

Grade 12 Economics: Macroeconomics Study Guide

Grade 12 | Economics | Study Guide | 2024

Free Study Resources for South African Matric Learners

1. Circular Flow of Income

Shows how money flows between households, firms, government, financial sector, and foreign sector.

Leakages (out of circular flow): savings (S), taxes (T), imports (M)

Injections (into circular flow): investments (I), government spending (G), exports (X)

Equilibrium: total leakages = total injections

2. National Accounts (GDP)

Expenditure approach:

$$GDP = C + I + G + (X - M)$$

Income approach:

$$GDP = \text{wages} + \text{rent} + \text{interest} + \text{profit}$$

Output approach:

$$GDP = \text{value of all final goods/services produced}$$

GNP:

$$GDP + \text{net income from abroad}$$

NNP:

$$GNP - \text{depreciation (Capital Consumption Allowance)}$$

Real GDP:

$$GDP \text{ adjusted for inflation (base year prices)}$$

TIP GDP vs GNP: GDP = production WITHIN a country (regardless of who owns it). GNP = production BY citizens of a country (regardless of where they are). In SA, GDP > GNP because foreigners earn more here than SA citizens earn abroad.

3. Business Cycles

- Expansion/Recovery: rising output, employment, income, spending
- Peak/Boom: maximum economic activity; inflation pressure rises
- Contraction/Recession: falling output; unemployment rises; two consecutive quarters of negative GDP growth
- Trough/Slump: lowest point; high unemployment; low investment

4. Economic Indicators

Leading Indicators (predict future)

Building plans passed, share prices, business confidence index, orders for capital goods

Coincident Indicators (current state)

GDP, employment levels, personal income, retail sales

Lagging Indicators (confirm trend)

Unemployment rate, inflation (CPI), interest rates, outstanding loans

5. Inflation

CPI:

Consumer Price Index - measures cost of basket of goods

Inflation rate:

$$((\text{CPI this year} - \text{CPI last year}) / \text{CPI last year}) \times 100$$

CPIX:

CPI excluding interest rates on mortgage bonds (old SA measure)

SARB target:

3% to 6% annual inflation (SARB monetary policy)

Types of Inflation

- Demand-pull inflation: too much money chasing too few goods; economy overheating
- Cost-push inflation: rising production costs (wages, oil, raw materials) passed to consumer
- Imported inflation: weaker rand makes imports more expensive