for Gordhan to demonstrate to credit ratings agencies that South Africa is making progress and does not deserve a downgrade come December. A lower rating signals a higher investment risk. This can prompt a higher cost of borrowing for a country, as well as large capital outflows.

The treasury's economic growth forecast for this year is 0.9% but in the policy statement this is revised to 0.5%.

The treasury is optimistic that an economic recovery is emerging, as factors that were limiting economic growth are receding.

There has been a slight rebound in commodity prices, drought conditions have eased, and electricity constraints are no longer an issue.

This year growth of 0.5% is expected, according to Reserve Bank and treasury projections.

Next year a 1.3% improvement in annual growth is forecast, and growth of 2% and 2.2% is estimated for 2018 and 2019 respectively.

Headline inflation is expected to slow from 6.4%, as estimated for 2016, to 6.1% next year, and to 5.9% in 2018.

A number of other scenarios in which low growth persists.

- In a low-growth trap, low economic growth means lower tax revenues.
- Limited space to increase taxation cannot accommodate proposals and large spending commitments related to health, education, defence, social development and infrastructure.

Adapted from: <http://mg.co.za/article/2016-10-26-medium-term-budget-significant-tax-increases>

Activity 1. 12

Answers

There were various reactions to the statement.

Some political parties agreed while others did not.

Many thought it was a start towards better conditions to come; that is being optimistic and in the present circumstances far- fetched.

Many reasoned as follows:

Many employers will find it hard to meet the minimum wage and will dismiss workers to save on the wage bill. This will hurt the very people it is trying to protect.

There was a suggestion that there should not be ONE minimum wage for all, but several.

2. It will obviously depend on where you are in the discussion; should you be a lowly paid worker you will welcome any move to improve the situation. Should you be well off ,in a well paid job the matter will not be of much interest to you; if you are an employer, the suggestions will have an implication for you and you may be inclined to disagree with it especially if you are a struggling entrepreneur.

Activity 1. 13

Answers

Laws to protect the natural environment	National Environmental Management : Protected Ares Act 57 of 2003
Laws to protect consumers	Consumer Protection Act , National Credit Act
Laws to protect against unfair labour practice	Basic conditions of employment Act
Laws to promote job creation	Expanded Works Programme, National Growth Plan, Small enterprises Financing Agency

Activity 1. 14

Answers

The way business operates

Businesses have to keep up with the trend to be competitive. Production systems have changed and production is now very much mechanised. Global markets have made competition a force to be reckoned with so it is imperative that the cost of production has to be as low as possible. It does however have an impact on the labour situation. With mechanisation comes the demand for less labour and it is possible that some labourers may lose their jobs. But they can be retrained.

The way information is recorded.

Previously, there was a need to laboriously hand write everything and sometimes use the typewriter. There was also the use of carbon paper to make copies.

This took a long time and space as all the documents had to be stored.

Now with the use of digitalisation, records can be completed much more easily. The space required to store these records is much less than the physical space that was required in the past.

While this may be so, there are also dangers that come with the method. With the advent of digitalisation comes the threat of information loss. Sensitive information may fall into the wrong hands and this makes it necessary to have security. Security now has become an integral part of information technology. There is also the possibility of virus attacks that can destroy or corrupt information making it unusable.

While the old method may have been cumbersome, it was not open to so many challenges.

Banking Practice

The usual practice of conducting all banking transactions inside the bank through the teller has changed. With the advent of the ATM the bank teller's services are used to a lesser degree. Simple withdrawals and deposits as well as payments can be done through ATM's.

Now with internet banking the use of the cellphone is very common. Payments can be made as well as most other transactions. This brings with it a whole lot of convenience.

But as with information, the danger of fraud is forever prevalent. With large amounts invested in advanced security systems by the banks, it is still a risky situation. Large amounts of monies have been stolen. Hackers are one step ahead. Hopefully with further investment in security the system can be made safer.

Activity 1. 15

Answers

Institutional Environment

This refers to the various institutions of government and the influence they have on the economic operations

It has considerable control of this environment. As entrepreneur, it can decide what services it should be providing as profit is not the main objective. It can add to this (nationalise) or it can reduce this (privatise) if it proves to be better in the hands of private individuals.

As facilitator it has control over the function it is performing – introducing subsidies or reducing them. introducing new initiatives like the NGP.

Government procurement is in the hands of the government and can be controlled by its own measures. However, lack of control may be the cause of this function not being carried out as planned.

