1. Introduction

The declaration of COVID-19 as a global pandemic by the World Health Organisation led to the disruption of effective teaching and learning in many schools in South Africa. The majority of learners in various grades spent less time in class due to the phased-in approach and rotational/ alternate attendance system that was implemented by various provinces. Consequently, the majority of schools were not able to complete all the relevant content designed for specific grades in accordance with the Curriculum and Assessment Policy Statements in most subjects.

As part of mitigating against the impact of COVID-19 on the current Grade 12, the Department of Basic Education (DBE) worked in collaboration with subject specialists from various Provincial Education Departments (PEDs) developed this Self-Study Guide. The Study Guide covers those topics, skills and concepts that are located in Grade 12, that are critical to lay the foundation for Grade 12. The main aim is to close the pre-existing content gaps in order to strengthen the mastery of subject knowledge in Grade 12. More importantly, the Study Guide will engender the attitudes in the learners to learning independently while mastering the core cross-cutting concepts.

2. How to use this Self Study Guide

2.1 This Study Guide addresses content and offer strategies to understand the different aspects of assessing Foreign Exchange markets in a step by step approach, with consolidation activities to conclude.

2.2 The explanations and activities are intended to supplement the work you may have covered in class or have gained from textbooks and not replace them.

2.3 Activities proceed from the low order, simple focused examples to middle order with paragraph and graphical construction and interpretation and finally higher order questions that require application of knowledge that may not be available in the textbooks.

2.4 It is important to allocate sufficient time to:

- Carefully read the explanations provided; underline or highlight key concepts, difficult vocabulary, important data, and relevant data.
- Underline key concepts within the question and ensure that correct interpretation is done before attempting the question.
- Practice the skill of drawing graphs on exchange rates
- Master the entries in the Balance of Payments and how to calculate various accounts

2.5 Attempt the activities on your own; make constant reference to the explanatory notes but avoid referring to the suggested answers before attempting answering an activity.

2.6 Compare your answers to the suggested answers and do your corrections in a different colour- ink pen. Note that you will learn more by discovering your weaknesses (when you get things wrong) and making an effort to understand why your thinking was out of line with what was expected.

2.7 The activities provided may not be sufficient to perfect your skills. Always refer to similar questions from past examination papers for this purpose. Repetitive practice is always valuable.

3. Foreign exchange markets

Overview of the topic

Under this topic you will learn:

3.1 Reasons for international trade

3.2 Composition of the Balance of Payments account

3.3 Foreign exchange rates

3.4 Rates of exchange

KEY CONCEPTS

These definitions will help you understand the meaning of key Economics concepts that are used in this study guide. Understand these concepts well.

Concept	Description
Absolute advantage	Absolute advantage refers to the ability of a country to produce a greater quantity of a good or service with the same quantity of inputs per unit of time, or to produce the same quantity of a good or service per unit of time using a lesser quantity of inputs, than another entity that produces
Comparative advantage	Comparative advantage refers to the ability of a country to produce a good more efficiently (cheaper), in other words, more productive or cost-efficient than another country
Balance of payments	Balance of payments is a statement of all transactions made between one country and the rest of the world over a defined period, e.g. a year
Current account	Current account represents a country's imports and exports of goods and services, payments made to foreign investors, and transfers such as foreign aid.
Balance of trade	Balance of trade is the difference in value between a country's imports of goods and exports of goods
Trade deficit	Trade deficit is the amount by which the value of a country's imports exceeds the value of its exports
Trade surplus	Trade surplus is the amount by which the value of a country's exports exceeds the value of its imports
Merchandise exports	Amount of goods sold to other countries
Merchandise imports	Amount of goods bought from other countries
Capital transfer account	Capital transfers consist of transfers of ownership of fixed assets; transfers of funds
Net gold exports	Value of gold exported less the value of gold imported
Services receipts	Payments received for services provided to other countries
Payment for services	Payments made for services rendered by other countries

Primary income receipts	Receipts from income-generating assets such as stocks (in the form of dividends) refer to employee compensation paid to resident workers working abroad and investment income (receipts on direct investment, portfolio investment, other investments, and receipts on reserve assets).
Primary income payments	Primary income payments refer to employee compensation paid to non-resident workers and investment income (payments on direct investment, portfolio investment, other investments)
Current transfers	Current transfers are current account transactions in which a resident in one country offers economic value to a non-resident, such as real property or financial product, without obtaining something in return of the same economic value. Examples are gifts in cash, social insurance contributions and benefits and taxes imposed on foreign governments
Financial account	The financial account is a component of a country's balance of payments that covers claims on or liabilities to non-residents, specifically with regard to financial assets.
Direct investment	A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.
Portfolio investment	An investment portfolio is a collection of assets and can include investments like stocks, bonds, mutual funds and exchange-traded funds.
Foreign exchange markets	Markets for the exchange of one country's currency with that of another country.
Exchange rate/rate of exchange	Exchange rate is the price of one currency in terms of another currency
Currency	Currency is a medium of exchange for goods and services. In South Africa it is the Rand.
Appreciation	Currency appreciation refers to the increase in the price of one currency relatively to another country's currency. It is subjected to marker forces in the forex market.
Depreciation	Currency depreciation refers to the decrease in the price of one currency relatively to another country's currency. It is subjected to market forces in the forex market.
Revaluation	When a government or central bank intervenes in the market to increase the value of their currency relative to another country's currency.
Devaluation	When a government or central bank intervenes in the market to decrease the value of their currency relative to another country's currency
Free floating exchange rates	A free-floating exchange rate is solely determined by market forces.
Managed floating exchange rates	Managed floating is a system which allows adjustments in exchange rate according to a set of rules and regulations.
Fixed exchange rates	A fixed exchange rate means a nominal exchange rate that is set firmly by the monetary authority with respect to a foreign currency or a basket of foreign currencies.

Terms of trade	Terms of trade represent the ratio between a country's export prices and its import prices
Balancing item on the BOP	The balancing item, which may be positive or negative, is simply an amount that accounts for any statistical errors and assures that the current and capital accounts sum to zero.
Foreign exchange reserves	Foreign exchange reserves are assets held on reserve by a central bank in foreign currencies. These reserves are used to back liabilities and influence monetary policy. It includes any foreign money held by a central bank.

NOTES

A current account surplus indicates that the value of a country's net foreign assets (i.e. assets less liabilities) grew over the period in question, and a current account deficit indicates that it shrank.

3.1 Reasons for international trade

The following reasons are prescribed by the exam guideline. These are the reasons that you should mention during the examination.

The reasons for international trade can be divided into TWO types of reasons:

1. Demand reasons
2. Supply reasons

DEMAND REASONS

- ✓ Size of population
- ✓ Income levels
- ✓ Changes in the wealth of the population
- ✓ Preferences and trade
- ✓ The difference in consumption patterns

SUPPLY REASONS

- ✓ Natural resources
- ✓ Climatic conditions
- ✓ Labour resources
- ✓ Technological resources
- ✓ Specialisation
- ✓ Capital

Main reasons for international trade

Demand reasons

- **Size of the population**
  The size of the population impacts demand. If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. Local suppliers may not be able to satisfy this demand.
- **Income levels**
  The population's income levels affect demand. Changes in income cause a change in the demand for goods and services. An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported.
- **Changes in the wealth of the population**
  An increase in the wealth of the population leads to greater demand for goods. People have access to loans and can spend more on luxury goods, many of which are produced in other countries.
- **Preference and trade**
  Preferences and tastes can play a part in determining prices, e.g. customers in Australia have a preference for a specific product which they do not produce and need to import, and it will have a higher value than in other countries.
- **The difference in consumption patterns**
  The difference in consumption patterns is determined by the level of economic development in the country, e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods.
- **Absolute and comparative advantage**

  Absolute advantage
  - Absolute advantage is when a producer can produce a good or service in greater quantity for the same cost, or the same quantity at a lower cost, than other producers.

  - Absolute advantage can be the result of a country's natural endowment.
  - For example, extracting oil in Saudi Arabia is just a matter of "drilling a hole." Producing oil in other countries can require considerable exploration and costly technologies for drilling and extraction.
  - Saudi Arabia will has absolute advantage in terms of oil.
  - There will be high demand for oil from non-producing countries.

  Comparative advantage
  - A country has a comparative advantage if it can produce a good at a lower opportunity cost than another country / a country has a comparative advantage when a good can be produced at a lower cost in terms of other goods.
  - Countries often chooses to specialize production on a good or service which it can make most efficiently, relative to its trading partners.
  - For example: Two countries might have Mediterranean climates that are excellent for producing/harvesting green beans and tomatoes. In country A, it takes two hours for each worker to harvest green beans and two hours to harvest a tomato. In country B, workers need only one hour to harvest the tomatoes but four hours to harvest green beans. Assume there are only two workers, one in each country, and each works 40 hours a week.

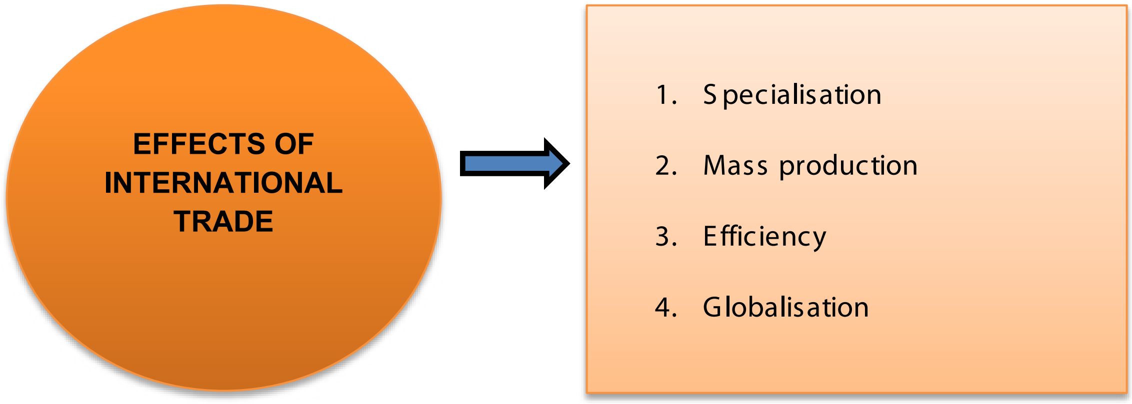
- Country A will have comparative advantage for producing green beans, and country B will have comparative advantage for producing tomatoes.
- Each country had to choose the production of the product that provided the highest yield. In other words, they lose out on the production in one of these products.
- Each country specialises in the production of a certain product.
- This enforce international trade, whereby country A will have a demand for tomatoes and country B will have a demand for green beans.
- A country will do better exporting a good for which it has a comparative advantage.
- Traders will compete with one another, giving countries greater amounts of the gains from trade to gain their business.

Supply reasons

- **Natural resources**
  Natural resources are not evenly distributed across all countries of the world. They vary from country to country and can only be exploited in places where these resources exist.
- **Climatic conditions**
  Climatic conditions make it possible for some countries to produce certain goods at a lower price than other countries, e.g. Brazil is the biggest producer of coffee.
- **Labour**
  Labour resources differ in quality, quantity and cost between countries. Some countries have highly skilled, well-paid workers with high productivity levels, e.g. Switzerland.
- **Technological resources**
  Technological resources are available in some countries that enable them to produce certain goods and services at a low unit cost, e.g. Japan.
- **Specialisation**
  Specialisation in the production of certain goods and services allows some countries to produce them at a lower cost than others, e.g. Japan produces electronic goods and sells these at a lower price.
- **Capital**
  Capital allows developed countries to enjoy an advantage over under-developed countries. Due to a lack of capital, some countries cannot produce all the goods they require themselves.

Effects of international trade

You should be able to discuss the following effects of international trade:



Specialisation

- Specialisation refers to the tendency of countries to specialize in certain products which they trade for other goods, rather than producing all consumption goods on their own.
- Countries produce a surplus of the product in which they specialize and trade it for a different surplus good of another country.
- E.g. Angola has oil so it can specialize in oil products while Mozambique has no oil resources and cannot specialize in these resources.

Effects of specialisation

- Specialisation could lead to the development of new techniques that lead to huge increases in productivity and provide comparative advantage for the country.
- Higher productivity and efficiency – more goods can be produced within a certain period; this can improve the export potential of a country.
- Lower unit costs due to mass production techniques. Goods can be exported at a cheaper rate than other countries.
- Encourages investment in specific capital – economies of scale. Countries will specialize in certain and specific industries.
- Specialisation could increase the standard of living especially when the area of specialization is in great demand due to a shortage of supply.
- Mass production becomes possible if the domestic demand is added to foreign demand, e.g. manufacturing of cell phones.
- World prices for a product might fall leading to declining revenues for the specialist country.
- Risk of over-specialising and structural unemployment.
- Might lead to over-extraction of a country's natural resources.
- Loss in demand. If a country specialises in the production of one product, it become dependent on the market demand for the product. The country becomes vulnerable if the market demand decrease for some reason.

Mass production

Mass production is the manufacturing of large quantities of standardized products, often using assembly lines or automated technology.

Effects of mass production

- Mass production could result in surplus production which can be exported.
- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign markets.
- An increase in exports will lead to an inflow of foreign exchange which will improve the balance of payments of the country.
- This will lead to an appreciation in the value of the currency (Rand)

- Create more employment that will lead to an increased demand for foreign goods that might facilitate international trade and lead to an access to a greater variety of goods and services of most manufactured products.

Efficiency

Improvements in production efficiency mean that countries can produce more goods and services with the same amount of resources.

Effects of efficiency

- Specialisation can cause production become more efficient over time.
- This could result because the country's producers become larger and exploit the economies of scale causing increased production.
- This increased output will be channeled to the global market.
- Imports expose domestic firms to greater competitive pressure, while giving them access to more and better inputs.
- Exporters increase productivity by learning from overseas customers and through exposure to competition from foreign producers.

Globalisation

Globalization refers to the interdependence between countries arising from the integration of different aspects of the economy, such as trade. International trade can stimulate economic growth of countries that are now so interconnected.

Effects of globalisation

- Globalization has resulted in greater interconnectedness among markets around the world and increased communication and awareness of business opportunities in the world.
- More investors can access new investment opportunities and study new markets at a greater distance than before.
- Through globalization, foreign direct investment tends to increase at a much greater rate resulting in the growth in world trade, promotion of technology transfer, industrial restructuring, and the growth of global companies.
- international trade could increase the country's debt when the number of imports exceeds the amount of exports
- International trade is known to reduce real wages in certain sectors, leading to a loss of wage income.
- However, cheaper imports can also reduce domestic consumer prices, and the impact may be larger than any potential effect occurring through wages.

ASSESSMENT ACTIVITY 1

1.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions.

Choose the answer and write only the letter (A–D) next to the question number.

1.1.1 To reap the benefits of efficient markets, countries rely on the principle of … advantage.

A. competitive

B. comparative

C. relative

D. related

1.1.2 Which of the following reasons for trade is related to supply?

A. Households' increasing income levels

B. Households' desires for a variety of goods and services

C. Increased exports

D. Differing climatic conditions

1.1.3 The advantage of international trade that allows countries to produce according to their comparative advantage gives rise to...

