

Examiner's Report

AA1 Examination - January 2017

(AA13) ECONOMICS FOR BUSINESS & ACCOUNTING

Many candidates had answered the Economics for Business and Accounting question paper satisfactorily. However, the following shortcomings of candidates in answering some of the questions had taken place.

The following observations of Marking Examiners as reasons for some have been recorded:

SECTION A

Objective Test Questions (OTQs)

Question No. 01 – This question consisted of 20 compulsory questions for 40 marks.

40% of the total marks can be obtained through this question covering a wide range of the syllabus. These questions have been presented appropriately keeping with the weighting of the syllabus based on basic principles of Economics.

Most of the candidates have reached satisfactory performance levels in answering the questions set for selection of the correct answers through a choice, indicating whether a given statement is True or False and questions relating to general knowledge on the subject.

However, shortcomings of candidates on the following questions that received the attention of Marking Examiners are set out below:

Question No. 1.1

Many candidates had correctly identified that the law of supply as the relationship between the price and the quantity supplied. Either due to not understanding the question properly or not reading the question paying due attention to it, some candidates had selected incorrect answer, the relationship between “change in quantity supplied and change in quantity demanded”.

Question No. 1.2

Many candidates had correctly identified full employment of resources as point x of the production possibility curve of a country. But some had incorrectly selected answer (4) a rapid rate of future economic growth. Candidates should improve their knowledge on production possibility curves.

Question No. 1.3

Most of the candidates had correctly selected (1) Rs.250/- as consumers surplus. Some had however erroneously selected (2) Rs.500/- as consumers surplus.

Question No. 1.4

Though the cross price elasticity is 0.25, it should be +0.25. There were candidates who selected -0.25 as the correct answer. Candidates should pay special attention to symbols (+) / (-) in this type of question. Due to transferring of the numerator and the denominator in the cross price elasticity equation, certain candidates had selected the incorrect option (3) as the correct answer ($8/2 = +4.0$).

Question No. 1.5

Candidates probably not having clearly read the question completely had selected incorrect answers. Considerable number of candidates had failed to select the correct - answer "(4) All of the above". Many candidates had to forego the marks having selected answer "(1) Generating tax revenue for the government".

Question No. 1.6

Most candidates had incorrectly selected answer No. "(1) Rivalry in consumption" as a characteristic of public goods.

Question No. 1.7

Some candidates had understood "which is a main objective" instead of which is **not** a main objective of the government budget and as a result had selected wrong answers. Candidates should understand clearly what is expected in a multiple choice question.

Question No. 1.8

The answers of many candidates were incorrect due to the problem of not studying statistical data relating to Economics. In studying Economics it is compulsory for candidates to peruse the Central Bank Reports. This would be enormously helpful to understand practical usage of the subject matter.

Question No. 1.9

Most of the candidates were capable of understanding savings as a leakage from the circular flow of National Income. Some candidates had given incorrect answers as investments by mixing up leakage and injection.

Question No. 1.10

A large number of candidates had correctly identified that capital accumulation of an economy occurs when an economy increases its stock of capital.

Although it required stating True or False. Most candidates had used "✓" for true and "X" for false for questions 1.11 to 1.15. Candidates should get used to answering questions as per given instructions.

Question No. 1.11

Though a rise in the demand for a commodity without a change in supply causes an increase in both the equilibrium price and the equilibrium quantity of that commodity is a true statement, some candidates had stated it to be a false statement. Candidates should build up a clean understanding as to how equilibrium price and quantity change according to demand and supply.

Question No. 1.12

Although the statement that under the oligopoly there are large number of producers / sellers and customers in the market is “false” some candidates had mixed up with the perfect competition and stated it to be “true” thereby foregoing marks.

Question No. 1.13

Though the correct answer to this question is true, there were candidates who answered it to be false. Candidates should understand that the main reason for government to intervene in the market economy is to correct market failures.

Question No. 1.14

Although this statement relating to determination of fixed exchange rate is false some candidates had stated it to be true.

Question No. 1.15

Even though this statement relating to sustainable development of a country is false. Some candidates had stated it to be true. Candidates should understand that in order to achieve sustainable development there should be an equivalent growth in all the economic, social and environmental sectors.

Question No. 1.16

Most candidates had identified “utility” as the correct answer. But a few who had identified “profits” as the answer, not reading through the question had to forego marks.

