

Examiner's Report

Foundation Examination – January 2014

(52) Economics

Overall performance of Economics paper is at a satisfactory level. Some candidates have faced several difficulties when giving answers, as a result they got low marks for the examination. The following reasons have been observed by the examiners for poor performance.

Section A

Question No. 01 - 40 marks (20 multiple choice questions, 02 marks each)
(A compulsory question)

Objective of this question was to test the practical knowledge and the theoretical knowledge relating to economics. Most of the candidates were able to score more marks and they were able to get through this paper because they have successfully answered this question.

It was observed that only a few had answered correctly the question Nos. (A), (E), (I), (K), and (P) when considering random of answer scripts. The following weaknesses have been observed by the marking examiners:

Question (A)

Candidates did not know about the production possibility curve and showed inadequate knowledge regarding increase in opportunity cost.

Question (E)

The determinants of elasticity of supply have been tested, but candidates were not able to write the correct answer. Because majority has selected number (2) as the correct answer.

Question (I)

Most of the candidates were unable to select the correct answer, because they have not understood about the demand and supply curve and equilibrium price.

Question (K)

Majority of the candidates did not have the knowledge of injections and withdrawals in national accounts.

Question (P)

Lack of knowledge had been seen regarding narrow money supply.

It was noted that only those who are having practical and theoretical knowledge relating to economic concepts scored more marks for this question.

Section B

This part consists of six questions and the candidates have an opportunity to choose four out of six.

Question No. 02 - 15 marks

(An optional question)

- (a) (i) Majority of candidates has answered this question in which it was requested to explain “Human Capital”. But candidates scored low marks due to the following reasons:
- (1) Human capital has been defined as a labour.
 - (2) Coins and notes belong to public considered as human capital.
 - (3) Defined the labour and explained the characteristics of labour.

- (ii) Most of the candidates had stated the characteristic of labour instead of special features of human capital. The following answers given by majority show candidates’ lack of knowledge regarding the special features of human capital:

Eg:-

- (1) Inability to separate from an individual.
- (2) Can motivate.
- (3) Getting salaries as a reward.

- (b) This part of the question expected reasons for arising of basic economic problems in an economy. Majority of candidates has answered correctly, but they have to improve how to present the factors in a simple manner. Most of them have submitted essay type answers and the following have been given as reasons by some candidates:

- (1) Lack of proper management.
- (2) Unemployment.
- (3) Inefficiency of labour.

In addition to the above factors some candidates stated basic economic problems and explained them.

- (c) It was expected to explain the systems of solving basic economic problems in an economy. It was a simple question and most of the candidates were able to score reasonable marks. However, the following weaknesses were noted:

- (1) Explaining economic problems in an unnecessary manner.
- (2) Some candidates have stated the following irrelevant factors,
 - (i) Tax holidays and tax concessions,
 - (ii) Borrowing money from commercial banks as a method of solving economic problems.

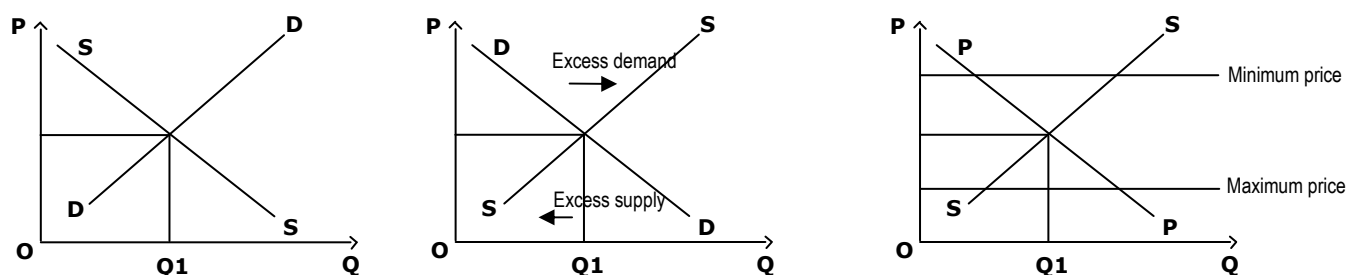
Question No. 03 - 15 marks

(An optional question)

(a) This question tested how the prices of goods and services are measured in terms of demand and supply with the use of a graph. Most of the candidates have scored more marks giving correct answers. But some candidates obtained low marks due to the following weaknesses:

- (1) Demand and Supply curves have been named incorrectly.
- (2) The excess demand and excess supply have not been identified.
- (3) Excesses demand and excess supply have been identified incorrectly.
- (4) Maximum and minimum prices have not been mentioned correctly.