A. labour exploitation.

B. decreased world output.

C. specialisation.

D. weak currencies. (3x2) (6)

1.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

1.2.1 The worldwide interaction of economies, with trade as a key element (1)

1.2.2 A situation where one country has a relative advantage in the production of goods and services (1)

1.2.3 The exchange of goods or services across international borders (1)

1.2.4 When consumers and producers are free to buy goods and services anywhere in the world without any restrictions (1)

LOWER ORDER (easy) **(2 marks)**

1.3 Answer the following questions:

> HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.
>
> This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

1.3.1	List TWO demand reasons for international trade.	(2x1)	(2)
1.3.2	List TWO supply reasons for international trade.	(2x1)	(2)
1.3.3	List TWO effects of international trade.	(2x1)	(2)
1.3.4	List TWO advantages of specialization.	(2x1)	(2)
1.3.5	List TWO disadvantages of specialisation.	(2x1)	(2)

MIDDLE ORDER (moderate to difficult questions) **(2 marks)**

1.4 Answer the following questions.

> HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive.
>
> This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

1.4.1	Why is international trade so important?	(1x2)	(2)
1.4.2	Why are natural resources a cause for international trade?	(1x2)	(2)
1.4.3	How can mass production lead to an inflow of foreign exchange for a country?	(1x2)	(2)
1.4.4	How can globalization lead to international trade?	(1x2)	(2)

PARAGRAPH QUESTIONS: MIDDLE ORDER (easy to moderate) **(8 marks)**

1.5 Answer the following questions

> HINT: When a question requires to "explain", "discuss", "differentiate", etc. You need to answer in full sentences. The answers are found in textbooks.
>
> This type of questions is found on the question paper: 2.4; 3.4 and 4.4

1.5.1	Explain *natural resources* as a reason for international trade.	(4x2)	(8)
1.5.2	Briefly discuss *size of population* and *income levels* as demand reasons for international trade.	(2x4)	(8)
1.5.3	Briefly discuss *climatic conditions* and *labour resources* as supply reasons for international trade.	(2x4)	(8)
1.5.4	Explain the effects of globalisation on international trade.	(4x2)	(8)
1.5.5	Explain the supply reasons for international trade.	(4x2)	(8)
1.5.6	Explain *income level* and the *size of the population* as factors affecting international trade.	(2x4)	(8)
1.5.7	Briefly discuss the demand reasons for foreign exchange.	(4x2)	(8)

PARAGRAPH QUESTIONS: Middle order (difficult) **(8 marks)**

1.6 Answer the following questions.

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking.
You need to answer in full sentences. This type of questions is found on the question paper: 2.5; 3.5 and 4.5

1.6.1 How can efficiency influence international trade? (8)

1.6.2 How does globalisation cause international trade? (8).

1.6.3 What are the effects of mass production on trade worldwide? (8)

ESSAY QUESTION

The following structure must be used when answering an essay question in the examination. Use the following headings for your essay:

1. Introduction
2. Body: Main part
   Additional part
3. Conclusion

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order response 1. A good starting point would be to define the main concept related to the question 2. Do not include any part of the question in the introduction 3. Do not repeat any part of the introduction in the body 4. Avoid mentioning what you are going to discuss in the body	Max. 2
Body **1. Main part:** Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Explain **2. Additional part:** Give own opinion / Critically discuss / Evaluate / Critically evaluate / Draw a graph and explain / Use the graph given and explain / Complete the given graph / Calculate / Deduce / Compare / Explain / Distinguish / Interpret / Briefly debate / How / Suggest	Max. 26 Max. 10
Conclusion Any relevant higher order conclusion that should include: 1. A brief summary of what has been discussed / analysed without repeating facts already mentioned 2. An opinion or valued judgement on the facts discussed 3. Additional support information to strengthen the discussion / analysis 4. A contradictory viewpoint with motivation, if required 5. Recommendations	Max. 2
TOTAL	**40**

TAKE NOTE:
The demand and supply reasons for international trade is a possible essay question according to the exam guideline.

The question can be asked in various ways.

Examples

Main part

- Discuss in detail the demand reasons for international trade (26 marks)

Additional part

- Evaluate the effects of a currency in an economy (10 marks)

OR

Main part

- Discuss the supply reasons for international trade in detail (26 marks)

Additional part

- How effective is international trade for South Africa? (10 marks)

3.2 BALANCE OF PAYMENT

NOTES

Description

The Balance of Payments (BoP) is a statement of all transactions made between one country and the rest of the world over a defined period, e.g. a year.

The purpose of the Balance of Payments (BoP)

- BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.
- BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyse and understand the economic dealings of a country with other countries.

COMPOSITION OF THE BALANCE OF PAYMENTS

Current account

- The current account is the account in the BoP that records international transactions relating to production, income, and expenditure.
- It represents a country's imports and exports of goods and services, payments made to foreign investors, and transfers such as foreign aid.
- In calculating the balance on the current account, 5 groups of items are taken into account.
- They are merchandise (goods), gold, services, income and current transfers.

Capital transfer account

- Capital transfers consist of transfers of ownership of fixed assets; transfers of funds.
- These transactions consist of imports and exports of goods, services, capital, and transfer payments such as foreign aid and remittances.
- The capital account indicates whether a country is importing or exporting capital.
- The balance shown reflects the net amount of the capital transfer, either negative or positive.
- The balance is a net amount and includes:
  - Transactions and grants relating to the ownership of fixed assets, e.g. a grant by a foreign NGO for a housing project in South Africa,
  - debt forgiveness,
  - the value of households and personal effects, and financial claims and liabilities of migrants.

Financial account

- The financial account is a component of a country's balance of payments that covers claims on or liabilities to non-residents, specifically with regard to financial assets.
- The financial account deals with money related to foreign reserves and private investments in businesses, real estate, bonds, and stocks.
- It also includes government-owned assets such as special drawing rights at the International Monetary Fund (IMF), or private sector assets held in other countries, local assets held by foreigners—government and private—and foreign direct investment (FDI).
- The financial account shows records of investments by South Africans in other countries and by foreigners in South Africa.

The sub accounts of the financial account:

Direct investments

- A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.
- Foreign direct investment (FDI) refers to investment in real estate (fixed property) and obtaining a meaningful share (10%+) or control of such business.
- E.g. USA Walmart's takeover of the local chain Massmart was a foreign direct investment of US$2.2 billion.

Portfolio investments

- Portfolio investments are investments in the form of a group (portfolio) of assets, including transactions in equity, securities, such as common stock, and debt securities, such as banknotes, bonds, and debentures.
- It refers to the buying of financial assets such as shares in companies on the stock exchange of another country.
- These investments are highly liquid, and their flows can be reversed at any time.
- Portfolio investment money is also known as 'hot money'.

Other investments

- Other investments are a residual category.
- Transactions that cannot be classified as direct investments, portfolio investments or reserve assets and liabilities are classified as other investments.
- It also refers to other financial transactions not covered by FDI.
- e.g. short-term investment that flows in and out of a country, trade credits and short-term loans.

Reserve account

- The reserve account records changes to the amount of gold and foreign exchange reserves (Dollars, Pounds, Euros) held by the country.
- These changes are a reflection of the international transactions recorded in all the other accounts on the BoP.
- South Africa's total gold and foreign exchange reserves are a stock item and are not shown in the reserve account. Only the changes to the gold and foreign reserves are shown.

BALANCE OF PAYMENTS: OUTLAY

1. CURRENT ACCOUNT

Merchandise exports

+ Net gold exports

+ Services receipts

+ Income receipts

less Merchandise imports

less Payment for services

less Income payments

Current transfers (net receipts)

Balance on Current Account

Memo item: trade balance

2. CAPITAL TRANSFER ACCOUNT

NET LENDING TO (+) OR BORROWING FROM (-) REST OF THE WORLD

3. FINANCIAL ACCOUNT

Net direct investment

Net portfolio investment

Net financial derivatives

Net other investments

Reserve assets

Balance on Financial Account

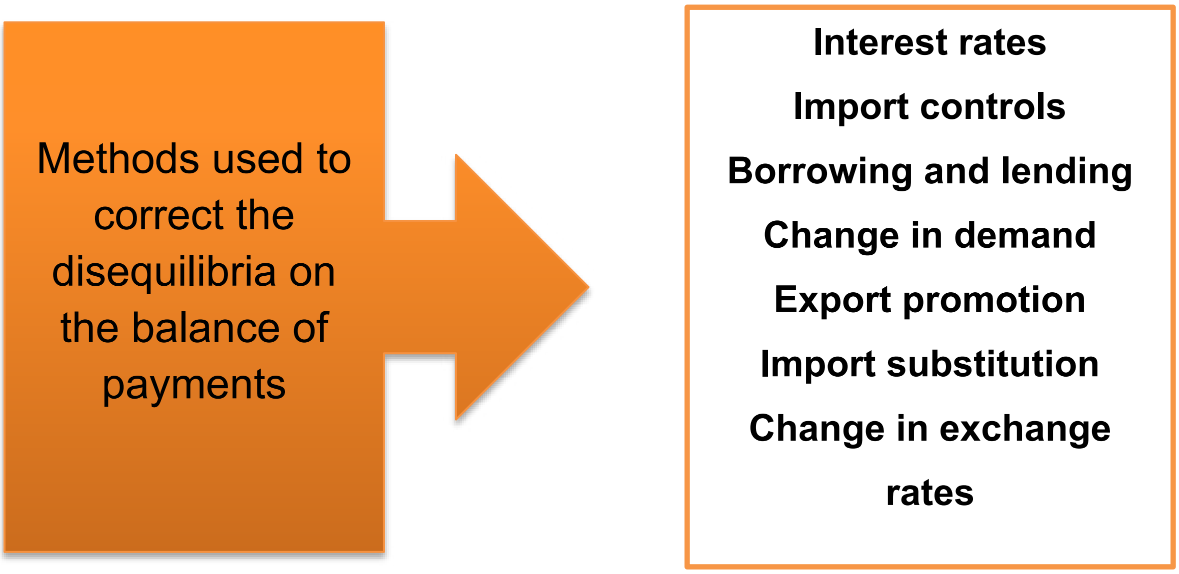
Memo item: balance on Financial Account excluding reserve assets

Unrecorded transactions

CORRECTIONS OF BALANCE OF PAYMENTS SURPLUS AND DEFICIT (DISEQUILIBRIA)

- Balance of payments disequilibria exist when the outflow of foreign currency continuously exceeds or is less than the inflow of foreign currency.
- A disequilibrium in the balance of payment exits, it is either a *surplus* or *deficit.*
- A deficit on the balance of payments implies that the outflow of foreign currency exceeds the inflow of foreign currency.
- A surplus exists when the outflow of currency is less than the currency inflow.

The following are methods that can be used to correct the deficit or surpluses on the Balance of Payments.



Methods used to correct disequilibria of the balance of payments

Change in demand

The following four instruments are used in various countries to restore the equilibrium:

Interest rates

- Domestic demand can be changed by changing interest rates.
- Higher interest rates help to decrease spending on imports. a higher interest rate in the domestic market will attract foreign funds which can be used for correcting disequilibrium
- Foreign traders will try to take advantage by increasing their investment in the country with the higher interest rate.
- An increase in interest rates can lead to an appreciation of the currency as demand for the currency increases.
- This increases the price of exports as the value of the currency increases.
- The opposite happens when interest rates are decreased.
- Lower interest rates encourage consumer spending; therefore there will be a rise in spending on imports. This will cause a deterioration in the current account. However, lower interest rates should cause a depreciation in the exchange rate.

- However, lower interest rates should cause a depreciation in the exchange rate. This makes exports more competitive, and if demand is relatively elastic, the impact of a lower exchange rate should cause an improvement in the current account. Therefore, it is not certain how the current account will be affected.

Import controls

The following import control methods can be used to restore a disequilibrium balance of payments:

Import Quotas

- Restricting imports by applying imports quotas.
- Under the quota system, the government may permit the maximum amount or value of a commodity to be imported during a given period.
- By restricting imports through the quota system, deficit is reduced or eliminated and thereby the balance of payments position is improved.

Tariff (Import Duties)

- Tariffs are duties (taxes) imposed on imports.
- When tariffs are imposed, the prices of imports will increase.
- The increased prices will reduce the demand for imported goods and at the same time encourage domestic producers to produce more of import substitutes

Borrowing and lending

- Countries with surpluses often lend money to countries with deficits. Countries with deficits often borrow. This is why some developing countries have so much foreign debt.
- In the event of a fundamental disequilibrium, member countries may borrow from the International Monetary Fund (IMF).
- Borrowing is nevertheless not a long-term solution for fundamental balance of payments disequilibrium.

Export promotion

- To correct disequilibrium in the balance of payments, it is necessary that exports should be increased.
- Government may adopt export promotion programmes for this purpose.
- Export promotion is applied to encourage the production of goods that can be exported.
- An export promotion programme includes subsidies, tax concessions to exporters, marketing facilities, incentives for exports, loan priorities to the export sector under the credit policy of the central bank, etc.

Import substitution

- Import substitutes steps may be taken to encourage the production of import substitutes.
- Local production is encouraged, rather than importing goods from other countries.
- This will save foreign exchange in the short run by replacing the use of imports by these import substitutes.

Changes in exchange rate

- **Exchange Control**

Exchange control refers to the control over the use of foreign exchange by the central bank.

Foreign exchange is restricted among the licensed importers. Only essential imports are permitted.

- Exchange Rate Depreciation

- Exchange rate depreciation means that the value of the domestic (local) currency is reduced in relation to foreign currency.
- Currency depreciation or devaluation makes imports more expensive for domestic consumers and exports cheaper for foreign buyers.
- On the other hand, a downward shift in the value of a country's currency makes it more expensive for its citizens to buy imports and increases the competitiveness of their exports.
- For example, when the rand depreciates, South African goods (exports) become cheaper for foreign buyers. Imports become more expensive for South Africans.

The World Trade Organisation (WTO) is trying to phase export promotion and tariff measures for the sake of trade liberalisation.

ASSESSMENT ACTIVITY 2

2.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

2.1.1 Which ONE of the following can cause a deficit on the balance of payments?

A. Inward foreign investments
B. Increase in foreign currency reserves
C. Decline in mineral exports
D. Increase in exports

2.1.2 The purchase of shares on the JSE by a foreigner is an example of … investments.

A. portfolio
B gilt-edged
C. indirect
D. direct

2.1.3 The systematic record of all the transactions of a country's inhabitants with the rest of the world, is known as the …

A. trade balance.
B. foreign exchange.
C. national budget.
D. Balance of Payments.

2.1.4 The financial account in the Balance of Payment records the transactions related to...

A. production.
B. assets and liabilities.
C. net gold exports.
D. services.

2.1.5 Payment for services forms part of the ... in the balance of payment.

A. financial account

B. capital transfers account

C. current account

D. services account

2.1.6 The trade balance is the net results of the trade in...

A. services.

B. goods

C. foreign exchange

D. gold

2.1.7 The account on the Balance of Payment that records the net primary income is called the ... account.

A. financial

B. income

C. current

D. capital transfer

2.1.8 All net flows of money on the financial account for investment on local and international stock markets are recorded under...

A. the balance of trade account

B. portfolio investment

C. net foreign reserves

D. current account

2.1.9 Money that is transferred across the country's borders from residents to non-residents that does not ...is referred to as a current transfer.

A. attract interest

B. get recorded

C. attract dividends

D. get exchanged for tangible goods

2.1.10 The capital transfer account is the smallest account on the BoP and includes the sale and purchase of assets relating to...