Legal Environment

Business needs to operate in a protected environment with the government passing laws to allow this to happen; this, for example keeps competition fair giving all an equal opportunity to prove themselves.

The government is at liberty to draw up and amend its laws if and when necessary; the passage of the laws through its various stages is controlled by the structures within the framework, the objections being only as a consultative process.

Political Environment

The political situation within a country also has an impact on business operations. Within the country there can be misappropriation of monies resulting in no service delivery and which leads to social unrest and disruptions; we also need to take into account how we are viewed by foreigners as a result of such disruptions.

The political situation in the country is guided by the constitution. The ruling party can build in checks and balances to ensure it is able to do what is envisaged even with objections from opposition parties.

Economic Environment

This environment includes economic forces such as interest rates, exchange rates and the general performance of the economy.

This environment is to a large extent dependent on the world's economic trends. With global trading and with the value of the currency determined on world markets, the country has little choice but to take its cue from outside. It then has to make adjustments to its internal policies to bring it in line with the rest of the world.

Internally the government can develop policies so that its own economy is seen to be sound and to attract foreign investment. In this respect the grading by international institutions like Standard and Poor, gives an indication to prospective investors whether the country is worth investing in.

Social Environment

Here we are dealing with the society within which the business operates. Factors like unemployment crime, education levels, trends and new developments all have an impact on the success or failure of businesses.

Differences in cultural preferences need to be taken into account. Knowledge of such customary practices is a must in order to be successful.

Unemployment brings with it other social evils like crime and HIV Aids.

Social practices has its origins outside the economic sphere. The business needs to be aware of such practices and customs which will have a direct bearing the demand for goods and services (or otherwise) . this can become a sensitive issue at times and if not treated with respect, can lead to economic losses.

Unemployment is a difficult problem to contend with; the government can come with innovative plans (NGP) to stimulate the economy to create jobs but this is not always successful. Accompanying it is crime. There are many options available to tackle crime but, like unemployment, it always is a challenge. Security forces, the SAPS as well as other community initiatives help to reduce crime.

Activity 1.16.

Answers

1. Infrastructure refers to the system that provides services and facilities allowing an economy to function. Examples are, for example, provision of water, power, communication facilities, transport/storage facilities.

2. It is the backbone of economic activity. Without it the economy cannot function at its peak. It will hamper growth and even affect employment possibilities.

Yes it does. Figures to support this are:

1trillion from 2009 to 2013

274 billion spent for 2015/16

2016 (balance of the year:)

transport and logistics at R339-billion,
followed by *energy* at R166-billion,
and *water and sanitation* at R117- billion,

813 billion to be spent in the next three years

Activity 1.17

Answers

Note: This is a practical exercise and answers could differ widely.

1.

They will buy more when the price is lower

They will buy less when the price is higher

2.

This concurs with the Law of demand

3.

Possibly incomes differ and some can afford more at higher prices

Another reason could be inexperience – no buying experience.

Activity 1. 18

Answers

1. R8,50

2. 12 000 units

3. 20-8 – 12 000 units

4. 15 000 – 9 000 = 6 000 units

5. The price will begin to increase until it reaches equilibrium.

6. Suppliers will supply less to force the force upwards

Activity 1.19 (Diagram 9)

Answers

1. P_1
2. The price increased and the quantity demanded increased. P_2Q_2
3. The price decreased and the quantity demanded decreased.

Activity 1.20. (Diagram 10)

Answers

1. The original price was P_1
2. Price P_2 . The Price decreased and the quantity demanded increased.
3. Price P_3 . The Price increased and the quantity demanded decreased.

Activity 1.21

Answers

1 and 2

	Demanded	Initial	Final
Transnet	15%	11%	11%
Prasa	16%	8%	10%
Mameo	15%	7%	10%

TRANSNET

The workers made a loss due to the length of the strike period and the low premium negotiated of 1%. The nominal loss was R4,755

PRASA

The 2% premium negotiated, coupled with the R1,000 once-off payment resulted in a nominal net gain of R5,470, and in terms of present value there was a gain of R5,102 per worker.

MAMEO

In nominal terms workers had a gain of R1,051 and when the time value of money is taken into account, a net gain of R909 per worker is calculated.

Duration of strikes and breakeven strike days

From the calculations contained in Table 1 it is clear that the number of strike days plays an important role in the financial outcome for the worker. The longer the strike is prolonged, the heavier the penalty of no pay and the greater the likelihood of a net loss from the worker's perspective.