Eg :-



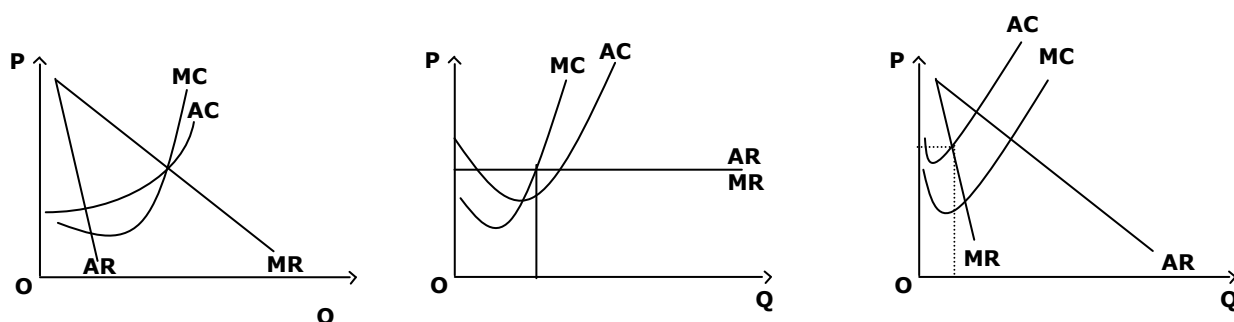
(b) This question required students to state features of monopoly and most of the candidates have obtained allotted marks for this. But few has written the following as features.

Eg:

- (1) Maintaining the competition of monopoly.
- (2) Producing substitutes.
- (3) Large number of suppliers and consumers.

(c) From this part of the question, it was expected to show how a monopolist maximize their profit with the help of a graph. Only a very few correct answers was seen. The following are the weaknesses:

- (1) Do not know about profit maximization at the point of $MR = MC$.
- (2) Showing equilibrium of perfect competition instead of monopolist equilibrium.
- (3) Create equilibrium by interpreting MR, MC, AC curves.
- (4) Showing following wrong graphs:



Question No. 04 – 15 marks

(An optional question)

(a) Tested the theoretical knowledge of “Indifference Curve Map”. Most of the candidates did not choose this question. The candidates who answered this did not obtain good marks. Reasons are,

- (1) Drawing Indifference Curve and describe its features.
- (2) Showing demand curve instead of Indifference Curve Map.

(b) This was tested knowledge of the students about weaknesses of utility theory. Only a few numbers of candidates has been obtained allocated marks. Most of the candidates have provided irrelevant answers. Reasons are as follows:

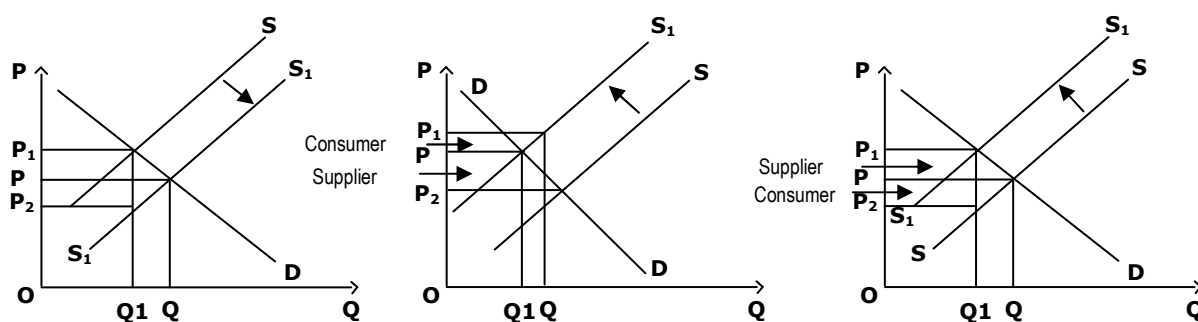
- (1) Theoretical knowledge is low.
- (2) Stated weaknesses of marginal utility instead of utility theory.
- (3) Has written answers by comparing marginal utility and total utility.