A. investment

B. migration

C. exports

D. imports (10x2) (20)

2.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

2.2.1 An international organisation that lends money to countries with ongoing balance of payment problems (1)

2.2.2 An account in the BOP that contains information on investments made by South Africans in other countries (1)

2.2.3 Buying and selling equities and debt securities (1)

2.2.4 Payments in respect of interest and dividends made between the citizens and firms in different countries (1)

<u>LOWER ORDER (easy)</u> (2 marks)

2.3 Answer the following questions:

> HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.
>
> This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

2.3.1 Name TWO items in the current account that specify an inflow of foreign exchange. (2x1) (2)

2.3.2 Name TWO items in the current account that specify an outflow of foreign exchange. (2x1) (2)

2.3.3 List TWO sub-accounts of the financial account. (2x1) (2)

2.3.4 Name the TWO characteristics of merchandise in the current account. (2x1) (2)

2.3.5 List the TWO components that are classified as income in the current account. (2x1) (2)

2.3.6 Name TWO examples of current transfers. (2x1) (2)

MIDDLE ORDER (moderate to difficult questions) **(2 marks)**

2.4 Answer the following questions.

> HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive, and it should answer the question.
>
> This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

2.4.1 How will appreciation of a currency affect the Balance of payment account? (2x1) (2)

2.4.2 What effect will a decrease in income levels have on international trade? (2x1) (2)

2.4.3 What is the effect of foreign direct investment (FDI) on domestic investment? (2x1) (2)

2.4.4 Why are gold exports listed as a separate item on the current account? (2x1) (2)

2.4.5 How will the trade balance be affected if a major South African retailer imports more clothes from China? (2x1) (2)

PARAGRAPH QUESTIONS: Middle order (easy to moderate) **(8 marks)**

2.5 Answer the following questions.

HINT: When a question requires to "explain", "discuss", "differentiate", etc. You need to answer in full sentences. The answers are found in textbooks.

This type of questions is found on the question paper: 2.4; 3.4 and 4.4

2.5.1 Differentiate between the *current transfers account* and the *capital transfers account.* (2x4) (8)

2.5.2 Briefly discuss components of the financial account in the BOP. (4x2) (8)

2.5.3 Explain export promotion and import substitution as measures to reduce disequilibrium on the balance of payments. (4x2) (8)

2.5.4 Explain changes in the exchange rate as a measure to reduce the disequilibria on the balance of payments. (4x2) (8)

PARAGRAPH QUESTIONS: Middle order (difficult) **(8 marks)**

2.6 Answer the following questions.

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

2.6.1 How can foreign direct investment benefit the South African economy? (4x2) (8)

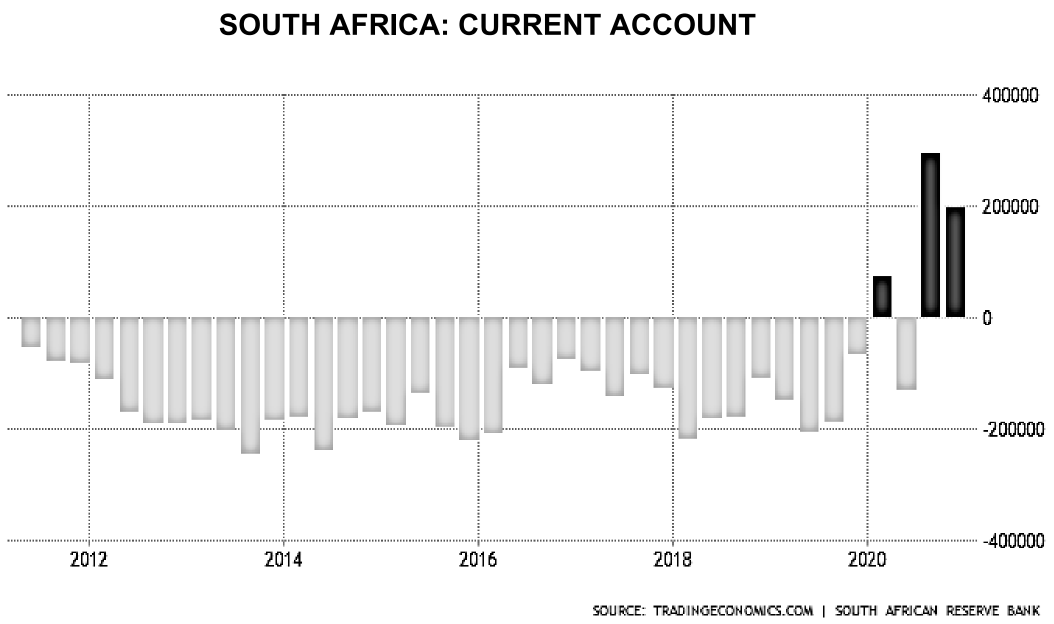
2.6.2 How can imports be targeted to reduce the deficit on the balance of trade in South Africa? (4x2) (8)

2.6.3 Why can large and persistent surpluses on the current account be a problem for some countries? (4x2) (8)

2.6.4 How can the SARB reduce the deficit on the balance of payments account? (4x2) (8)

DATA RESPONSE QUESTIONS

2.7 Study the graph below and answer the questions that follow.



Source: Tradingeconomics.com

2.7.1 Identify the year in which the lowest deficit on the current account was recorded. (1)

2.7.2 What was the trend of the current account since 2012? (1)

2.7.3 Briefly describe the term *current transfers* (2)

2.7.4 Briefly explain the impact of a deficit on the current account. (2)

2.7.5 How did the hard lockdown negatively affect the BOP? (4)

[10]

2.8 Study the data below and answer the questions that follow.

SOUTH AFRICA: CURRENT ACCOUNT

Current account (R Millions)	**2020**
Merchandise exports	1 286 047
Net gold exports	108 299
Services receipts	121 073
Income receipts	121 120
Merchandise imports	1 109 459
Payment for services	160 422
Income payments	216 319
Current transfers	-43 135
Balance on current account	108 204
Memo item: Trade balance	(A)

Source: SARB Quarterly, March 2021

2.8.1 Identify ONE item in the current account that indicate an inflow of foreign exchange. (1)

2.8.2 List ONE item in the current account that indicate an outflow of foreign exchange. (1)

2.8.3 Briefly describe the term *payments for services.* (2)

2.8.4 What is the importance of a positive trade balance in the economy? (2)

2.8.5 Calculate the trade balance (A) for 2020. Show ALL correct calculations (4)

[10]

2.9 Study the information below and answer the questions that follow.

SOUTH AFRICA: CURRENT ACCOUNT		
Current account (R millions)	**2019**	**2020**
Merchandise exports	1 235 964	1 286 047
Net gold exports	67 181	108 299
Services receipts	212 721	121 073
Income receipts	116 781	122 120
Less Merchandise imports	1 263 824	1 109 459
Less Payment for services	266 494	160 422
Less Income payments	259 944	216 319
Current transfers (net receipts +)	-35 561	-43 135
Balance on the current account	-135 176	108 204

Source SARB Quarterly Bulletin

March 2021

2.9.1 Identify ONE item of foreign exchange inflow that have decreased between and 2020. (1)

2.9.2 List ONE example of income payments. (1)

2.9.3 Briefly describe the term *income payments*. (2)

2.9.4 Why did income receipts increase between 2019 and 2020? (2)

2.9.5 How does a positive balance of payments affect the exchange rate? (4)

[10]

3.3 FOREIGN EXCHANGE MARKETS

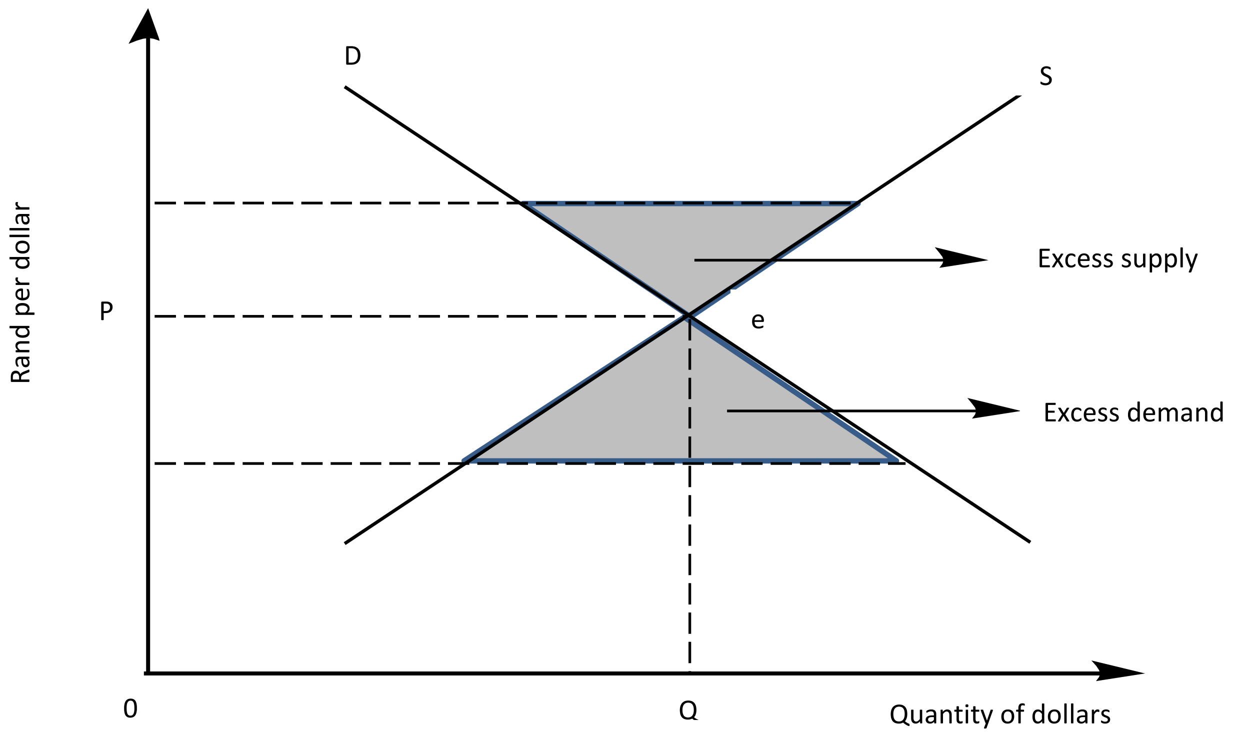
NOTES

- A foreign exchange market is a market engaged in the buying and selling of foreign exchange. The leading markets are in London, New York and Tokyo.
- A foreign exchange rate is the price of one country's currency in terms of another. It is expressed (quoted) as the domestic price of one unit of a foreign currency, for example, \$1=R10.00.
- In South Africa, the forex market is known as the interbank foreign exchange market. It does not have a physical location or corporate form, such as the Johannesburg Stock Exchange (JSE). It is a worldwide practice, transactions are done electronically by computers, in writing by e-mail, fax or letter or by phone.

Supply and demand of foreign exchange

FACTORS THAT WILL INFLUENCE DEMAND AND SUPPLY	
Demand factors for foreign exchange	**Supply factors of foreign exchange**
• **Importing goods** • **Payment for services from foreign countries** • **Buying shares in another country** • **Tourists spending money overseas** • **Repayment of debt borrowed from foreign countries**	• **Exporting goods** • **Providing services to foreign countries** • **Receiving dividends on shares invested in foreign countries** • **Inflow of foreign capital** • **Expenditure of money by foreign tourists**

USING GRAPHS TO ESTABLISH EXCHANGE RATES/INTERACTION BETWEEN DEMAND AND SUPPLY.



The graph should be understood in the following context:

1. Y-axis: Rand dollar exchange rate (e.g. the exchange rate could be $1=R15,00. (One USA dollar is exchanged for R15.00 South African Rands)

2. X-axis: The amount (quantity) of dollars exchanged at the rate of exchange ($1=R15.00)

3. The forex market is in equilibrium at P (Rand/dollar exchange rate) and Q (quantity of dollars demanded at that rate)

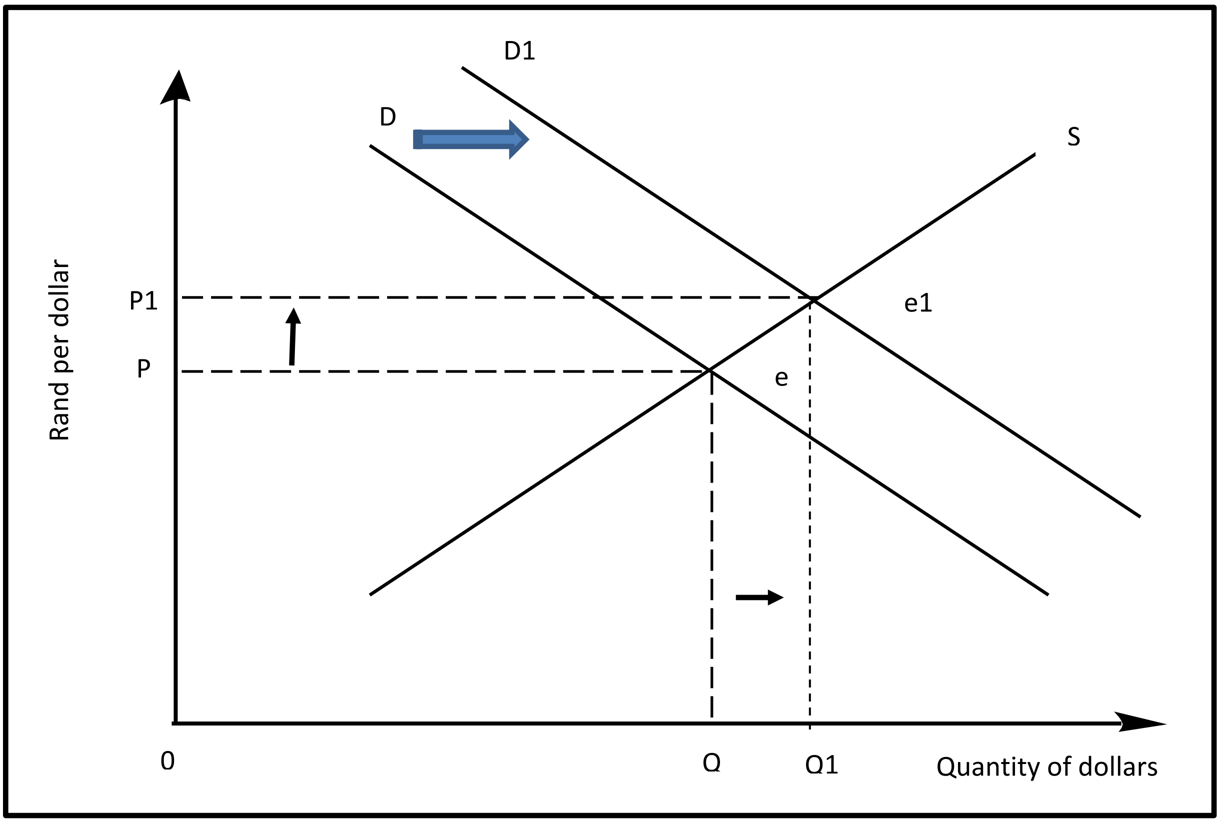
4. A demand for dollars exists when, for example, South African importers wish to exchange Rands for dollars to pay for goods/services to be imported from the United States of America. (America exports to South Africa)

5. On the other hand, the demand for the rand increases if Americans import from South Africa. An American importer wants to pay for goods/services to be imported from South Africa. (South Africa exports to America)

6. There might be an excess supply or excess demand for dollars when the price rises above or falls below the market price of QP.

Changes in the exchange rate could be the result of the following:

Fig 1. Increase in demand for dollars



In Fig. 1 Assuming there was an increase in imports from the USA into South Africa. The demand for dollars will increase, i.e. South African importers need more dollars to pay for the imports. The demand curve for dollars will shift right, from D to D1. The quantity (demand for dollars) will also increase from Q to Q1. What is the effect on the price for dollars? The price of dollars will move from P to P1. The price for dollars has increased. In other words, the exchange rate (R$) have increased from P to P1. The US $ has appreciated against the rand. From South Africa perspective: The rand has become weaker against the dollar because more Rands needed to buy dollars. The Rand has depreciated against the dollar.