Activity 1.22

Answers

Reduction of demand by increasing direct taxation.

Direct taxation will make the selling price of the good higher. The tax is added to the selling price. According to the Law of Demand, consumers will buy less if the price increases.

Reduce demand by increasing indirect taxation.

The effect if indirect taxation is the same as that of direct taxation. It makes the selling price of the good higher and thereby the demand for the product will decrease.

Reduce government spending on projects

By reducing government spending, less work is available for prospective workers and this will reduce the earnings of workers. With less money to spend the demand for the goods will decrease.

The government can finance its deficits without involving banks.

If the state borrowed money from the banking sector, it would increase the demand for credit and thereby fuel inflation. The money it borrows must be from the non banking sector.

Raise the surcharge on imported goods.

The cost of importing is increased; the imported goods are more expensive due to the addition of the surcharge. This makes them more expensive and thereby reduces the demand for them.

Decrease tax on businesses to allow them to invest more

If the business pays less tax, it will have more money to expand and invest in the business; in this way it assists in capital formation.

Encourage savings by reducing tax on saving

By reducing tax on saving, we are encouraging the public to save instead of spend. This will mean fewer goods are bought and this inflation is reduced.

Activity 1.23

Answers

The view expressed will be a personal one, that is depending . again, on where the person is placed. If he is a youth waiting for an employment opportunity, it would be of great interest to him and he will be very optimistic and enthusiastic. It would be, for him a positive attitude towards improving the situation.

However, if he is one that has been waiting on the sidelines for some time, he would not be so enthusiastic as in the knowledge that many such initiatives had been introduced without the desired results. There could be several reasons for this one of which is corruption which diverts monies allocated for such initiatives to other questionable ones or uses it recklessly.

Generally, the initiatives are meant to be a serious attempt to rescue the situation.

SOLUTIONS TO ASSESSMENT

SECTION 1

Unit 1 :

Question 1:

The questions are:

- What to produce ✓ ✓
- How to produce ✓ ✓
- For whom to produce ✓ ✓ .

6 marks

It is important because the economic system chosen, (planned, socialist, capitalist) will determine the activities differently; ✓ ✓ it will affect the lives of the population differently. ✓ ✓

4 marks

Question 2

2.1 C ✓ ✓

2.2 A

2.3 B

2.4 E

2.5 G

10 marks

Question 3:

20 marks

Capital goods are goods that are used in the production of other goods to satisfy wants directly ✓ ✓ e.g. machinery ✓

Consumer goods are goods that are used to satisfy wants directly ✓ ✓ e.g. clothes ✓

Free goods are abundantly available and does not command a price ✓ ✓ e.g. air ✓

Economic goods are scarce and command a price e.g, pen

A need is a desire for something that you cannot do without e.g. food

A want is a desire for something you can do without e.g. luxury car

Real flow is the flow of factors of production from the owners (householders) to businesses and goods from businesses to householders. ✓✓✓

Money flow is the income received by the households for their labour, as well as the income received by businesses for their goods sold. ✓✓✓

Factor market : is the market where the price of factors (e.g. labour) is determined.
✓✓✓

Product market : is the market where the price of goods and services are determined.
✓✓✓

Question 4

8 marks

Learners may give their own examples in addition to the under mentioned:

Place _✓ example morning market; municipal market✓

Region – example inland market, coastal market

Season – example summer market

Product – example fruit market; share market; gold etc

Service – example building market; farming market etc 4x2=8

UNIT 2

Question 1

The economy is “not one of the good stories to tell”

Poor management of SOE’s

Eskom is following a “developmental “ role

SOE’s must be profitable – not so in SA

Question 2

Parastatals are entities owned wholly or partly by the state. The performance of parastatals in South Africa are very disappointing. There are serious managerial problems in South Africa. SAA, SABC and Eskom.

Question 3

There are serious problems with the economy. It is not growing at an acceptable rate to support the growing population. Forecasts have been continually reduced in the past from 5% to 3% to 2% to 1% to less than 1% in the last five years.

Several initiatives have been put in place to stimulate the economy but they have not been very effective. A forecast is given below:

South Africa GDP	Last	Q4/16	Q1/17	Q2/17	Q3/17	2020
GDP Growth Rate	0.2	0.5	0.9	1	0.9	2.1
GDP Annual Growth Rate	0.7	0.5	0.6	0.8	1	2.6

Question 4:

Several suggestions have been put which are contained in the budget statements delivered by the Minister Of Finance. Some concerned privatising airways, subsidies for interns, learnerships and so on.

