ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EXAMINER'S REPORT

LEVEL I EXAMINATION - JULY 2024

(103) ECONOMICS

It was observed that most of the candidates have answered the Economics paper at quantitatively acceptable level. However, it was evident that there are some questions which had been answered not up to the expected standard by the considerable number of candidates.

Hence following are some of the main observations underlined by the examiners during the evaluation:

Section A

Question No. 01

This section seems to be structured in such a way that it covers the entire syllabus. Questions **1.1 to 1.10** required to select the correct answers out of the given options. Questions **1.11 and 1.12** required selection of the correct answer from the answers given to questions, while questions **1.13 & 1.14** were to state whether the statements are "**True**" or "**Falls**" and to write short answers to questions **1.15 to 1.20**.

Most of the candidates scored successfully for this question while some candidates had shown weaknesses in giving their answers. Thus, the common weakness can be underlined as follows:

1.1 This question asked about reward for factors of production. Most of the candidates answered correctly that the reward for a capital is "interest".

1.2 When the cross elasticity of demand is negative, most of candidates had correctly identified the relevant product as a complementary product.

1.3 This question was asked to test the knowledge of "Opportunity Cost", was correctly answered by candidates.

1.4 Most candidates successfully identified and answered the incorrect statement about the long-run production process, dividing the factors of production into variable and fixed. Some candidates eventhough they had the knowledge of subject matter, they were not familiar with answering the questions type like "not correct" questions.

1.5 Many candidates correctly identified the concept of production surplus. While few number of candidates had provided unsuccessful answers.

1.6 According the report of the Central Bank of Sri Lanka. It was rotated that in the year 2023, economic growth rate was 2.5%. Some of the candidates had recognized this correctly, while most of the candidates had provided unsuccessful answers. Main reason for this is not referring the recommended books such as Central Bank Report to gain practical knowledge.

1.7 Majority of the candidates had failed to answer this question. It was checked the price elasticity of demand for the product when the price decreases from Rs.40/- to Rs.20/- and the quantity demanded increases from units 800 to 1,200.

Generally, when calculating the price elasticity of demand, using the point elasticity formula, if the answer is 1 eventhough the correct answer is 1, then the following 2 methods can be followed to determine whether the elasticity is actually 1 or unitary elastic.

P	Q	Point Elasticity	
40	800	ED	$= \dfrac{4Q}{4P} \times \dfrac{P}{Q}$
20	1,200	ED	$= \dfrac{800-1200}{40-20} \times \dfrac{40}{800}$
		ED	$= \dfrac{-400}{20} \times \dfrac{40}{800}$
		ED	$= \underline{\underline{1}}$

Here the point elasticity is 1 according to the point elasticity calculation. Inorder to determine whether the elasticity is really 1 or unity elasticity, one of the following two methods should be followed. Unitary elasticity means that quantity is equal at each price.

P	Q	P x Q	
40	800	40 x 800 = 32,000	Values for Quantity is not equal
20	1,200	20 x 1,200 = 24,000	There is no unitary elasticity.

Thus, it needs to calculate the arch elasticity for 2%; Then;

$$ED = \frac{4Q}{4P} \times \frac{P1+P2}{Q1+Q2} = \frac{400}{20} \times \frac{40+20}{800+1200} = \underline{0.60}$$

Here the answer is -0.6, so it is less than 1, and there is an inelastic demand.

Candidates should not select unitary elasticity if they get the answer as 1 under the point elasticity calculation, on the other hand if they calculate the arch elasticity of demand and get 1 as the answer, then it should be determined as a unitary elastic demand, or it the answer is less than 1 then identifying it as an inelastic demand and if greater than 1 it is an elastic demand.

1.8 Many candidates had successfully identified the correct answer as the decrease in the price of complementary goods as the factors affecting the shift of the demand curve to the left.

1.9 As the incorrect statement about a monopolistic market, it was "only modest profits in the short run" as in the short run monopolistic market has a modest profit. Most of the candidates had identified the correct answer for this question.

1.10 Many candidates had successfully recognized that the government would protect producers by imposing a "minimum price" in the free market.

1.11 Many candidates had successfully recognized that inflation and price levels were revealed through macro-economics.

1.12 Many candidates had correctly identified that marginal utility is zero when initial utility is maximized.

1.13 It was observed that knowledge about marginal concept was at a high level. Most of the candidates identified the new addition to the total cost when output increases by one unit as the marginal cost.

1.14 Many candidates had successfully identified the variable factor inputs were "not proportionate" as an assumption of the law of diminishing returns.