Fig 2. Decrease in the demand for dollars

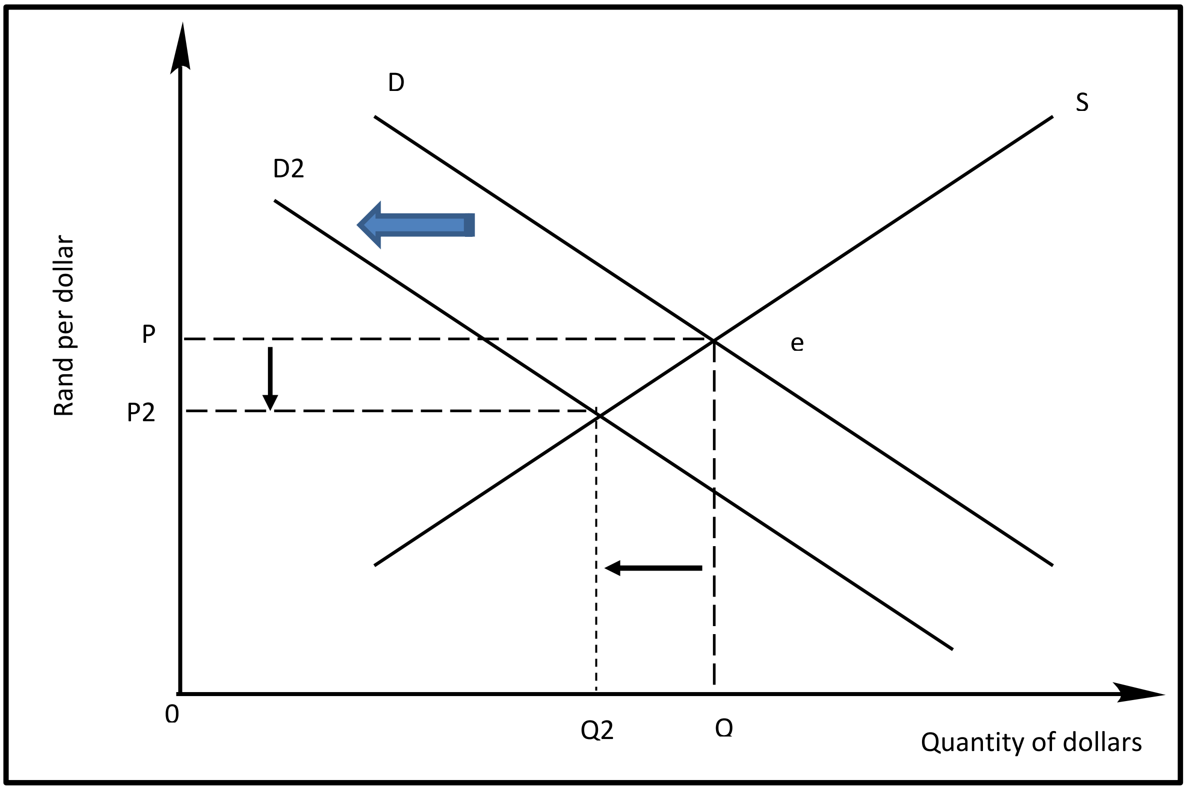


Fig. 2 Assuming South Africa is importing less goods from the USA, i.e. the USA is exporting fewer goods to South Africa. The demand for dollars will drop and the demand curve will shift from D to D2. The quantity of dollars will decrease from Q to Q2. The price of dollars will decrease from P to P2. The dollar has depreciated against the Rand. From South African perspective: the rand has become stronger against the dollar. The rand has appreciated.

Fig 3. Increase in the supply

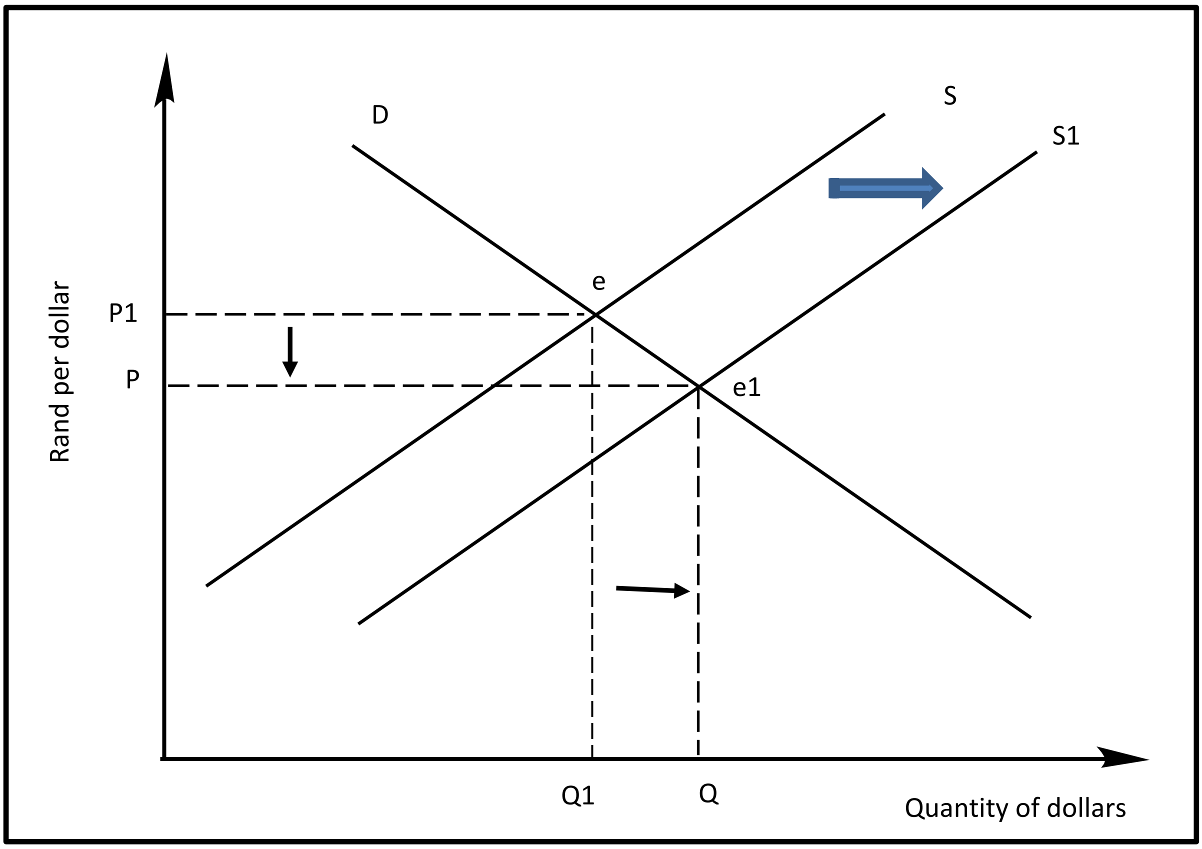


Fig 3. Assuming South African producers export goods to America. South Africans need to supply the Rand to the USA, so that they can pay our exporting companies. The supply of rands to the USA will shift the supply curve from S to S1. The new equilibrium will be e1. The exchange rate will move from P1 to P. The rand has become stronger against the dollar. Fewer South African rands are needed to buy US dollars. The rand has appreciated against the dollar. From an American perspective. The dollar has become weaker against the rand. The dollar has depreciated against the rand.

Fig. 4. Decrease in supply

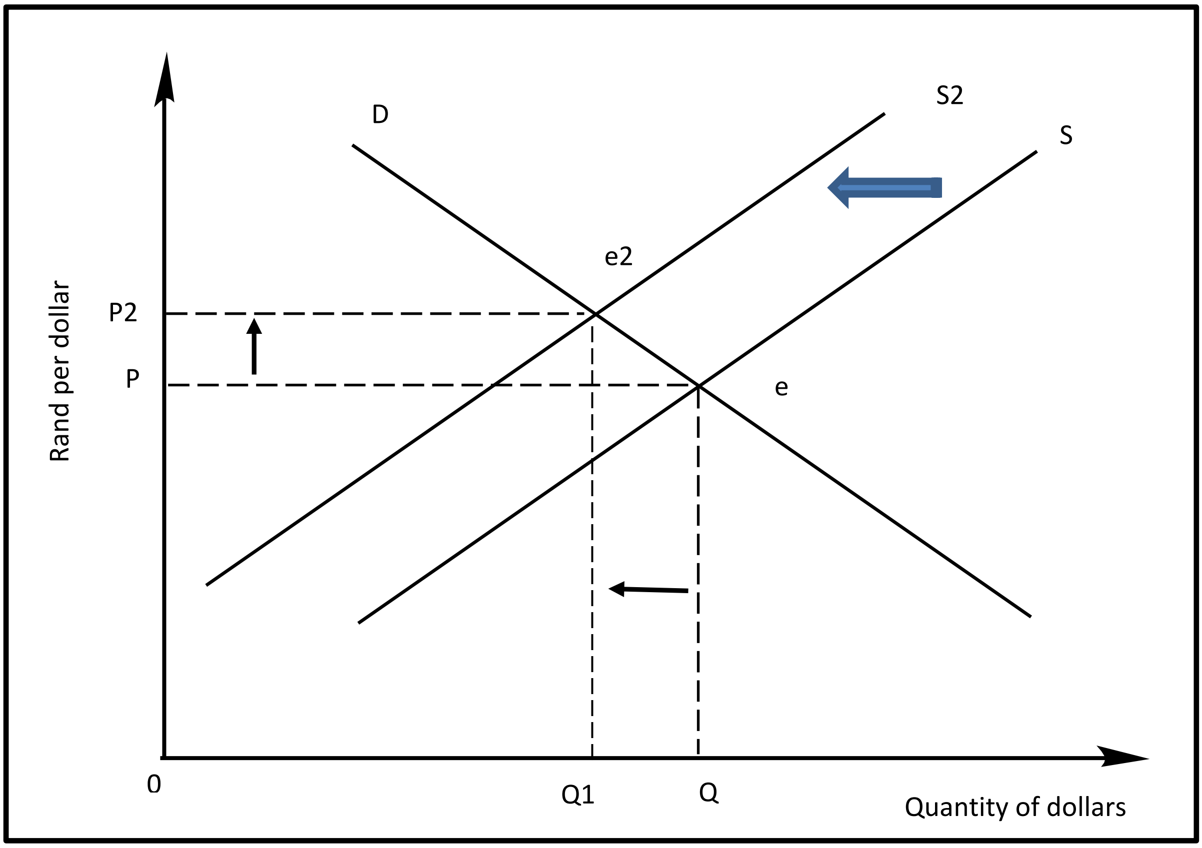


Fig 4. Assuming South Africa export less goods to America. We will supply dollars to the USA, but less than before. We still need to supply the USA with the rand, so that their importers can pay us with the rand. Our supply of currency (Rand) to the USA will cause the supply curve to shift to the left, S to S2. The exchange rate shift from P to P2. The rand has become weaker against the dollar. More rand is needed to be exchanged against the dollar. The rand has depreciated against the dollar. From an American perspective: the dollar has appreciated against the rand.

ASSESSMENT ACTIVITY 3

Foreign exchange markets

MULTIPLE CHOICE

3.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

3.1.1 A demand for US dollars will occur when …

A. placing a deposit with an American bank.

B. buying shares in South African firms.

C. receiving interest from the World Bank.

D. tourists visit South Africa.

3.1.2 If the rand depreciates, prices and the rate of inflation will …

A. decrease.

B increase.

C. remain the same

D. tumble.

3.1.3 If the Rand/US dollar exchange rate changes from R6,80 to R7,00 to the dollar, then …

A imports from the USA will increase.

B the number of American tourists to SA will decrease.

C. exports to the USA will increase.

D. exports from the USA will increase. (3x2) (6)

3.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

3.2.1 The market engaged in buying and selling of foreign currencies (1)

3.2.2 The rate at which one currency is exchanged for another (1)

LOWER ORDER (easy) **(2 marks)**

3.3 Answer the following questions.

HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

3.3.1 List TWO reasons for the demand of foreign exchange. (2x1) (2)

3.3.2 Name TWO reasons for the supply of foreign exchange. (2x1) (2)

MIDDLE ORDER: (Moderate to difficult questions) **(2 marks)**

3.4 Answer the following questions.

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive, and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

3.4.1 How will appreciation of a currency affect the balance of payment account? (1x2) (2)

3.4.2 What impact will the depreciation of a currency have on the balance of payment account? (1x2) (2)

PARAGRAPH QUESTIONS: Middle order (easy to moderate) **(8 marks)**

3.5 Answer the following questions

HINT: When a question requires to "explain", "discuss", "differentiate", etc. You need to answer in full sentences. The answers are found in textbooks.

This type of questions is found on the question paper: 2.4; 3.4 and 4.4

3.5.1 Discuss the composition of the current account in the BOP. (4x2) (8)

3.5.2 Make use of a graph and explain how an increase in exports to the USA will affect the value of the rand. (8)

3.5.3 Briefly discuss the demand reasons for foreign exchange. (4x2) (8)

PARAGRAPH QUESTIONS: Middle order (difficult) **(8 marks)**

3.6 Answer the following questions

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

3.6.1 How will an increase in export prices and import prices affect the South African economy? (4x2) (8)

3.6.2 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy. (4x2) (8)

3.6.3 Why is there an interdependence between the exchange rate of a country and its balance of payments? (4x2) (8)

DATA RESPONSE QUESTIONS

3.7 Study the diagram below and answer the questions that follow.

BRICS EXCHANGE RATES (26/12/2020)	
Currencies	**Foreign exchange rate**
CN¥	CN¥1=R2.23
₽	₽1=R0.19
₹	₹1=R0.19
R$	R$1=R2.79

Source: https://www.x-rates.com/

3.7.1 Name the country that is represented by the R$ symbol. (1)

3.7.2 With reference to the currency in the table, which currency is the strongest against the Rand? (1)

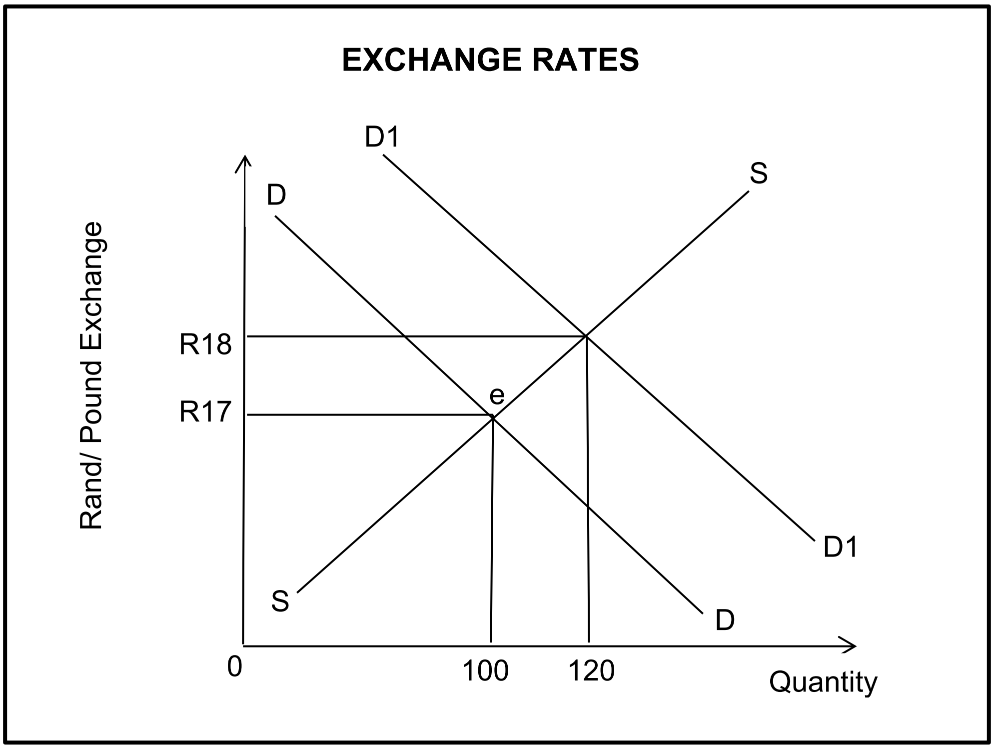
3.7.3 Briefly describe the concept *foreign exchange rate*. (2)