The productivity figures are dismal. South Africa is ranked 52nd out of 144 countries. The Forum says that we “are less productive than in the past”

There are many initiatives like the Growth Plan and other government interventions. The implementation of these initiatives still remains problematic in the face of corruption .

Skills development initiatives will go some way to improve the situation.

Unit 3

Question 1 a

The public sector refers to all those organisations owned and controlled by the government. They provide public goods. ✓ ✓ ✓

The private sector consists of those privately owned organisations government that provide goods and services for profit. ✓ ✓ ✓

Question 1b

Note Learners will give their own answers for Q1b and Q2

Name	Line of Business
Pick n Pay ✓	Retailer ✓
Nandos	Fast Food
Ideals	Family clothing
Builders Warehouse	Hardware
Samsara Surveys	Surveying Services

5x2=10

Question 2

Graham Swart ✓	Garden Services ✓
Shams	Men's hair styling
Aveen tailor	Mens' tailor
Ryan Mechanic	Motor repairs
Ndlovu	House repairs

5x2=10

Question 3

(Any four of the following)

It usually concerns small scale retailing

Usually conducted by persons who cannot find work in the formal sector

Easy to enter this sector

Source of income for many householders

Requires little capital

Requires few skills and little training

No regulated working hours

No fringe benefits are provided

No worker protection or union affiliation

Output excluded from formal sector production figures

Sometimes encourage illegal practices in these types of businesses.

Any 4x2=8

Disadvantages

- Workers do not have any protection and can be exploited. No union representation exists .
- The output does not form part of the official GDP which is measured by the government. It is therefore difficult to measure the extent of 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.

4 x 2 = 8

Question 4

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.

Security ✓ ✓

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

The National Defence 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 able to care for themselves. For this they provide grants e.g. child grant, old age grant, and pensions to mention a few. For health security medical services are also provided. Housing is also one of the social needs catered for.

Legislation : Because we have a mixed economy, there are private businesses supplying goods and services. The government ensures that firms compete with

each other to offer the best deal 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;
- Labour relations Act
- Employment Equity Act
- Skills Development act

Some of the acts are designed to facilitate business operations while others tackle the issue of redress. We will be referring to these acts later in the following sections.

Preserving resources: it is important that the resources which each country is endowed with, are preserved and used with care. Natural resources like gold and soil fertility must be preserved. At the moment, water conservation is the focus in South Africa more than anything else. The governments takes steps to ensure the populations if made aware of the situation and take part in usage initiatives to conserve this scarce commodity. Presently the implementation of a levy for water is being considered. The Rhino campaign also deserves much attention.

Money and Banking : A secure and solvent banking system is a requirement for trade and business. The country uses the South African Reserve Bank to administer this function, that is, to control the money and banking in the country. The Banks Act provides for the establishment of further banks.

The World Economic Forum's rating for South African Banking and reporting system is very favourable and considers it among the best in the world.

Providing infrastructure : One of the main aims of the National Growth Plan is the provision of infrastructure. The country considers this as very important in encouraging industrial development. Special attention is paid to this aspect. Providing safe and economic transport and communication is at the heart of these initiatives. Numerous projects are being undertaken presently to see this to fruition. Sometimes the state takes over and establishes key industries itself that will service other industries economically for example, Eskom., South African Railways, South African Airways.

Encouraging business and providing guidance: The state establishes organizations that will assist industry by providing guidance and support for example:

- SABS for quality control
- CSIR for technical assistance
- Central Statistical Services for the processing information
- Industrial Development Corporation for finance
- Research laboratories for stock and plant diseases

✓

Question 5

Micro Environment :

Vision

Mission

Plus any from the ten business functions.

Heading ✓ ✓

Description ✓ ✓

Question 6

Learners may give any two of the following:

Consumers: ✓ ✓

A consumer 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 business is to have the correct goods at the correct time at the correct price to cater for the varying needs of the community. The consumer market is heavily influenced by competing branding and pricing and their wants keep changing.

The consumer market cannot be controlled to any significant extent. ✓ ✓ ✓

Suppliers ✓ ✓

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

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

Supply agreements and trade agreements allow some degree of control. ✓ ✓ ✓

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 as you do. Because of our economy (which is mixed) free competition is allowed and encouraged. Competition is beneficial to the consumer because he is the one who gains in the end in terms of either better quality or lower prices. Competition keeps a business on its toes to be able to keep up with the competitor; to counteract any attempt by the competition to increase their market share especially if it means reducing your share.

