

**11.2 ASSIGNMENT QUESTIONS: SEMESTER TWO (JULY - DECEMBER 2022)**

**12.1 ECONOMICS [100]**

**QUESTION ONE [55]**

Read the extract below and answer the questions that follow:

**New-energy vehicle production set to increase in SA; Ford could add to hybrid line-up – NAAMSA**

While new-energy vehicle (NEV) production numbers are currently low in South Africa, NAAMSA, the Automotive Business Council is hopeful that the numbers will soon increase.

Naamsa CEO Mikel Mabasa says the start of production of the Corolla Cross hybrid at Toyota's Durban plant this year adds to the existing assembly of the Mercedes-Benz C-Class plug-in hybrid (PHEV) at the German car maker's East London plant.

Ford then also looks set to become yet another producer of hybrid vehicles in South Africa, with the proposed production of a plug-in hybrid model in the new Ranger pickup line-up, he notes.

The US car maker has already unveiled the F-150 Lightning full electric bakkie in the US, set for launch in 2022.

NEVs refers to hybrid vehicles, PHEVs and battery electric vehicles (BEVs).

Mabasa says the South African automotive industry does not currently produce any BEVs, with PHEV production at two units in 2020, down from a peak of 1 180 units in 2018.

The decline is largely owing to the run-out of the previous C-Class line-up, with the new model introduced this year.

Mabasa says it is imperative the local automotive industry moves swiftly towards NEV production, as South Africa's primary vehicle export market – the European Union – has indicated that it will not allow internal combustion engines on its roads "in the next five to ten years".

(Source: <https://www.engineeringnews.co.za/article/new-energy-vehicle-production-set-to-increase-in-sa-ford-to-add-to-hybrid-lineup-naamsa-2021-11-09>)

- 1.1 Taking the above article and limited resource availability into consideration, use a relevant diagram to explain how Ford can use a production possibilities frontier to illustrate the various combinations of output of new energy vehicles and non-new energy vehicles. (15)
- 1.2 Discuss the factors that may affect demand for new energy vehicles. (15)
- 1.3 Taking the nature of new energy vehicles into account, motivate the type and importance of price elasticity of demand to the pricing managers. (10)
- 1.4 Describe the characteristics of the market structure that is most relevant to the automotive industry. (15)

**QUESTION TWO [15]**

The headline of a recently published article was: “Don’t be fooled by Australia’s GDP growth – buying more things is not a good measure of our welfare”.

Taking the above statement into consideration, critically evaluate the role of GDP as a measure of economic welfare.

**QUESTION THREE [30]**

Read the extract below and answer the questions that follow:

**South Africa already facing mounting challenges heading into 2022**

Asset Management group BNP Paribas says it expects higher inflation and lower growth to pose challenges for South Africa’s economy in 2022.

Jeff Schultz, senior economist at BNP Paribas South Africa said a weaker rand, alongside less transitory global inflation dynamics, means that the risks to the group's 4.7% CPI estimate next year are to the upside.

"A fourth Covid-19 wave, new virus variants, and the likelihood of more electricity supply cuts mean the risks to our 2022 1.8% GDP estimate are to the downside," he said. "We think the risks to inflation over the next six months seem firmly skewed to the upside.

"Our view is based on the growing exogenous price pressures, which is already evident in local goods, the impact of a weaker rand on softer terms of trade, expectations of tighter global monetary policy, and recent border closures following the spread of the Omicron variant of the virus."

In addition, Schultz said that growth momentum, which already appears to be stalling, faces bigger challenges next year from possible additional pandemic-related 'stop-start' restrictions and a return to structural rigidities as instability in electricity supply looks to be rising again.

"We expect core CPI to average 3.5% in 2022 compared to an estimated 3.0% in 2021," he said.

Inflation risks, Schultz said, means that the South African Reserve Bank is unlikely to delay interest rate increases for at least the first four MPC meetings of 2022. "The risk of hikes continuing throughout H2 next year is also rising, we think, particularly if inflation does not decline towards the SARB's target midpoint from Q3 as we currently project."

"That said, it is undeniable that the incipient economic recovery looks somewhat more fragile, given falling domestic energy availability thanks in part to an increasingly less stable electricity grid, and the risks posed to economic activity and confidence because of a looming fourth Covid-19 wave and concerns over the Omicron variant."