3.7.4 Why would South Africa gain most by exporting to Brazil than the other BRICS countries? (2)

3.7.5 A businessman would like to import goods to the value of Chinese Yuan 250 000. Calculate how much Rand the businessman should have for the imports. Show all calculations. (4)

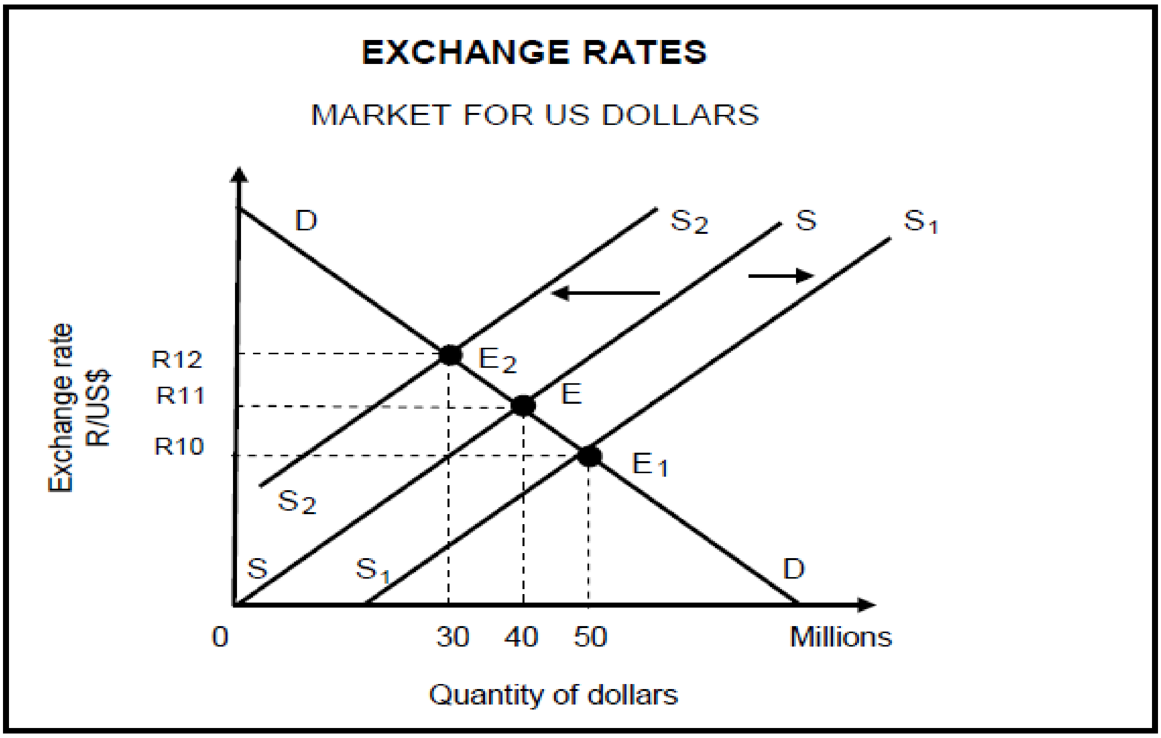
[10]

3.8 Study the following information and answer the questions that follow.



3.8.1	Identify the original equilibrium exchange rate in the above graph?	(1)
3.8.2	What exchange rate system does South Africa currently use?	(1)
3.8.3	Briefly describe the term *currency*.	(2)
3.8.4	Explain a reason for the increase in demand for the pound.	(2)
3.8.5	Use the graph above to illustrate a depreciation of the Rand against the US dollar.	(4)
		[10]

3.9 Study the graph and answer the questions that follow.



3.9.1	Name the exchange rate system in the graph above	(1)
3.9.2	Identify the foreign currency used in the market above.	(1)
3.9.3	Briefly describe the term *foreign exchange.*	(2)
3.9.4	What could the SARB do to strengthen the value of the rand against the dollar?	(2)
3.9.5	Use the above graph to explain the effect of the increase in the supply of US dollars on the R/US$ exchange rate.	(4)
		[10]

3.4 FOREIGN EXCHANGE RATES

NOTES

Appreciation

- Currency appreciation refers to the increase in price of one currency relatively to another country's currency. It is subjected to market forces in the forex market.
- For example, if the dollar goes from $1 = R9 to $1 = R10, then the dollar has appreciated.

Depreciation

- Currency depreciation refers to the decrease in the price of one currency relatively to another country's currency. It is subjected to market forces in the forex market.
- For example, if the dollar goes from $1 = R9 to $1 = R8, then the dollar has depreciated against the rand.

Revaluation

- When a government or central bank intervenes in the market to increase the value of their currency relative to another country's currency.
- This occurs under a fixed exchange system.

Devaluation

- When a government or central bank intervenes in the market to decrease the value of their currency relative to another country's currency

Intervention in the market

A symbiotic (mutually dependent) relationship exists between the exchange rate of a country and its balance of payments. This relationship invites continuous attention from the central bank. Central banks often intervene when the currency is either overvalued or undervalued.

- **Overvalued**
  When a country's currency is valued too high, for example, the South African rand is R7 rather than R8 for a US dollar. This can lead to continuous deficits on the current account of the balance of payments.

- **Undervalued**
  When a country's currency is not valued high enough, for example, the South African rand is R9 rather than R8 to a US dollar. Such undervaluation can be demonstrated by continuous surpluses on the current account of the balance of payments.

Two methods of intervention are traditionally used:

- **Direct intervention**
  The Central bank buys foreign exchange when the currency is overvalued and sells foreign exchange when the currency is undervalued.

- **Indirect intervention**
  The most important instrument used by the central bank for indirect intervention is interest rate changes. When a currency is overvalued an increase in interest rates invites an inflow of investments. A surplus is created on the financial account that balances out the deficit on the current account. When the currency is undervalued interest rates can be decreased to cause an outflow of foreign currency and drain excess liquidity from the economy and release inflation pressure. The surplus on the current account will then decrease.

ESTABLISHMENT OF FOREIGN EXCHANGE RATES

Exchange rate systems
Every country manages the value of its currency by determining the exchange rate system that will apply to its currency. There are numerous exchange rate systems. Among these are:

Free floating exchange rates

A free-floating exchange rate is solely determined by market forces, i.e. demand for rand and supply of rand.

Managed exchange rates

- Managed floating is a system which allows adjustments in exchange rate according to a set of rules and regulations.
- These are exchange rates which are allowed to respond to market forces within certain limits.

Fixed exchange rates

- A fixed exchange rate means a nominal exchange rate that is set firmly by the monetary authority with respect to a foreign currency or a basket of foreign currencies.
- Currencies are devaluated and revaluated. The gold standard backed the value of the currency to a certain amount of gold. South Africa stepped off the gold standard in 1932.

Terms of trade

Terms of trade represent the ratio between a country's export prices and its import prices.

The terms of trade compare a country’s export prices with its import prices by means of indexes.

The formula is:

$$Terms\ of\ trade\ = \frac{Index\ of\ export\ prices}{Index\ of\ import\ prices} x\ 100$$

The result can be interpreted in the following ways:

An **improvement** in the terms of trade may be the result of the following:

- An increase in export prices
- A decrease in import prices

A **deterioration** in the terms of trade may be the result of the following:

- A decrease in export prices
- An increase in import prices

ASSESSMENT ACTIVITY 4

4.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

4.1.1 A demand for US dollars will occur when …

A. placing a deposit with an American bank.

B. buying shares in South African firms.

C. receiving interest from the World Bank.

D. tourists visit South Africa.

4.1.2 Deliberate action by the government to lower the value of the currency is known as …

A. depreciation.

B. appreciation.

C. devaluation.

D. revaluation.

4.1.3 The ratio of export prices and import prices is known as the …

A. terms of trade.

B. exchange rate.

C balance of trade.

D. current account.

4.1.4 South Africa is currently following a … exchange rate system.

A. managed floating.

B. fixed.

C. pegged.

D. free floating.

4.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

4.2.1 An increase in the price of a currency in terms of other currencies through market forces. (1)

4.2.2 The market engaged in buying and selling of foreign currencies (1)

4.2.3 Increase in the price of a currency in terms of another currency due government to intervention (1)

4.2.4 When a country fixes its currency to a quantity of gold (1)

4.2.5 Decrease in the value of a currency due to demand and supply (1)

4.2.6 Decrease in the value of a currency due to Government intervention (1)

MIDDLE ORDER (Difficult questions) **(2 marks)** 4.3

Answer the following questions

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive, and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

4.3.1 How will a decrease in export prices affect our country's terms of trade? (2x1) (2)

4.3.2 How will appreciation of a currency affect the balance of payment account? (2x1) (2)

4.3.3 What impact will the depreciation of a currency have on the balance of payment account? (2x1) (2)

4.3.4 How would the appreciation of the rand affect the exports of goods and services? (2x1) (2)

4.3.5 How would a flexible exchange rate impact on the balance of payments? (2x1) (2)

PARAGRAPH QUESTIONS: Middle order (easy to moderate) **(8 marks)**

4.4 Answer the following questions.

HINT: When a question requires to "explain", "discuss", "differentiate", etc. You need to answer in full sentences. The answers are found in textbooks.
This type of questions is found on the question paper: 2.4; 3.4 and 4.4

4.4.1 Distinguish between *devaluation* and *appreciation*. (2x4) (8)

4.4.2 Differentiate between *appreciation* and *revaluation*. (2x4) (8)

4.4.3 Compare a *free-floating* exchange rate system with a *managed-floating* exchange rate system. (2x4) (8)

4.4.4 Explain the term *managed floating exchange rates.* (4x2) (8)

PARAGRAPH QUESTIONS: Middle order (difficult) **(8 marks)**

4.5 Answer the following questions.

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

4.5.1 What effect does the *terms of trade* have on the balance of the current account? (4x2) (8)

4.5.2 Why is a free-floating exchange rate system considered as a better option than a fixed exchange rate system? (4x2) (8)

4.5.3 How will an increase in export prices and import prices affect the South African economy? (4x2) (8)

4.5.4 Why will countries that can compete on global markets gain most from international trade? (4x2) (8)

4.5.5 Evaluate the effects of a currency depreciation in an economy. (4x2) (8)

DATA RESPONSE QUESTIONS

4.6 Study the following information and answer the questions that follow.

SOUTH AFRICAN TERMS OF TRADE

Year	Index of import prices	Index of export prices	Terms of trade
2016	149	150	**101**
2017	140.7	152.2	**108**
2018	148.7	156.6	**A**

[Source: SARB Quarterly Bulletin 2018]

4.6.1 What is the relationship between the index of *import prices* and the index of *export prices*? (1)

4.6.2 How was the trend on index of export prices between 2016 and 2018? (1)

4.6.3 Briefly describe the term *terms of trade*. (2)

4.6.4 How does a weak exchange rate impact on the terms of trade? (2)

4.6.5 Calculate the terms of trade for 2018. Show all calculations. (4)

[10]

4.7 Read the following extract and answer the questions that follow.

BRICS COUNTRIES DEEM A SINGLE CRYPTOCURRENCY

The BRICS economic bloc are engaging in discussions to issue cross-national digital money to reduce the dependence of their economies on the United States. In November 2019, a proposal was made to create a common cryptocurrency for servicing a unified payment system of the member countries of BRICS. An efficient BRICS payment system could be used to stimulate settlements between the countries while reducing the use of the U.S. dollar for these purposes. At present, more than 85 percent of all currency exchange transactions worldwide are made in dollars.

BRICS is the largest geopolitical block of countries, spanning three continents and wielding substantial economic power in global affairs. As of 2018, the five nations of the BRICS block had a combined nominal gross domestic product of $40 trillion, or about 23.2% of the gross world product.
Adapted source: https://thekootneeti.in/2019/12/12/brics-countries-deem-a-single

4.7.1	How many countries form the BRICS trading bloc?	(1)
4.7.2	Name the member country in South America that belongs to BRICS.	(1)
4.7.3	Briefly describe the concept *economic bloc.*	(2)
4.7.4	What is a *cryptocurrency*?	(2)
4.7.5	How will BRICS countries benefit by having a common *cryptocurrency*?	(4)
		[10]

3.6 SOLUTIONS

ASSESSMENT ACTIVITY 1

1.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

1.1.1 B ✓✓ comparative

1.1.2 D ✓✓ differing climatic reasons

1.1.3 C ✓✓ specialisation (3x2) (6)

1.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

1.2.1 Globalisation✓

1.2.2 Comparative advantage✓

1.2.3 International trade✓

1.2.4 Free trade✓ (4x1) (4)

1.3 Answer the following questions.

1.3.1 List TWO demand reasons for international trade.

- Size of population✓
- Income levels✓
- Changes in income and wealth✓
- Preference and trade✓
- Difference in consumption patterns✓
- International migration✓
- Differing levels of technical development✓ any (2x1) (2)

1.3.2 List TWO supply reasons for international trade.

- Natural resources✓
- Climatic conditions✓
- Labour qualities, technical skills and expertise✓
- Technological resources✓
- Capital ✓ (any 2x1) (2)

1.3.3 List TWO effects of international trade.

- Specialisation✓
- Mass production✓
- Efficiency✓
- Globalisation✓ (any 2x1) (2)

1.3.4 List TWO advantages of specialization.

- Specialisation could lead to the development of new techniques. ✓
- Higher productivity and efficiency. ✓
- Lower unit costs due to mass production techniques. ✓
- Encourages investment in specific capital – exploit the economies of scale. ✓
- Specialisation could increase the standard of living in a country. ✓

(any 2x1) (2)

1.3.5 List TWO disadvantages of specialisation

- World prices for a product might fall leading to declining revenues for the specialist country. ✓
- Risk of over-specialising and structural unemployment. ✓
- Might lead to over-extraction of a country's natural resources. ✓
- A country who specialise, producing only one good can be a risk if that industry were to collapse. ✓ (any 2x1) (2)

1.4 Answer the following questions.

1.4.1 Why is international trade so important?

International trade allows countries to expand their markets and access goods and services that otherwise may not have been available domestically. ✓✓ (2)

1.4.2 Why are natural resources a cause for international trade?

Natural resources are unevenly spread in the world. No country has sufficient resources to produce whatever they want to produce. ✓✓ (2)

1.4.5 How can mass production lead to an inflow of foreign exchange for a country?

An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign markets. ✓✓ (2)

1.4.6 How can globalization lead to international trade?

Through globalization, foreign direct investment tends to increase at a much greater rate resulting in the growth in world trade, promotion of technology transfer, industrial restructuring, and the growth of global companies. ✓✓ (2)

PARAGRAPH QUESTIONS

Middle order (easy to moderate) **(8 marks)**

1.5 Answer the following questions

1.5.1 Explain *natural resources* as a reason for international trade.

- Natural resources are unevenly distributed throughout the world. ✓✓
- Example: South Africa is richly endowed with minerals, which are exported to other countries, but must import oil which it lacks. ✓✓
- Certain crops can only be cultivated in certain climates. ✓✓
- For example, sugar cane is a subtropical climate under Mediterranean conditions., countries that cannot produce should import it. ✓✓ (4x2) (8)

1.5.2 Briefly discuss *size of population* and *income levels* as demand reasons for international trade.

Size of population

- An increase in population growth, causes an increase in demand for goods and services, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand and therefore necessitates imports from other countries✓✓ (Max 4)

Income levels

- The population's income levels effect demand, changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported✓✓ (Max 4)

(2 x 4) (8)

1.5.3 Briefly discuss *climatic conditions* and *labour resources* as supply reasons for international trade.

Climatic conditions

- Climatic conditions make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
- These countries have a comparative advantage over other countries. ✓✓
- For example, Brazil is the biggest producer of coffee in the world. ✓ (Max 4)