Competitors cannot be controlled unless legislation e.g. trade marks, patents apply.

✓✓✓

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 community, which the government in failing to provide properly. They are run mainly by volunteers and rely heavily on public support. They are active in areas such as health care, education, social services, and environmental awareness.

A number of regulatory bodies control the way business is conducted in the country.

- Consumer watchdogs like *Housewives League*, the Consumer Council, and Chambers of Commerce are mindful of the consumers plight and do their share
- Consumer related TV Programmes warn consumers of exploitation
- Consumer columns in newspapers expose bad business practices.

They cannot be controlled to any significant extent. ✓✓✓

Unions ✓✓

Trade unions represent workers in a dispute with (usually)management ; this can be a problem to business as they can influence workers to **strike**, or engage in a "go slow " , all of which are harmful to the smooth running of the business.

Workers may have issues with the working conditions, or salary or unfair dismissal, but

whatever the cause it leads to losses for both the business as well as workers. It is therefore important that the business maintains good relations with workers. ✓✓✓

Strike refers to the situation where the worker withholds his labour, and refuses to work.

Any 3x5=15

UNIT 4

New growth plan.

There is growing consensus that creating decent work, reducing inequality and defeating poverty can only happen through a new growth path founded on a restructuring of the South African economy to improve its performance in terms of labour absorption as well as the composition and rate of growth. To achieve that step change in growth and transformation of economic conditions requires hard choices and a shared determination as South Africans to see it through.

The Government is committed to forging such a consensus and leading the way by

- **1:** Identifying areas where employment creation is possible on a large scale
- **2:** Developing a policy package to facilitate employment creation in these areas, above all through:
 - A drive to enhance both social equity and competitiveness;
 - Changes to mobilise domestic investment around activities that can create
 - Encouraging growth in employment-creating activities.

Central to the New Growth Path is a massive investment in infrastructure as a critical driver of jobs across the economy.

- The framework identifies investments in five key areas namely:
 - energy,
 - transport,
 - communication,
 - water and
 - housing.
- Sustaining high levels of public investment in these areas will create jobs in construction, operation and maintenance of infrastructure.
- The new growth path sees the infrastructure programme as a trigger to build a local supplier industry for the manufacture of the components for the build-programme.
- Specific measures, particularly changes to procurement policy and regulations, are identified to ensure that this is achieved. Risks include the still fragile global recovery; competition and collaboration with the new fast-growing economies; and competing interests domestically.

The New Growth Path identifies five other priority areas as part of the programme to create jobs, through a series of partnerships between the State and the private sector.

- **Green economy:** expansions in construction and the production of technologies for solar, wind and biofuels is supported by the Energy on Integrated Resource Plan. Clean manufacturing and environmental services are projected to create 300 000 jobs over the next decade.
- **Agriculture:** jobs will be created by addressing the high input costs and increasing effort in export marketing. Support for small holders will include access to key inputs. Government will explore ways to improve working and living conditions for the country's 660 000 farm workers. The growth path also commits the Government to unblocking stalled land transfers, which constrain new investment.
- **Mining:** calls for increased mineral extraction and improving infrastructure and skills development. It focuses support for beneficiation on the final manufacture of consumer and capital goods, which can create large-scale employment. It foresees the establishment of a state mining company concentrating on beneficiation and enhanced resource exploitation in competition with a strong private mining sector.
- **Manufacturing:** calls for re-industrialisation in the South African economy based on improving performance through innovation, skills development and reduced input costs in the economy. The document targets a doubling of South Africa's research and development investment to 2% of gross domestic product by 2018.
- **Tourism** and other high-level services: hold employment potential and the framework calls for South Africa to position itself as the higher education hub of the African continent.

Smarter coordination between government and stronger partnerships with the private sector and organised labour will galvanise our resources in achieving the aims of the New Growth Path.

- Government calls on every South African to contribute to building our nation over the coming 20 years to ensure a collective effort, creativity and solidarity.
- Good leadership and strong governance are critical in ensuring that South Africa takes charge of the new opportunities. Government commits to cut wasteful spending, tackle corruption and align the allocation of public money with developmental priorities.
- Government recognises that job targets can only be achieved if the State performs better and if the private sector grows in labour-absorbing parts of the economy.