1.15 Most of the candidates had successfully provided answers to "how the government intervenes in the market".

1.16 The question was asked to checked the knowledge of difference between needs and wants. It was noted that many candidates successfully answered the question.

1.17 Candidates' level of knowledge about credit rating is very low. Less number of candidates had provided the answers successfully while majority of the students provided wrong answers.

1.18 Many candidates had confused the oligopoly market with the monopoly market and given wrong answers. The knowledge of the candidates about the oligopoly market should be updated.

1.19 Candidates knowledge of financial intermediaries (financial intermediaries) was at a very low level. The Central Bank of Sri Lanka too had identified as a financial intermediary by many of the candidates.

1.20 Candidates knowledge of sustainable development was at a unsatisfactory level. Some candidates had recognized what the sustainable development was, but had not understand the social aspect of the sustainability.

Section B

This section consists with four (04) compulsory questions carrying 10 marks for each question.

Question No. 02

(a) Many candidates had obtained allocated marks by identifying the characteristics of economic goods correctly.

(b) Basic economic problems were identified by many candidates but there were no comprehensive answers as to how a mixed economy could solve the basic economic problems. Candidates should be aware of how basic economic problems were solved in a mixed economy.

(c) Many candidates had explained the inverse relationship between price and quantity demanded, but had failed to explain the reasons for it. Candidates should get the proper knowledge of explaining the reasons for the law of demand.

Question No. 03

(a) Most of the candidates had correctly calculated the equilibrium price and quantity and obtained total marks.

(b) Some candidates had successfully scored the higher marks for the "Factors that determine the price elasticity of demand", but they had incorrectly answered the factors that affect the "determining of demand".

Question No. 04

(a) Some candidates had successfully identified the motives for "demand for money" as transactional, precautionary and speculative, while some candidates had misunderstood the question and written functions of money as the answer.

(b) While most applicants had correctly identified the profitability and liquidity, many have failed to explain the relationship between the two concepts. That is, "when profitability increases, liquidity decreases and when profitability decreases, liquidity increases" in other words candidates were unable to identify the inverse relationship between the two concepts.

Most of the candidates had defined "profitability and liquidity" but were unable to understand the relationship between the two concepts.

(c) This question was asked about the central bank's qualitative monetary policy instruments, but most of the candidates had written "Quantitative monetary policy instruments" as answers. Candidates should have a clear understanding of what are quantitative and qualitative credit policy instruments/measures.

Question No. 05

(a) Some candidates had clearly understood the assumptions of the theory of comparative advantage, while some candidates had given the wrong answers by referring to the assumptions of the "production possibility frontier".

(b) If this question was asked using country names instead of **A** and **B** for the respective country. More successful answers could have been obtained.

(c) It was inquired about the actions that can be taken to mitigate the adverse effects of the depreciation of the Sri Lankan Rupee against the US Dollar, this question was a current/contemporary topic and not mere a theoretical question, as many candidates were able to score marks for this question.

Section C

Question No. 06

(a) Most of the candidates had drawn business cycle diagram and had named its different stages successfully, but candidates had not paid attention to explain them as expected in the question. Hence, the candidates failed to get the allocated marks.

(b) Most candidates had correctly calculated **(a)** Gross Domestic Expenditure **(b)** Gross Domestic Product and **(c)** Gross National Income at the market price while some candidates' answers were not correct due to calculation errors.

(c) Most of the candidates have failed to differentiate between the concepts, but derived the concepts of Gross Domestic Income and Gross Notional Income. Candidates were not properly mentioned the difference between two concepts.

(d) It was observed that many had defined the fiscal policy, but unable to get the full score because that had not explained how a countries fiscal policy affects business.

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Common matters to be considered to improve competency level of candidates:

(1) Study the syllabus completely and thoroughly paying attention to new subject matters.

(2) Read the question with due care and do not write unnecessary explanations/details when direct answers are expected.

(3) "**Action Verb Check List**" with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.

(4) Refer specially the Self-Study Text, books, manuals, letters, magazines, Central Bank annual reports and anything relate to this subject.

(5) Develop the skills needed to correctly identify the basic theoretical concepts in answering.

(6) Handwriting should be legible and the numbers of questions should be correctly and clearly written.

(7) Follow the instructions given in the question paper.

(8) Perusal of past question papers and suggested answers would help sharpening knowledge and experience.

(9) By getting a correct understanding of economics concepts, there should be the ability to compare the difference between each concept.

(10) Proper management of time is important.

(11) Re-check the question numbers before handing over the answer scripts.

(12) Sit for the exam with confidence after prior preparation and utmost expectation of getting through the exam.

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