Labour resources

- Labour resources differ in quality, quantity and cost between countries. ✓✓
- Some countries have highly skilled, well-paid workers with high levels of productivity✓✓
- Developed countries usually have more trained workers than developing countries ✓✓

(Max 4)

(2x4) (8)

1.5.4 Explain the effects of globalisation on international trade.

- Globalization has resulted in greater interconnectedness among markets around the world and increased communication and awareness of business opportunities in the world. ✓✓
- More investors can access new investment opportunities and study new markets at a greater distance than before. ✓✓
- Through globalization, foreign direct investment tends to increase at a much greater rate resulting in the growth in world trade, promotion of technology transfer, industrial restructuring, and the growth of global companies. ✓✓
- international trade could increase the country's debt when the number of imports exceeds the amount of exports.✓✓
- International trade is known to reduce real wages in certain sectors, leading to a loss of wage income. ✓✓
- However, cheaper imports can also reduce domestic consumer prices, and the impact may be larger than any potential effect occurring through wages. ✓✓

(4x2) (8)

1.5.5 Explain the supply reasons for international trade.

- Natural resources are not evenly distributed across all countries of the world. ✓✓
- They vary from country to country and can only be exploited in places where these resources exist. ✓✓
- Climatic conditions make it possible for some countries to produce certain goods at a lower price than other countries, ✓✓ e.g. Brazil is the biggest producer of coffee due to favourable climate. ✓
- Labour resources differ in quality, quantity and cost between countries. ✓✓
- Some countries have highly skilled, well-paid workers with high productivity levels. ✓✓
- Technological resources are available in some countries that enable them to produce certain goods and services at a low unit cost. ✓✓
- Specialisation in the production of certain goods and services allows some countries to produce them at a lower cost than others, ✓✓ e.g. Japan produces electronic goods and sells these at a lower price. ✓
- Capital allows developed countries to enjoy an advantage over underdeveloped countries. Due to a lack of capital, some countries cannot produce all the goods they require themselves. ✓✓ (4x2) (8)

1.5.6 Explain *income level* and the *size of the population* as factors affecting international trade.

<u>The income levels</u>

- Changes in income cause a change in the demand for goods and services.✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services. ✓✓
- Some of which may then have to be imported - more goods will be bought from foreign countries as the income of local people increases. ✓✓ (Max 4)

<u>The size of the population</u>

- An increase in population growth will results an increase in demand for goods and services. ✓✓
- Local suppliers may not be able to satisfy this demand, therefore importing these goods from other countries. ✓✓ (Max 4)

(2 x 4) (8)

1.5.7 Briefly discuss the demand reasons for foreign exchange.

The demand for foreign exchange is determined by:

- Importing goods and services from foreign countries✓✓
- Payments of interests on dividends, loans and foreign investments✓✓
- Outflow of capital to foreign countries✓✓
- Tourists' expenditure in foreign countries✓✓ (4x2) (8)

PARAGRAPH QUESTIONS

Middle order (difficult)

1.6 Answer the following questions.

1.6.1 How can efficiency influence international trade?

- Specialisation can cause production becomes more efficient over time. ✓✓
- This could result because the country's producers become larger and exploit the economies of scale causing increased production. ✓✓
- This increased output will be channeled to the global market. ✓✓
- Imports expose domestic firms to greater competitive pressure, while giving them access to more and better inputs. ✓✓
- Exporters increase productivity by learning from overseas customers and through exposure to competition from foreign producers. ✓✓ (4x2) (8)

1.6.2 How does globalisation cause international trade?

- Globalization has resulted in greater interconnectedness among markets around the world and increased communication and awareness of business opportunities in the world. ✓✓
- More investors can access new investment opportunities and study new markets at a greater distance than before. ✓✓
- Through globalization, foreign direct investment tends to increase at a much greater rate resulting in the growth in world trade, promotion of technology transfer, industrial restructuring, and the growth of global companies. ✓✓
- international trade could increase the country's debt when the number of imports exceeds the amount of exports✓✓.
- International trade is known to reduce real wages in certain sectors, leading to a loss of wage income. ✓✓
- However, cheaper imports can also reduce domestic consumer prices, and the impact may be larger than any potential effect occurring through wages. ✓✓

(4x2) (8)

1.6.3 What are the effects of mass production on trade worldwide?

- Mass production could result surplus production which can be exported. ✓✓
- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign markets. ✓✓
- An increase in exports will lead to an inflow of foreign exchange which will improve the balance of payments of the country. ✓✓
- This will lead to an appreciation in the value of the currency (Rand) ✓✓
- Create more employment that will lead to an increased demand for foreign goods that might facilitate international trade and lead to an access to a greater variety of goods and services of most manufactured products. ✓✓ (4x2) (8)

<u>ESSAY QUESTIONS</u>

- **Discuss in detail the demand reasons for international trade (26 marks)**
- **Evaluate the effects of a currency in an economy (10 marks)**

INTRODUCTION

International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically. ✓✓

(2)

MAIN PART

The size of the population✓

- If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand. ✓✓

Income levels✓

- Changes in income cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓

Changes in the wealth of the population ✓

- An increase in the wealth of the population leads to greater demand for goods. ✓✓
- People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓

Preferences and tastes ✓

- Preferences and tastes can play a part in the determining of prices, e.g. customers in Australia prefer a specific product which they do not produce and need to import, and it will have a higher value than in other countries. ✓✓

- **The difference in consumption patterns** ✓
  The difference in consumption patterns is determined by the level of economic development in the country, ✓✓e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

Absolute and comparative advantage

Absolute advantage✓

- Absolute advantage is when a producer can produce a good or service in greater quantity for the same cost, or the same quantity at a lower cost, than other producers. ✓✓
- Absolute advantage can be the result of a country's natural endowment. ✓✓
- For example, extracting oil in Saudi Arabia is just a matter of "drilling a hole." Producing oil in other countries can require considerable exploration and costly technologies for drilling and extraction. ✓✓
- Saudi Arabia will has absolute advantage in terms of oil. ✓✓
- There will be high demand for oil from non-producing countries. ✓✓

Comparative advantage✓

- A country has a comparative advantage if it can produce a good at a lower opportunity cost than another country / a country has a comparative advantage when a good can be produced at a lower cost in terms of other goods. ✓✓
- Countries often chooses to specialize production on a good or service which it can make most efficiently, relative to its trading partners. ✓✓
- For example: Two countries might have Mediterranean climates that are excellent for producing/harvesting green beans and tomatoes. In country A, it takes two hours for each worker to harvest green beans and two hours to harvest a tomato. In country B, workers need only one hour to harvest the tomatoes but four hours to harvest green beans. Assume there are only two workers, one in each country, and each works 40 hours a week. ✓✓
- Country A will have comparative advantage for producing green beans, and country B will have comparative advantage for producing tomatoes. ✓✓
- Each country had to choose the production of the product that provided the highest yield. In other words, they lose out on the production in one of these products. ✓✓
- Each country specialises in the production of a certain product.
- This enforce international trade, whereby country A will have a demand for tomatoes and country B will have a demand for green beans. ✓✓
- A country will do better exporting a good for which it has a comparative advantage. ✓✓
- Traders will compete with one another, giving countries greater amounts of the gains from trade to gain their business. ✓✓ (Max 26)

(A maximum of 8 marks will be allocated for headings and examples)
(A maximum of 8 marks will be allocated for mere listing – if you do not explain the facts)

ADDITIONAL PART:

Evaluate the effects of a currency depreciation in an economy.

Positive effects

The effects of a currency depreciation

- A depreciation of the exchange rate will make exports more competitive and appear cheaper to foreigners. This will increase demand for exports. ✓✓
- Brings an improvement in the balance of trade through higher export sales. ✓✓
- It tends to increase a country's balance of trade (exports minus imports) by improving the competitiveness of domestic goods in foreign markets. ✓✓
- Can be used as an expansionary monetary policy to counter cyclical measures to stimulate demand, profits, output and jobs when an economy is in recession. ✓✓
- Provides a competitive boost to an economy through increasing the value of profits and income for a country's businesses with investments overseas. ✓✓
- Leads to a positive multiplier within the circular flow of income and spending. ✓✓

Negative effects

Currency depreciation can cause:

- Increases the cost of imports e.g. rising prices for essential foodstuffs, raw materials, which affects long-run productive potential of an economy. ✓✓
- Inflation is more likely to increase, due to higher import prices. ✓✓
- It makes it harder for the government to finance a budget deficit if foreign investors lose confidence. ✓✓
- Difficulty to pay for a trade deficit that is owed to overseas creditors. ✓✓
- Falling real wages. In a period of stagnant wage growth, depreciation can cause a fall in real wages. This is because depreciation causes inflation, but if the inflation rate is higher than wage increases, then real wages will fall. ✓✓ Max (10)

Conclusion

Trade opens new markets for foreign producers, encouraging them to produce more, which raises the supply. ✓✓ (2)

(Any other suitable conclusion can be used)

(Marks will be awarded for any other correct relevant response. Facts mentioned that is not it the marking guideline but is relevant and correct)

<u>ESSAY</u>

- **Discuss the supply reasons for international trade in detail (26 marks)**
- **How effective is international trade for South Africa? (10 marks)**

INTRODUCTION

No country can survive on its own as trade is the basic component of economic activity and is undertaken for mutual advantage/ Countries offer goods for trade because they have resources that other countries do not have / International trade is trade across borders. ✓✓

(2 marks)

Main part

SUPPLY REASONS:

- **Natural resources** (factors of production) ✓
  - They are not evenly distributed across all countries of the world ✓✓
  - They vary from country to country and can only be exploited in places where there are such resources ✓✓
  - Each country has its own unique mix of natural resources that makes it possible for them to produce certain goods and services more efficiently and at a relatively lower price ✓✓
  - South Africa's gold and diamond resources has given us an advantage in producing gold and diamonds✓✓
- **Climatic conditions** ✓
  - Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries✓✓
  - Many crops can only be cultivated in certain climatic conditions and areas and in certain kinds of soil✓✓

- **Labour resources**✓
  - The quality, quantity and cost of labour also differ between countries ✓✓
  - Some countries have highly skilled labour with high productivity rates ✓✓
  - This enables them to produce goods and services at a lower price than they are produced in other countries ✓✓
  - Certain individuals have greater ability and aptitude for certain tasks✓✓
  - It is a worldwide phenomenon that some countries have developed a skill and aptitude for the production of a certain commodity ✓✓e.g. the Swiss (watch making) ✓

- **Technology / Capital** ✓
  - Capital is not always easily obtained in every country✓✓
  - *Developed countries* usually enjoy an advantage over underdeveloped countries✓✓
  - Due to lack of capital, countries cannot produce all products they wish to produce✓✓
  - *Underdeveloped countries* import capital from developed countries✓✓

- **Mass production / Specialisation** ✓
  - Because of specialization countries take *advantage of economies of scale* and produce at a *lower unit cost*✓✓
  - **Cost differences / opportunity cost –** Goods and services can be *produced at a lower cost* in one country in relation to another✓✓
  - The law of *comparative cost* states that nations will find it profitable to trade with other countries when they have different alternative cost ratios✓ (Max 26)

(A maximum of 8 marks will be allocated for headings and examples)

(A maximum of 8 marks will be allocated for mere listing – if you do not explain the facts)

ADDITIONAL PART

How effective is international trade for South Africa?

- Due to specialisation South African textiles manufacturers cannot compete with Chinese producers and have had to close down. ✓✓
- This led to many workers to lose their jobs and will be addressed and managed by the government. ✓✓
- South Africa has more minerals that it can use but less oil than it needs. ✓✓
- Many SA companies try to establish themselves in African countries in order to secure the advantage of the spending power of millions of people. ✓✓
- Mass production should always lead to increased demand. ✓✓
- Producers are able to increase production efficiency more domestic factors of production will be employed and a higher standard of living will materialise. ✓✓
- International trade is at the heart of globalisation e.g. trade in IT, communication and transport. ✓✓
- Expanded trade will stimulate more international trade. ✓✓
- Domestic economic growth follows with further increases in the standard of living. ✓✓

(Max. 10)

(Marks will be awarded for any other correct relevant response. Facts mentioned that is not it the marking guideline but is relevant and correct)

Conclusion

The supply and demand for international goods keep market economies functioning. They determine the quantity of goods produced, the prices at which they're sold and the variety of goods available. ✓✓ (2)

(Any other suitable conclusion can be used)

ASSESSMENT ACTIVITY 2

2.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

2.1.1 C ✓✓decline in mineral exports
2.1.2 A ✓✓portfolio
2.1.3 D ✓✓Balance of Payments.
2.1.4 B ✓✓assets and liabilities.
2.1.5 C ✓✓current account
2.1.6 B ✓✓goods
2.1.7 C ✓✓current
2.1.8 B ✓✓portfolio investment
2.1.9 D ✓✓get exchanged for tangible goods

2.1.10 A✓✓ investment (10x2) (20)

2.2 Give the economic term for each of the following descriptions.
Write only the term/concept next to the question number.

2.2.1 International Monetary Fund ✓
2.2.2 Financial account✓
2.2.3 Portfolio investments ✓
2.2.4 Primary income flows✓ (4x1) (4)

2.3 Answer the following questions:

2.3.1 Name TWO items in the current account that specify an inflow of foreign exchange.

- Merchandise exports, (net gold exports), ✓
- services receipts, ✓
- income receipts✓ (any 2x1) (2)

2.3.2 Name TWO items in the current account that specify an outflow of foreign exchange.

- Merchandise imports, ✓
- payment for services, ✓
- income payments✓ (any 2x1) (2)

2.3.3 List TWO sub-accounts of the financial account.

- Direct investments ✓
- portfolio investments ✓
- other investments✓ (any 2x1) (2)

2.3.4 Name the TWO characteristics of merchandise in the current account.

- Goods are visible ✓
- Goods are tangible✓ (2x1) (2)

2.3.5 List the TWO components that are classified as income in the current account.

- Compensation of employees, ✓
- investment income✓ (2x1) (2)

2.3.6 Name TWO examples of current transfers.

- Gifts in cash, ✓
- social insurance, ✓
- social insurance contributions, ✓
- taxes imposed by foreign governments✓ (any 2x1) (2)

2.4 Answer the following questions.

2.4.1 How will appreciation of a currency affect the Balance of payment account?

Impact of an appreciation on the current account imports are cheaper and so we see an increase in imports. This will cause a bigger deficit on the current account. ✓✓

(2)

2.4.2 What effect will a decrease in income levels have on international trade?

People will have less to spend, the demand for international goods will decrease. ✓✓

(2)

2.4.3 What is the effect of foreign direct investment (FDI) on domestic investment?

In the short term, FDI negatively affecting domestic investment, while in the long term, it tends to stimulate domestic investments. ✓✓ (2)

2.4.4 Why are gold exports listed as a separate item on the current account?

Due to the historic importance of gold, as a strategic export product of South Africa, gold exports are separated from the general export of goods. ✓✓ (2)

2.4.5 How will the trade balance be affected if a major South African retailer imports more clothes from China?

It will reduce the trade balance / trade balance will be negatively affected / imports need to be paid causing an outflow of foreign exchange. ✓✓ (2)

PARAGRAPH QUESTIONS

Middle order (easy to moderate) (8 marks)

2.5 Answer the following questions.

2.5.1 Differentiate between the *current transfers* account and the *capital transfers* account.

<u>Current transfers account</u>

- Current account records the trading in goods and services in the current period. ✓✓
- Current Account shows the net income of the country✓✓
- Current Account is mainly concerned with receipts and payment of cash and non-capital items. ✓✓
- The key components of current account are export and import of goods and services, the investment the income and current transfers. ✓✓ (Max 4)

Capital transfers Account

- Capital Account records the movement of capital in and out the economy. ✓✓
- Capital Account shows the change in the ownership of the nation’s assets. ✓✓
- Capital Account has thoroughly considered the sources and application of capital. ✓✓
- Foreign direct investment, portfolio investment and Loans by the government of one country to the government of another country are the key components of Capital Account. ✓✓ (Max 4) (2x4) (8)

2.5.2 Briefly discuss the components of the financial account in the BOP.

- The financial account consists of two sub-accounts: the domestic ownership of foreign assets and the foreign ownership of domestic assets. ✓✓
- If the domestic ownership of foreign assets portion of the financial account increases, it increases the overall financial account. ✓✓
- If the foreign ownership of domestic assets increases, it decreases the overall financial account, so the overall financial account increases when the foreign ownership of domestic assets decreases. ✓✓
- Together, a country's domestic ownership of foreign assets and foreign ownership of domestic assets measure the international ownership of assets with which the country is associated. ✓✓
- The financial account deals with money related to foreign reserves and private investments in businesses, real estate, bonds, and stocks. ✓✓
- Also detailed in the financial account are government-owned assets such as special drawing rights at the International Monetary Fund (IMF), or private sector assets held in other countries, local assets held by foreign government and private and foreign direct investment (FDI). ✓✓ (4x2) (8)

2.5.3 Explain *export promotion* and *import substitution* as measures to reduce disequilibrium on the balance of payments.