- The New Growth Path identifies measures to strengthen the capacity of the state and enhance the performance of the private sector to achieve employment and growth goals. **The New Growth Path proposes major improvements in government, with a call for slashing unnecessary red tape, improving competition in the economy and stepping up skills development.**
- The role of government departments and agencies in meeting set targets for scarce and key skills is critical. This emphasis on skills applies across the economy and will be a centrepiece of partnership with business and labour.
- Key targets include the aim to produce 30 000 engineers by 2014, with a focus on Mathematics and Science as well as changes to university funding formulae to achieve this, and 50 000 artisans by 2015, with annual targets for Eskom and Transnet and for individual Sector Education and Training Authority institutions to achieve this.
- The document calls for greater focus on workplace training, targeting on-the-job training and refresher programmes for 10% of the workforce every year.
- It also calls for measures to make it easier to import scarce skills by streamlining the work permit and visa system. This will be accompanied by a skills transfer programme to ensure that local skills development is enhanced.

The framework identifies a “development package” – a coordinated set of actions across a broad front, this consists of macroeconomic strategies, microeconomic measures and stakeholder commitments to drive employment and economic growth.

- The document recognises the challenges of an uncompetitive currency and sets out clear steps for government to address the impact of the Rand on the economy.
- In expanding on government’s tools to address inflation, a stronger role will be considered for competition policy and strategic investigations into conduct leading to high and volatile prices for intermediate inputs for producers and basic consumer goods, including important commodities such as maize, steel and fertilisers.
- Government calls for greater focus by South African business on opportunities in Africa’s fast-growing economies. This is accompanied by commitments to improve cross-border infrastructure and measures to address unnecessary regulatory obstacles to the movement of people and goods, as part of building a common market on the continent.

Adapted from www.gov.za and www.economic.gov.za

Water

April 2014

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

The Ntabelanga Dam, will be South Africa's 10th largest dam once completed. It will help to meet the province's domestic, agricultural and industrial water requirements, as well as 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. The dam will be able to generate 35 megawatts (MW) of base load power, or up to 180 MW of peaking power when operated jointly with the Ntabelanga Dam.

June 2014

The Lesotho Highlands Development Authority expects the R11.2-billion second phase of the Lesotho Highlands Water Project to be completed by 2023, the project's executive manager announced.

Read more: <http://www.southafrica.info/business/economy/infrastructure/lesotho-240614.htm#.WB9rvS197Z4#ixzz4PFfcu1et>

Transport – Roads and Rail and Air

July 2014

Gibela Transport, a joint venture 61% owned by French company Alstom, 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 - the largest deal ever struck by Alstom, and one of the biggest in rail transport worldwide - with the Passenger Rail Agency of South Africa (Prasa)

January 2015

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

January 2015

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

The delivery of the locos was an exciting moment for the government and the Passenger Rail Agency of South Africa (Prasa) because they would go a long way in reducing travel time, providing comfort and reliability, and improving efficiency.

May 2015

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

Airports Company South Africa (Acsa) said the developments were part of Acsa's new operating model aimed at improving South Africa's airports. The expansion is set to be completed over the next three years.

The 21-year-old company is run by the Department of Transport . More than 38-million passengers move through South Africa's nine airports every year.

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.

Agreements with Canada and Japan were at an advanced stage of completion and were expected to be concluded soon. It had also signed similar agreements with the US and South Korea.

April 2015

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

The national electricity supplier said that the wind farm achieved full commercial operational 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 and reducing our carbon footprint.

April 2015

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

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. 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.

December 2014

A war room has been set up to oversee the implementation of a five-point plan to 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

December 2014

With the current electricity supply problems gripping South Africa, some comfort can be drawn from recent financial data that indicates intensive investment in infrastructure by players in the electricity, gas and water supply industry.

The recently published quarterly financial statistics report, shows that capital expenditure in the electricity, gas and water supply industry rose by 91,8% from *R13- billion* in 2014 to *R24 billion* in 2014

Capital expenditure provides an indication of an industry's investment in long-term physical assets, such as plant, machinery and equipment. A rise in capital spending indicates an intention to increase the scope of operations in the future.

March 2015

"Eskom is pleased to announce 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, or first power, is the process in which the unit's generator is electrically connected 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.

Success:

The view expressed by the learners will be a personal one.

