The foreign sector in the economic cycle*

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1 ECONOMIC AND MANAGEMENT SCIENCES

2 Grade 9

3 THE ECONOMIC CYCLE

4 Module 4

5 THE FOREIGN SECTOR IN THE ECONOMIC CYCLE

5.1 ASSESSMENT STANDARD 1.2:FOREIGN SECTOR IN THE ECONOMIC CYCLE

UPON COMPLETING THIS SECTION YOU WILL BE ABLE TO INDICATE THE ROLE OF THE FOREIGN SECTOR IN THE ECONOMIC CYCLE.

Up to now we have assumed that all economic activities of a country occur solely within its borders. However, with present-day technological developments in the field of communication and transport, as well as the benefits that arise from the use of large-scale production, we find that product markets are exploited not only domestically, but also internationally. Consider in this regard South Africa's export trade in coal and other minerals, as well as agricultural products such as wine, sugar and wool, and also the imports of technological products and machinery that are imported from foreign countries.

The aim of international trade as explained in the previous paragraph, is mainly to satisfy the needs of the citizens of the country more effectively. In this way, a country can reach a stage where it is no longer dependent solely on its own resources / production, but where it can also utilise other countries' products. That means, for example, that we in South Africa can now import sophisticated computers, while there are other countries that will want to purchase iron ore and gold from South Africa.

This international trade between countries has two components, namely:

- The flow of goods and services that are dispatched and received (also known as international trade); and
- The mutual payment for these goods and services in the monetary unit of each country (also known as currency transactions).
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- International trade takes place because:

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- certain countries have an excess of certain resources; for instance, South Africa has an abundance of gold and other minerals that can be exported, while there are no natural oil resources;
- climatic conditions vary from country to country. As a result of the erratic rainfall in South Africa there are certain agricultural products that cannot be cultivated here, and that have to be imported, for example coffee;
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- the level of technological development varies; for instance, the Japanese are renowned for their expertise in computer technology;
- transport and communication have improved drastically. For example, fresh flowers from South Africa are supplied to markets throughout Europe on a daily basis.
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5.2 Activity 1:

5.3 FOREIGN SECTOR

SELF:

Draw your own version of the economic cycle (that includes the foreign sector) so that both the participants and the flow are evident. Insert the diagram on a separate sheet.

5.4 Activity 2:

5.5 REASONS FOR FOREIGN TRADE

GROUP:

Refer to the reasons for foreign trade supplied below, and in each case give examples that could explain the South African situation.

REASON	RSA EXAMPLES
1. Availability of resources:	
1. Differing climatic conditions:	
1. Level of technology:	
1. Transport and communication:	

Table 1

The inclusion of the foreign sector as the fourth participant in the economic cycle is also linked by way of two streams, namely the *goods stream* and the *monetary stream*, as explained above. The inclusion of the foreign sector has resulted in the fact that the economy is no longer "closed", but that it has become more "open", because imports and exports have caused "more" goods and money to flow into / flow out of the two streams as indicated earlier.

5.6 Activity 3:

5.7 FOREIGN TRADE

SELF / GROUP:

Make a list of goods that are exported from and imported to South Africa. Indicate, as far as possible, where the goods are exported to and from where these goods are imported.

RSA EXPORTS AND ITS DESTINATION	RSA IMPORTS AND ITS ORIGIN

Table 2

5.8 Activity 4:

5.9 FOREIGN TRADE

SELF/GROUP:

Name the monetary unit of each country that has been listed in the table below:

COUNTRY	MONETARY UNIT
1. Japan	
1. Russia	
1. USA	
1. Britain	

continued on next page

1. Botswana	
1. India	
1. Germany	
8. France	

Table 3

5.10 Activity 5:

5.11 GRAPH OF FOREIGN EXCHANGE

GROUP:

On every Wednesday for at least eight weeks, indicate what the exchange rate is between the South African Rand and the following monetary units: (Divide the class into four groups for this purpose.)

Week:	(Group 1)Rand/USA Dollar	(Group 2)Rand/Euro	(Group 3)Rand/Pound	(Group 4)Rand/Pula
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				

Table 4

GROUP:

At the end of the eight weeks each group must indicate their findings on a graph and then explain to the rest of the class what tendency prevailed in the course of the eight weeks.

6 Assessment

Learning Outcomes(LUs)

LO 1

the economic cycle

The learner will be able to demonstrate knowledge and understanding of the economic cycle within the context of "the economic problem."

Assessment Standards(ASs)

We know this when the learner:

1.5 explains the different flows of money, factors of production, goods and services in the economic cycle within the South African economy;

1.6 discusses the role of the foreign sector in the economic cycle;

1.7 illustrates by means of a graph and discusses how demand and supply influence prices;

1.8 critically assesses the influence and actions (strikes and stayaways) of trade unions in general and during the apartheid era on:

the South African economy;

political, economic and social transformation;

labour issues;

1.9 discusses the effect of the national budget on the economy (e.g. taxation and expenditure on education, social welfare, health and security.)

7 Memorandum

ACTIVITY 2: Reasons for foreign trade

Provide reasons for foreign trade

Availability of resources: The RSA has a variety of minerals, but no natural oil.

Differing climatic conditions: The RSA produces maize, oranges, etc, but no coffee, rubber.

Level of technology: The RSA has to import watches, computers, etc.

1. Transport and communication: RSA has good transport and communications facilities.

ACTIVITY 3: Foreign trade

List of goods that are imported and exported.

EXPORTS	**IMPORTS**
Maize (African countries)	Computers (USA)
Wine (Europe)	Watches (Switzerland)
Iron ore (Japan)	Cars (Japan)

Table 5

ACTIVITY 4: Foreign exchange (means of payment)

Provide the monetary unit of the following countries

JAPAN: yen

RUSSIA: rouble

USA: dollar

BRITTAIN: pound sterling

BOTSWANA: pula

INDIA: rupee

ACTIVITY 5: Graph illustrating foreign exchange

Collect data relating to rates of exchange and draw the graph with the help of the information obtained.