Export promotion

- To correct disequilibrium in the balance of payments, it is necessary that exports should be increased. ✓✓
- Government may adopt export promotion programmes for this purpose. ✓✓
- Export promotion is applied to encourage the production of goods that can be exported. ✓✓
- An export promotion programme includes subsidies, tax concessions to exporters, marketing facilities, incentives for exports, loan priorities to the export sector under the credit policy of the central bank, etc. ✓✓ (Max 4)

Import substitution

- Import substitutes steps may be taken to encourage the production of import substitutes. ✓✓
- Local production is encouraged, rather than importing goods from other countries. ✓✓
- This will save foreign exchange in the short run by replacing the use of imports by these import substitutes. ✓✓ (Max 4)

(2 x4) (8)

2.5.4 Explain changes in the exchange rate as a measure to reduce the disequilibria on the balance of payments

- **Exchange Control**

- Exchange control refers to the control over the use of foreign exchange by the central bank. ✓✓
- Foreign exchange is restricted among the licensed importers. Only essential imports are permitted. ✓✓ (Max 4)

- **Exchange Rate Depreciation**

- Exchange rate depreciation means that the value of the domestic (local) currency is reduced in relation to foreign currency. ✓✓
- Currency depreciation or devaluation makes imports more expensive for domestic consumers and exports cheaper for foreign buyers. ✓✓
- On the other hand, a downward shift in the value of a country's currency makes it more expensive for its citizens to buy imports and increases the competitiveness of their exports. ✓✓
- For example, when the rand depreciates, South African goods (exports) become cheaper for foreign buyers. Imports become more expensive for South Africans. ✓✓
- The World Trade Organisation (WTO) is trying to phase export promotion and tariff measures for the sake of trade liberalisation. ✓✓ (Max 4) (2x4) (8)

PARAGRAPH QUESTIONS

Middle order (difficult)

2.6 Answer the following questions.

2.6.1 How can foreign direct investment benefit the South African economy?

- Provide capital for new enterprises/expansion on existing enterprises / increased competition. ✓✓
- Increase in income/revenue for business/state / more profits. ✓✓
- Creation of more job opportunities/improve standard of living. ✓✓
- Increase economic growth. ✓✓
- Diversify the economy / a wider range of products. ✓✓
- Bring in new technology and knowledge. ✓✓ (4x2) (8)

2.6.2 How can imports be targeted to reduce the deficit on the balance of trade in South Africa?

- South Africa can use import substitution as part of their international trade policy✓✓
- Tariffs can be imposed on imported goods, which will increase the prices of imported goods for domestic consumers, and that will tend to shift demand from imports to domestic products✓✓ e.g. customs duties, ad valorem tariffs, specific tariffs ✓
- Quotas can be imposed to limit the import of goods and services✓✓
- Subsidies will make local producers more competitive and switch from imported goods to locally produced goods ✓✓
- Through exchange control government can reduce imports and limit the amount of foreign exchange made available to those who wish to import✓✓
- Physical control may put a complete ban or embargo on the import of certain goods from a particular country ✓✓
- Trade can be diverted through monetary deposits, time-consuming customs procedures and high-quality standards are imposed to make the importing of goods more difficult✓✓ (4x2) (8)

2.6.3 Why can large and persistent surpluses on the current account be a problem for some countries?

- A surplus on the current account component of the Balance of payments indicates that the country is exporting more goods and services than importing. ✓✓
- This means they are gaining foreign currency they can use to buy foreign assets such as government bonds and invest in foreign factories. ✓✓
- However, a large current account surplus may indicate an unbalanced economy. ✓✓
- For example, it may indicate the country is relying too heavily on exports and consumer spending is relatively too low. ✓✓
- Large and persistent surpluses contribute to instability and may hurt growth and employment in other countries (paradox of thrift) ✓✓ (4x2) (8)

2.6.4 How can the SARB reduce the deficit on the balance of payments account?

- Countries experiencing deficits will borrow money from other countries. That is why developing countries have so much foreign debt ✓✓
- In the event of a fundamental disequilibrium, member countries may borrow from the International Monetary Fund (IMF) ✓✓
- Borrowing is nevertheless not a long-term solution for fundamental balance of payments disequilibrium✓✓
- South Africa will decrease imports by depreciating the currency. Exports will become cheaper for foreign buyers ✓✓
- Increasing interest rates will decrease spending, including on imports✓✓
- Increasing FDI in the country with the higher interest rate✓✓
- There are domestic regulations that allow central banks to ration foreign exchange. ✓✓
- Those who require foreign exchange have to apply to the central bank ✓✓

(4x2) (8)

DATA RESPONSE QUESTIONS

2.7 Study the graph below and answer the questions that follow.

2.7.1 Identify the year in which the lowest deficit on the current account was recorded.

2014✓ (1)

2.7.2 What was the trend of the current account since 2012?

Downward trend/negative. ✓ (1)

2.7.3 Briefly describe the term *current transfers.*

Transfers from residents to non-residents and vice versa, examples are gifts in cash, social insurance contributions and benefits and taxes imposed on foreign governments✓✓

(2)

2.7.4 Briefly explain the impact of a deficit on the current account.

A deficit implies that the outflow of foreign exchange was higher than the inflow of foreign exchange. ✓✓ (2)

2.7.5 How did the hard lockdown negatively affect the BOP?

- Trade was restricted during the hard lockdown, but trade in certain sectors were allowed. ✓✓
- The mining could operate for the exporting of raw materials. ✓✓
- This have caused exports to be higher than imports which provided a net inflow of foreign exchange into the country. ✓✓
- Therefore, the positive balance on the current account. ✓✓ (4)

2.8 Study the data below and answer the questions that follow.

2.8.1 Identify ONE item in the current account that indicate an inflow of foreign exchange.

- Merchandise exports✓
- Net gold exports✓
- Services receipts✓
- Income receipts✓ any 1 (1)

2.8.2 Identify ONE item in the current account that indicate an outflow of foreign exchange.

- Merchandise imports✓
- Payment for services✓
- Income payments✓ any 1 (1)

2.8.3 Briefly describe the term *payment for services.*

Payments made for services rendered by other countries✓✓ (2)

2.8.4 What is the importance of a positive trade balance in the economy?

It indicates that value of goods exported was higher than the value of goods imported. ✓✓

(2)

2.8.5 Calculate the trade balance (A) for 2020. Show ALL calculations

Trade balance = (Merchandise exports + net gold exports) – merchandise imports✓

= (1 286 047 + 108 299) – 1 109 459✓

= 1 286 047 – 1 109 459

= 1 394 346 – 1 109 459✓

= 284 887✓ (4)

2.9 Study the information below and answer the questions that follow.

2.9.1 Identify ONE item of foreign exchange inflow that have decreased between 2019 and 2020.

Services receipts✓✓ (1)

2.9.2 List ONE example of income payments.

- Compensation of employees, (wages, salaries), ✓
- investment income (income earned from financial capital, interest, dividends and profits) ✓

(1)

2.9.3 Briefly describe the term *income payments*.

Income payments refer to employee compensation paid to non-resident workers and investment income (e.g. payments on direct investment, portfolio investment, other investments) ✓✓ (2)

2.9.4 Why did income receipts increase between 2019 and 2020?

The services rendered by South African countries to other countries have increased. ✓✓

(2)

2.9.5 How does a positive balance of payments affect the exchange rate?

- A positive balance of payments increases the value of a country's currency. ✓✓
- It will appreciate the currency which will have a stronger exchange rate for the country. ✓✓

(4)

ASSESSMENT ACTIVITY 3

FOREIGN EXCHANGE MARKETS

3.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

3.1.1 A placing a deposit with an American bank. ✓✓

3.1.2 A. decrease✓✓

3.1.3 C. exports to the USA will increase. ✓✓ (3x2) (6)

3.2 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.

3.2.1 Forex market✓

3.2.2 Foreign exchange rate✓ (2x1) (2)

3.3 Answer the following questions.

3.3.1 List TWO reasons for the demand of foreign exchange.

- Importing goods✓
- Payment for services from foreign countries✓
- Buying shares in another country✓
- Tourists spending money overseas✓
- Repayment of debt borrowed from foreign countries✓ (2x1) (2)

3.3.2 Name TWO reasons for the supply of foreign exchange.

- Exporting goods✓
- Providing services to foreign countries✓
- Receiving dividends on shares invested in foreign countries✓
- Inflow of foreign capital✓
- Expenditure of money by foreign tourists✓
- Raising new loans in foreign countries✓ (2x1) (2)

3.4 Answer the following questions.

3.4.1 How will appreciation of a currency affect the balance of payment account?

It will have a negative impact/Exports will decrease, and imports will increase/This will cause an outflow of foreign exchange. ✓✓ (2)

3.4.2 What impact will the depreciation of a currency have on the balance of payment account?

It will have a positive impact/Exports will increase, and imports will decrease/This will cause an inflow of foreign exchange. ✓✓ (2)

PARAGRAPH QUESTIONS

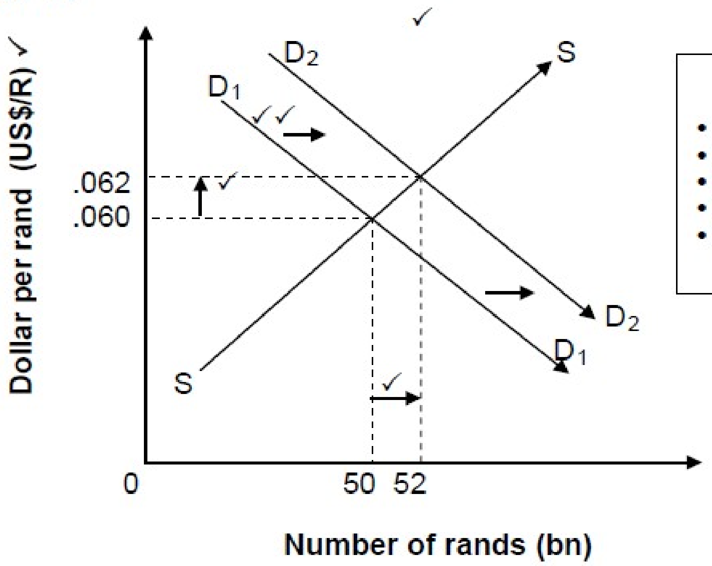
3.5 Answer the following questions

3.5.1 Discuss the composition of the current account in the BOP.

- The current account consists of the following sub accounts: trade balance, services account, primary income account and capital transfers account. ✓✓
- <u>Trade balance</u> is a record of imports and exports of merchandise (physical goods) ✓✓
- The <u>services account</u>✓ records all imports and exports of services✓✓
- The <u>primary income account</u>✓ shows salaries, interest (from investments and profits that flow between countries✓✓ – income flows (credit items) an income outflows (debit items) income inflow records income earned by SA residents in the rest of the world✓✓.
- <u>Current transfers account</u>✓
- Record transfers of money by private individuals and firms. ✓✓
- This includes, for example, money transfers for the studies of South Africans students at overseas universities, gifts, pension and taxes. ✓✓
- The account can show a positive or negative balance. ✓✓ (8)

3.5.2 Make use of a graph and explain how an increase in exports to the USA will affect the value of the rand.

GRAPH:



<u>**Marks allocated for graph:**</u>

- Labelling of/on axes = 1
- Demand and supply curves = 1
- Shift of demand curve = 2
- Movement of Price = 1
- Movement of quantity demanded = 1

Maximum: 6 marks

- An increase in exports to the USA will lead to an increased demand for rand from D1 to D2✓✓
- The quantity of rand demanded increase from 50 to 52bn✓✓
- The price of rand in terms of dollar increase from .060 dollar per rand to .062 dollar per rand ✓✓ (Max 4 for explanation) (8)

3.5.3 Briefly discuss the demand reasons for foreign exchange.

1. Imports of Goods and Services: ✓

Foreign Exchange is demanded to make the payment for imports of goods and services. ✓✓

2. Tourism: ✓

Foreign exchange is needed to meet expenditure incurred in foreign tours. ✓✓

3. Unilateral Transfers sent abroad: ✓

Foreign exchange is required for making unilateral transfers like sending gifts to other countries. ✓✓

4. Purchase of Assets in Foreign Countries: ✓

It is demanded to make payment for purchase of assets, like land, shares, bonds, etc. in the foreign countries. ✓✓

5. Speculation: ✓

Demand for foreign exchange arises when people want to make gains -from appreciation of currency. ✓✓ (8)

PARAGRAPH QUESTIONS

4.2 Answer the following questions

3.6.1 How will an increase in export prices and import prices affect the South African economy?

An increase in export prices will:

- Result in terms of trade improving. ✓✓
- Increase economic welfare because more revenue is earned with the same expenditure. ✓✓
- However, over the long-term result in a decrease in sales volume depending on the price elasticity of demand. ✓✓
- It will result in welfare loss eventually. ✓✓

An increase in import prices will:

- Result in terms of trade deteriorating. ✓✓
- Decrease welfare because more resources were used to produce more units to finance the higher cost of imports. ✓✓ (8)

3.6.2 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy.

An increase in export prices will result in:

- The numerical value of the terms of trade index improves✓✓
- Increased economic welfare because more revenue is earned with the same expenditure. ✓✓
- However, over the long term the higher export prices may result in a decrease in sales volumes, depending on the price elasticity of demand. ✓✓
- A welfare loss may result. ✓✓ (2 x 2) (4)

An increase in import prices will result in:

- The terms of trade worsening / numerical value of terms of trade index worsen✓✓
- Welfare lost because more resources were used to produce more units of exports to finance the higher cost of imports. ✓✓ (2 x 2) (4)

3.6.3 Why is there an interdependence between the exchange rate of a country and its balance of payments?

- Fluctuations in the exchange rate between foreign currencies can cause a change in a country's balance of payments. ✓✓
- An increase in imports gives rise to an increase in a demand for foreign currency. To obtain the foreign currency importers will sell the domestic currency for it. ✓✓
- This will lead to the strengthening in the exchange rate of the foreign currency against the domestic currency. ✓✓

- If there is an increase in exports, then once the exporters exchange their foreign currency earnings for domestic currency this sets in motion a strengthening in the domestic currency exchange rate against the foreign currency. ✓✓
- Exporters determine the supply of foreign currency whilst importers determine the demand for foreign currency. Hence, the interaction between the supply and demand establishes a foreign exchange rate. ✓✓
- It makes sense that the state of the balance of payments, which is the result of the interplay between exports and imports, is a key in determining the foreign exchange rate. ✓✓ (4x2) (8)

DATA RESPONSE QUESTIONS

3.7 Study the diagram below and answer the questions that follow.

3.7.1 Name the country that is represented by the R$ symbol.

Brazil✓ (1)

3.7.2 With reference to the currency in the table, which currency is the strongest against the Rand?

Brazil✓ (1)

3.7.3 Briefly describe the concept *foreign exchange rate*.

Foreign exchange rate is the price of the domestic currency stated in terms of another currency. ✓✓ (2)

3.7.4 Why would South Africa gain most by exporting to Brazil than the other BRICS countries?

The Rand is the weakest against the Brazilian Real and therefore attracts the most inflow of foreign currency. ✓✓ (2)

3.7.5 A businessman would like to import goods to the value of Chinese Yuan 250 000. Calculate how much Rand the businessman should have for the imports. Show all calculations.