(c) This part required students when government imposes a tax for an essential good how tax is distributed between consumer and supplier. Eventhough this was a simple question, a few number of candidates has provided the correct answer.

Reasons for poor performance:

- (1) Not showing the supply curve after tax.
- (2) Showing the tax quantity incorrectly in the graph.
- (3) Tax quantity of consumer and supplier is not shown correctly in the graph.

As examples:



Question No. 05 – 15 marks

(An optional question)

(a) Basic knowledge of national accounting is tested. Eventhough most of the candidates have answered this part, performances were not very satisfactory. The following weaknesses were identified:

- (1) Did not understand about concepts.
- (2) This has been identified as a method of taxation.
- (3) Double counting errors.
- (4) When explaining added value, consider as total of technology and industrial services.

(b) There were only a very few number of candidates who had provided correct answers for this part.

(1) Only Private consumption, government consumption and net investment are used in calculating GDP.

(2) Incorrectly calculated real GDP. Eg:- $\frac{29,700}{100} \times 150 = \underline{44,550}$

(3) Eventhough few has written real GDP correctly, majority have answered incorrectly as,

$$\frac{29,700 - 18,000}{18,000} \times 100$$

Due to the above reasons most of the candidates obtained low marks for this question.

(c) Answers which have been given for the importance of national accounting were irrelevant and as a result scored less marks.

For example,

(1) Simple, accuracy, clear are written as importance.

(2) Mentioned that inflation of the country could be known.

Question No. **06** – 15 marks

(An optional question)

This was tested theoretical knowledge of money, money supply and interest rates.

(a) Only a few had the ability to state factors affecting money supply. Reasons are as follows:

(1) Introducing narrow money, broad money supply, etc.

(2) Maintaining liquidity.

(3) Describing main factors of demand for money.

(4) Presenting factors such as issuing notes and coins, clearing, etc.

(b) The question requested to explain the relationship between money supply & general price level. Though majority has wrritten that there is a negative relationship, they did not give reasons to increase in price level. Due to that reason large number of candidates has obtained low marks.

(c) Few number of candidates has given the correct answers to reasons for falling interest rates of a country. Majority has written as discouraging saving in a savings bank for declining savings. Decrease in interest rates, decrease in investments, decline of development are some irrelevant factors which has been provided by candidates and scored low marks.

Question No. 07 – 15 marks

(An optional question)

The objective of this question is to measure the knowledge of public finance.

- (a) Most of the candidates has written answers for impotence of current account's surplus of the government budget. But some obtained low marks due to the following reasons:
- (1) Explaining current account.
 - (2) Presenting situations of government budget.
 - (3) Describing the importance of capital account.
- (b) Most of the candidates had described current transfers to individuals correctly and scored reosanable marks.
- (c) (i) The given statement was "At present the government of Sri Lanka gives priority for investing in infrastructure facilities" and majority has given as agree and obtained allocated marks for that. But they did not provide examples correctly. Reasons is that candidates did not update about the changes in the economy.
- (ii) Majority has scored more marks giving reasons for investment.

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General points to be considered in developing the level of candidates :

1. Study the entire syllabus properly.
2. Follow instructions given in the question paper.
3. Read the question several times and answer only what is asked from the question.
4. By using past question papers and answers you can improve your knowledge.
5. By learning the concepts of Economics, you should be able to compare the concepts and principles.
6. Make use of books, magazines, hand books, newsletters and Central Bank reports related to Economics.
7. Properly name and describe graphs.
8. Write clearly in legible hand writing and insert question numbers in correct order.
9. Manage the time properly.
10. When writing answers try to give examples where necessary and present concepts and theories logically.
11. Before handing over the answer script, re-check whether the Index Number and Question Numbers have been stated properly.
12. Sit for the examination with prior preparation and with the main intention of passing the examination.

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