Again it depends on where in the scenario the learner is. If he is employed in any one of the projects, he may have a different view. If he is still unemployed he may express his reservations about the success of the plan. Many initiatives have failed because at implementation stage, negative elements like corruption creep in and destroy the good intentions of well thought out solutions.

UNIT 5

Question 1:

When price increases, demand decreases	FALSE
When price increases, demand increases	FALSE
When price increases, quantity demanded decreases	TRUE
When price increases, quantity demanded increases.	FALSE
When price increases, quantity supplied decreases	FALSE
When price increases, decreases quantity supplied increases	TRUE
When price increases, supply increases	FALSE
When price increases, supply decreases.	FALSE

Question 2:

- 2.1 D
- 2.2 E
- 2.3 G
- 2.4 F
- 2.5 I

Question 3

Changes in income: when a person gets an increase in salary, then he able to buy more of the same good (example chocolates) although this increase does not come from a change in the price of chocolates ✓✓✓

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 applies if a person begins to earn less, because he can afford less ✓✓✓

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. ✓✓✓

Question 4

The perfect market:

Large number of buyers ✓✓

Large number of sellers ✓✓

Products are exactly the same – no packaging or advertising ✓✓

Full information easily available to make proper decisions. ✓✓

Easy entry and exit ✓✓

No preferential treatment. ✓✓

Any 5 x 2 = 10

Question 5 - Diagrams

10 - decreases in demand ✓✓

11 - increase in supply ✓✓

12 - increase in demand ✓✓

13 - increases in both demand and supply. ✓✓

(8)

UNIT 6

Unemployment :

Unemployment refers to the situation where those who are able and willing to work are not able to find employment ✓✓

- a person who is able to work – this implies he is qualified to do so, with the necessary skilled and training;
- He has made attempts to find work
- He is willing to sell his labour ✓✓✓ (max 5)

Kinds of Unemployment:

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 ✓✓max

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. ✓✓max

Structural unemployment:

This form of unemployment is also known as technological unemployment, because changes in technology are one of the main causes of this situation. When production techniques change, it is accompanied by modernisation and usually advanced technological adjustments. 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 ✓✓ (Max)

Cyclical unemployment :

. There are economic upswings and downswings called business cycles. During a downturn, the economy contracts- there is reduced demand for goods and services resulting in reduced demand for labour. This leads to unemployment. ✓✓(Max) Max 8

6.2.2 Describe the causes and effects of unemployment

Causes:

- 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. They become unemployed. ✓✓
- Shortage of skills training/ educational qualifications: in addition to having an educational qualification, some type of training is also required; this is usually the job of skills training. People who have not undergone such skills training are not suitably empowered to become employed. ✓✓
- Work seekers are not familiar with the job situation- as to where jobs are available, and where to look for them. Failure to find such information in time leaves them unemployed for some time. ✓✓
- The population growing too fast produces work seekers who are more 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 cause either prosperity or hardship resulting in either more or less job opportunities. ✓✓

8 (max)

Effects of unemployment:

- The country loses valuable talent and expertise because people cannot be gainfully employed; they leave to seek opportunities elsewhere and other countries benefits from their knowledge and expertise ✓✓
- The threat of unrest and social instability comes with unemployment. This hinders peaceful coexistence. ✓✓
- The welfare level of the inhabitants is lower than it could be if there was full employment. There is generally a sense of pessimism and uncertainty. ✓✓
- Crime increases as a result of people being unemployed. ✓✓
- The Market economy is portrayed negatively. – that is, cannot sustain itself. ✓✓
- The person unemployed is totally devastated; he has to compromise his standard of living, his place in society and his self esteem. ✓✓
- It hinders other initiatives (like transformation) which may have to be shelved because of the unemployment problem. ✓✓

8 (max)

6.2.3 Combating unemployment

This is a long term problem and has to be tackled in stages:

- Immediately providing relief – food and shelter
- Improving skills of the unemployed
- Creating opportunities for them to be employed.

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 ✓✓

Balance the needs of the economy: 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 ✓✓

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 introduced to reduce the wage bill and lower the cost of production. . ✓✓

Max 8

Conclusion :

Recent figures may be quoted; the situation has worsened at the end of 2016 where the unemployment figures have reached 27%.

Some opinion on the initiatives by government.

Max 5

Total 55

Note:

Max 30

Introduction and conclusion together = 10 marks.

Content (without the above) is restricted to a maximum of 30

ACKNOWLEDGMENTS :

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