CN¥1/R2.23 x amount✓

2.33 x 250 000✓ = R582 500✓

The businessman would need R582 500 to import from China. ✓ (4)

3.8 Study the following information and answer the questions that follow.

3.8.1 Identify the original equilibrium exchange rate in the above graph?

£1= R17✓ (1)

3.8.2 What exchange rate system does South Africa currently use?

Flexible exchange rate/free floating exchange rate ✓ (1)

3.8.3 Briefly describe the term *currency*.

Currency is a medium of exchange for goods and services in a country. ✓✓ (2)

3.8.4 Explain a reason for the increase in demand for the pound.

South Africa imported more goods from England. ✓✓ (2)

3.8.5 Use the graph above to illustrate a depreciation of the Rand against the US dollar.

The initial exchange rate was £1= R17 per 100 quantity (pound). ✓✓

Due the increase in demand for pound (120) the exchange rate became £1= R18. ✓✓

The rand has become weaker against the pound. The rand has depreciated against the pound. ✓✓ (4)

[10]

3.9 Study the graph and answer the questions that follow.

3.9.1 Identify the exchange rate system in the graph above

Free floating exchange rate✓ (1)

3.9.2 Identify the foreign currency used in the market above.

USA dollar✓ (1)

3.9.3 Briefly describe the term *foreign exchange*.

Foreign exchange, or forex, is the conversion of one country's currency into another. ✓✓ (2)

3.9.4 What could the SARB do to strengthen the value of the rand against the dollar?

Increase interest rate (repo rate) ✓✓ (2)

3.9.5 Use the above graph to explain the effect of the increase in the supply of US dollars on the R/US$ exchange rate.

The supply of dollars was due to increased demand for US goods and services from South Africa. ✓✓

The initial exchange rate was $1=R11, however the exchange rate became $1=R12 due to the increased supply of dollars. ✓✓

The rand depreciated against the dollar. ✓✓ (4)

[10]

ASSESSMENT ACTIVITY 4

TYPICAL EXAM QUESTIONS

4.1 MULTIPLE CHOICE

Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

4.1.1 A ✓✓ placing a deposit with an American Bank

4.1.2 C ✓✓devaluation

4.1.3 A. ✓✓ terms of trade

4.1.4 D ✓✓free floating (3x2) (6)

4.2 Give the economic term for each of the following descriptions.
Write only the term/concept next to the question number.

4.2.1 Appreciation✓

4.2.2 foreign exchange market✓

4.2.3 revaluation ✓

4.2.4 fixed exchange rate/pegged exchange rate✓

4.2.5 Depreciation✓

4.2.6 Devaluation✓ (6x1) (6)

4.3 Answer the following questions

4.3.1 How will a decrease in export prices affect our country's terms of trade?

It would be negatively affected because our revenue received from exports will decline. ✓✓ (2)

4.3.2 How will appreciation of a currency affect the balance of payment account?

It will have a negative impact/Exports will decrease, and imports will increase/This will cause an outflow of foreign exchange✓✓ (2)

4.3.3 What impact will the depreciation of a currency have on the balance of payment account?

It will have a positive impact/Exports will increase, and imports will decrease/This will cause an inflow of foreign exchange✓✓ (2)

4.3.4 How would the appreciation of the rand affect the exports of goods and services?

There will be a reduction in exports✓✓

It makes goods and services more expensive✓✓ (2)

4.3.5 How would a flexible exchange rate impact on the balance of payments?

The relationship between balance of payments and exchange rates under a floating-rate exchange system will be driven by the supply and demand for the country's currency and all transactions taking place with other countries. ✓✓ (2)

PARAGRAPH QUESTIONS

4.4 Answer the following questions.

4.4.1 Distinguish between *devaluation* and *appreciation*.

<u>Devaluation</u>

- A decrease in the value of a currency by authorities (government) ✓✓
- Refers to a fixed exchange rate system✓✓
- The government can change the rate from \$1 = R10 changes to \$1 = 12✓✓

(Max 4)

<u>Appreciation</u>

- An increase in the value of a currency due to market forces✓✓
- Typical of a floating exchange rate system ✓✓
- \$1 = R10 changes to \$1 = 8 (Max 4) ✓✓ (Max 4)

(2x4) (8)

4.4.2 Differentiate between *appreciation* and *revaluation*.

Appreciation

- When the value of the currency goes up as compared to other currency. ✓✓
- Appreciation of a currency associated with a floating or managed floating exchange rate system. ✓✓
- It is bound to market forces. ✓✓ (Max 4)

Revaluation

- It is the increase in the price of the currency within a fixed exchange rate system. ✓✓
- Revaluation of a currency is associated with the fixed exchange rate regime. ✓✓
- It is usually determined by the government. ✓✓ (Max 4)

(2 x 4) (8)

4.4.3 Compare a *free-floating* exchange rate system with a *managed-floating* exchange rate system.

Free floating

- The forces of demand and supply determine the exchange rate. ✓✓
- Central banks do not intervene in the foreign exchange market on behalf of government authorities✓✓
- The exchange rate fluctuates as market conditions change. ✓✓ (Max 4)

Managed-floating

- The exchange rate can fluctuate between certain limits as st by the central banks. ✓✓
- Central banks intervene if the exchange rate moves outside the set limits. ✓✓
- They buy and sell foreign exchange – to smooth out short term fluctuations in the exchange rate. ✓✓
- Huge forex supplies (reserves) are required for such interventions. ✓✓ (Max 4)

(2x4) (8)

4.4.4 Explain the term managed floating exchange rates.

In a managed-floating exchange rate

- the exchange rate can fluctuate between certain limits as set by the central banks. ✓✓
- Central banks intervene if the exchange rate moves outside the set limits. ✓✓
- They buy and sell foreign exchange – to smooth out short term fluctuations in the exchange rate. ✓✓
- Huge forex supplies (reserves) are required for such interventions. ✓✓

(4x2) (8)

PARAGRAPH QUESTIONS

4.5 Answer the following questions.

4.5.1 What effect does the *terms of trade* have on the balance of the current account?

- The terms of trade compare a country's export prices with its import prices by means of indexes. ✓✓
- If the terms of trade improve, the balance would improve on the current account. ✓✓

The terms of trade improve when:

- An increase in export prices; more revenue is earned with the same expenditure. ✓✓
- A decrease in import prices; welfare increase because expenditure on imports is less. ✓✓
- South Africa imports prices decreased by the depreciation of the currency. ✓✓ exports become cheaper for foreing buyers; exports increase; larger injection into the economy; balanse of current account improve. ✓✓

  If the terms of trade deteriorated, the balance on the current account will decrease. ✓✓

The terms of trade deteriorated:

- A decrease in export prices; less income is eraned with the same expenditure. ✓✓
- A increase in import prices; welfare is lost because expenditure on imports is more. ✓✓
- For a surplus balance exports should be encouraged✓✓and imports limited. ✓✓

(8)

4.5.2 Why is a free-floating exchange rate system considered as a better option than a fixed exchange rate system?

- In a floating exchange rate system, the rates keep on changing according to the economic conditions. ✓✓
- Floating exchange rate is more real as it makes exchange rate according to the strength of the country. ✓✓
- For example, a currency is appreciating because country is growing but is also makes exporters worse off but then it makes them make their goods more competitive in international markets.
- No need for frequent central bank intervention. ✓✓
- Countries with a fixed exchange rate system are often associated with having unsophisticated capital markets and weak institutions of authority. ✓✓
- To maintain a fixed exchange rate a country is required to have good foreign exchange reserves so that every time currency moves away from the fixed rate the foreign exchange cab be sold or bought in market. ✓✓ (4x2) (8)

4.5.3 How will an increase in export prices and import prices affect the South African economy?

An increase in export prices will:

- Result in terms of trade improving. ✓✓
- Increase economic welfare because more revenue is earned with the same expenditure. ✓✓
- However, over the long-term result in a decrease in sales volume depending on the price elasticity of demand. ✓✓
- It will result in welfare loss eventually. ✓✓

An increase in import prices will:

- Result in terms of trade deteriorating. ✓✓
- Decrease welfare because more resources were used to produce more units to finance the higher cost of imports. ✓✓ (4x2) (8)

4.5.4 Why will countries that can compete on global markets gain most from international trade?

- Developed countries seems to be more efficient in producing value added goods and therefore dominate world trade. ✓✓
- Most developed countries have efficient production techniques and experienced "captains of industries". ✓✓
- These countries apply large-scale industrialization, thus enabled mass production. ✓✓
- Developing countries find it difficult to compete with developed countries based on availability of financial resources, lack of skills etc. ✓✓
- Efficiency depends on not only the skill of the workers, but also on the availability and the cost of resources, which varies by country. ✓✓ (4x2) (8)

4.5.5 Evaluate the effects of a currency depreciation in an economy

Positive effects

- Currency depreciation can be used as an expansionary monetary policy to counter cyclical measures to stimulate demand, profits, output and jobs when an economy is in recession. ✓✓
- Brings an improvement in the balance trade through higher export sales. ✓✓
- Provides a competitive boost to an economy through increasing the value of profits and income for a country's businesses with investments overseas. ✓✓
- Leads to a positive multiplier within the circular flow of income and spending✓✓.

Negative effects

- Currency depreciation makes it harder for the government to finance a budget deficit if foreign investors lose confidence. ✓✓
- Increases the cost of imports e.g. rising prices for essential foodstuffs, raw materials, which affects long-run productive potential of an economy. ✓✓
- Can be used as an expansionary monetary policy to counter cyclical measures to stimulate demand, profits, output and jobs when an economy is in recession. ✓✓
- Brings an improvement in the balance trade through higher export sales. ✓✓
- Provides a competitive boost to an economy through increasing the value of profits and income for a country's businesses with investments overseas. ✓✓
- Leads to a positive multiplier within the circular flow of income and spending. ✓✓
- Makes it hard to pay for a trade deficit that is owed to overseas creditors. ✓✓ (8)

DATA RESPONSE QUESTIONS

4.6 Study the following information and answer the questions that follow.

4.6.1 What is the relationship between the index of import prices and the index of export prices?

Export prices were higher than import prices. ✓ (1)

4.6.2 How was the trend on index of export prices between 2016 and 2018?

Export prices have increased. ✓ (1)

4.6.3 Briefly describe the term *terms of trade*.

Terms of trade is measured by the ratio between a country's export prices and its import prices. ✓✓ (2)

4.6.4 How does a weak exchange rate impact on the terms of trade?

A weak exchange rate increases the prices of imports – worsens the terms of trade – e.g. makes imports of new technology more expensive. ✓✓ (2)

4.6.5 Calculate the terms of trade for 2018. Show all calculations.

Terms of trade= index of export prices / index of import prices✓ x 100✓

(156.6 / 148.7 x 100) ✓ = 105.3✓ (4)

[10]

4.7 Read the extract and answer the questions that follow.

4.7.1 How many countries form the BRICS trading bloc?

Five countries✓ (1)

4.7.2 Name the member country in South America that belongs to BRICS.

Brazil✓ (1)

4.7.3 Briefly describe the concept *economic bloc.*

A set of countries which engage in international trade together, and are usually related through a free trade agreement or other association. ✓✓ (2)

4.7.4 What is a cryptocurrency?

Cryptocurrencies are a digital form of money that run on a totally new monetary system, one that is not regulated by any centralized authority or tracked by a formal institution. ✓✓ (2)

4.7.5 How will BRICS countries benefit by having a common cryptocurrency?

- This would facilitate transactions in national currency and, according to expectations, could increase direct investments from one country to another: ✓✓
- The creation of a common cryptocurrency, which could greatly facilitate trade flows between BRICS countries. ✓✓ (4)

[10]

3.7 Tips for studying Foreign Exchange Markets

1. Know ALL your concepts.
2. Memorise and understand the BoP layout.
3. Calculations may be asked in the exams. You should know what items to add or subtract during calculations
4. Know how to draw and interpret graphs.
5. Understand how to use graphs when determining exchange rates.
6. There is only subtopic that could be an essay in the examination
7. The essay will be on reasons for international trade.
8. Either the demand reasons or the supply reasons or a combination of demand and supply reasons could be asked.

4. General Examination Tips

HINT: Apply the following when answering the question paper:

Section A

- When answering Section, A – short questions, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking.
- You are looking for the MOST correct answer in the multiple-choice questions.
- There are 4 options so try to eliminate the completely wrong answer(s).
- Read carefully to identify the correct answer, identify the distractors that will also appear correct.
- The answer will NEVER be two options. Only ONE option is correct.
- Your answer will immediately be marked incorrect if you write TWO options.
- Give ONE term for each of the following descriptions, know your concepts.
- There are 6 marks for these questions in each paper (Q 1.3). Know your concepts and definitions to answer these questions.

Section B

- When answering Section B - Choose 2 of the 3 options.
- Read through the questions to select the ones that you know best.
- Use your 10 minutes reading time to identify the questions you know best.
- The mark allocation should guide you to the length of your answers.
- Discuss, explain, why, how and what type of questions should be answered in full sentences.
- For example: 4-mark questions must be answered with at least 2 facts, in full sentences.
- Calculations – Start off with the formula; then show all steps in the calculations.
- Specify the items when doing calculations – e.g

Consumption (C)	R 1000
Government spending (G)	R 800
Investment (I)	R 250
GDP	R 2050

Paragraph (8 mark questions)

- Ensure that you have sufficient facts to answer the question
- E.g. Differentiate between two concepts (X and Y). Write at least TWO facts for X and TWO facts for Y. The mark allocation will be (2x4=8)
- If required to explain or discuss, write at least four facts on the topic. The mark allocation will be (4x2=8).

Data response questions

- Answer any TWO of the three questions.
- Each data response question consists of 5 questions.
- Application type questions in question 2.5, 3.5 and 4.5 must be answered in full sentences and relate to relevant content.

SECTION C – is the essay questions

- Answer ONE of the two questions.
- The **introduction** should be a definition. Do not repeat any part of the question in your introduction
- **Make use of headings** where possible- a maximum of 8 marks are allocated for headings and examples.
- Include sufficient facts to cover the 26 marks in the body. These facts should be written in **full sentences** to obtain maximum marks.
- The **conclusion** must not repeat any of the facts already mentioned in the body or introduction. Read the table outlining the structure of the essay to ensure that you have an appropriate conclusion.

Reference

- Prescribed grade 12 textbooks
- Mind the Gap
- Examination guideline
- Diagnostic report 2020

Acknowledgements

The Department of Basic Education (DBE) gratefully acknowledges the following officials for giving up their valuable time and families, and for contributing their knowledge and expertise to develop this this study guide for the children of our country, under very stringent conditions of COVID-19.

Writers:

Sithembiso Tshabalala, Thabisa Ntontela-Seleho, Smangaliso Khambule, Molebogeng Rambuda, Richard Gouws, Claudette Kumalo and Lusanda Booi.

DBE Subject Specialist: Percy Masango

The development of the Study Guide was managed and coordinated by Ms Cheryl

Weston and Dr Sandy Malapile.

ISBN : 978-1-4315-3494-4
High Enrolment Self Study Guide Series
This publication is not for sale.

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Department:
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