Policy responses, the economist said, will prove tricky with less global commercial and financial channel support. "For now, we maintain the South African Reserve Bank (SARB) will raise rates by 100bp in 2022."

South Africa's employment crisis persists

Statistics South Africa's Quarterly Labour Force Survey (QLFS) out earlier this week, showed that the official unemployment rate increased by 0.5 percentage points to a new record high of 34.9% in Q3 2021, from 34.4% in Q2 2021.

This was mainly driven by employment losses in the formal non-agricultural sector which accounts for 67.4% of the nation's total employment, noted Alexander Forbes Investments.

Meanwhile, the expanded definition of unemployment, which includes discouraged job seekers, increased by 2.2 percentage points to 46.6% in Q3 2021, after increasing to 44.4% in Q2 2021. "This means that the annual unemployment rate in the third quarter of the year was 4.1 percentage points higher compared to Q3 2020," Alexander Forbes said.

The number of unemployed people decreased by 183,000 to 7.6 million following a significant increase of 584,000 in Q2 2021, leaving the number of unemployed people still higher than the 7.2 million recorded in the third quarter of 2020.

"The results highlight the plight of the South African labour market which continues to be least favourable for the youth, those aged between 15-24 years and 25-34 years. The youth unemployment rate soared to a record high of 66.5% and 43.8%, from 64.4% and 42.9% in the previous quarter, respectively, with over 10.3 million young people of which 33.5% were not in employment, education nor training over the quarter.

"The Covid-19 impact on employment remains harsher on people in semi-and-low-skilled occupations, while people employed in high-skilled occupations continue to be somewhat protected during the fluctuating lockdowns," the financial services firm said.

"Over the medium term, Alexander Forbes said it expects employment gains to remain modest, weighed by subdued investment, low growth and ongoing Covid-19 infections with a slow vaccination take-up.

The weakness in the South African labour market has been exacerbated by the worsening effect of the Covid-19 pandemic, Alexander Forbes said. "With the new highly transmissible Omicron variant on the loose, it is going to be a while before the country sees a significant recovery in employment.

The recovery will strongly depend on a more robust vaccination drive which may improve should authorities implement a mandatory vaccine policy, as this will have a ripple effect in terms of more

economic activity reopening, it said. However, it added that the labour market tends to lag the recovery following an economic shock, “and we expect fewer job losses in the medium term, although stabilisation is still quite far out”.

The investment specialist said that the government’s efforts to implement reforms such as the energy generation, infrastructure projects at Transnet and in the mining sector, as well as the public-private partnerships spectrum allocation remain quite slow. “More rigour is required for faster job creation through private sector investment spending.”

#### Omicron outbreak

Swiss multinational investment bank UBS AG said in a brief note on Wednesday (1 December), that its base case is for the Omicron outbreak to blend into the existing Delta wave that the global economy has already been working through.

“This scenario could arise either because vaccines retain sufficient protection against the new variant, because Omicron symptoms prove no worse than those of the Delta variant, because Omicron fails to outcompete Delta, or because governments choose to manage risks with methods like vaccine booster programs and mask-wearing, rather than lockdowns,” it said.

UBS said that the market is also confronted by two downside scenarios.

First, that Omicron turns out to be successful at evading vaccines, and is more virulent, leading to a renewed wave of lockdowns.

Second, that—even if Omicron is less harmful than feared —markets could begin to worry about central banks tightening policy more quickly than expected, particularly if efforts to limit Omicron’s spread exacerbate supply chain disruptions and keep inflation elevated for longer.

“We continue to assess a range of scenarios—from a best-case that Omicron symptoms are very mild and indicative of a virus entering an endemic stage, to a worst-case that the strain leads to a renewed wave of global lockdowns,” UBS said.

**(Source: <https://businesstech.co.za/news/finance/543064/south-africa-already-facing-mounting-challenges-heading-into-2022/>)**

- 3.1 The article highlights some of the main challenges that South Africa is likely to encounter such as high inflation levels, combined with low growth rates as well as persisting unemployment. Critically analyse the consequences of such challenges for the individuals, economy and society as a whole. (15)
- 3.2 Explain the tools/instruments available to a government when formulating a fiscal policy and propose the type of fiscal policy that should be implemented in this case. (15)

***END OF ECONOMICS ASSIGNMENT***