Question No. 1.17

Some candidates had incorrectly understood that minimum prices are imposed for consumers. Most candidates however had correctly understood that “price floors” are imposed for the benefit of producers.

Question No. 1.18

Because some candidates overlooked the fact that fiscal policy is government financial policy they had to forego marks by stating monetary policy.

Question No. 1.19

Ability of a country to produce a commodity at a lower opportunity cost than that of another country was incorrectly understood by some candidates as absolute advantage. The correct answer was comparative advantage.

Question No. 1.20

Some candidates had determined the answer as “increasing returns to scale” by incorrectly paying attention to the term “output increases”. The answer to this question is “decreasing returns to scale” because the output increases in a smaller proportion than the increase in all input.

SECTION B

This part consisted of 4 questions and 10 marks for each question.

Question No. 02

- (a) (i) Some candidates had explained economic resources in detail. But what was expected in the question was listing those only. Majority had satisfactorily listed main economic resources.
 - (ii) Most candidates had correctly explained the concept of opportunity cost. Although, some of them had explained the concept correctly, they had failed to provide an example correctly. Some other candidates while explaining the concept instead of the correct answer which is value of the next best alternative foregone in the choice of a particular opportunity, had given the incorrect answer as value of all alternatives foregone.
- (b) Most candidates had clearly stated characteristic of market economic system with facts. But a few candidates had written characteristic of perfect competition instead of the market economic system. Some candidates had written only 3 or 4 characteristics instead of 5. Candidates should understand that in this type of question what is required is stating the characteristics specially and explaining those is unnecessary.

Question No. 03

- (a) Most candidates had correctly identified the institutions in the financial systems in Sri Lanka. But certain candidates had to forego marks by stating names of commercial banks and finance companies.
- (b) (i) Majority of the candidates had not been able to define “Monetary Policy” correctly. Some candidates had mingled up monetary policy and government monetary policy. Although this has been clearly defined in the self-study text published by AAT, it appeared that candidates had not perused that text properly.
- (ii) Some candidates had correctly listed instruments of monetary policy. But those who failed to identify monetary policy correctly, had not done so correctly.

Question No. 04

- (a) Most of the candidates were unable to obtain full marks for this question due to failure to assemble all the facts necessary to explain “the supply of money”. The fact that supply of money is controlled by the Central Bank of Sri Lanka and it interact with other financial institutions was not indicated in many answers.
- (b) (i) For this part relating to causes of inflation the scoring of marks was at a low level. Some candidates had to forego marks by writing answers such as, causes for increase of demand, causes for shifting of the demand curve and causes for increase in supply.

- (ii) In stating consequences for a country like Sri Lanka due to increase in inflation rate, some candidates had performed satisfactorily. Some had failed to score full marks due to repetition of the same answers in different forms. Some candidates had stated incorrectly in the answers that imports decrease due to increase of inflation rate, instead of increase of imports. Candidates should endeavour to gain practical knowledge relevant to Economic concepts and principles.

Question No. 05

- (a) (i) In the calculation of Gross Domestic Product at Market Price, incorrect answers had been given in adjustments by adding exports in addition to net indirect taxes. Further, some candidates had adjusted net factor income from abroad. The answers of those candidates were incorrect because of the irrelevant adjustments. Some candidates could not calculate the Gross Domestic Product at Market Prices because they had not deducted subsidies though indirect taxes had been added.
- (ii) In the calculation of Gross National Product at Market Price, in addition to net factor income from abroad, adjustments for exports and capital depreciation had been incorrectly done.
- (iii) In calculating Net National Product, though adjustments relating to capital depreciation had been correctly done, some candidates could not arrive at the correct answers, because calculations of (i) and (ii) above were incorrect.

On the whole only a lesser number of candidates scored full marks for parts (i), (ii) and (iii).

- (b) In stating key macro-economic objectives a large number of candidates had performed satisfactorily. However, some candidates had foregone marks by stating government budget policies and other sub matters instead of key macro-economic objectives.

SECTION C

Question No. 06 – This is a compulsory question for 20 marks.

- (a) (i) Although some candidates had correctly defined “the short run” and “long run” connecting up variable and fixed factors, some of the candidates had incorrectly defined the short run as less than one year and long run as more than one year.
 - (ii) Majority of candidates had not completed the graph correctly. Assigned price, profit maximizing point at $MR = MC$ and $P = AR$ had not been identified. Some candidates had forgotten to name axis and curves.
- (b) (i) It was required to calculate the equilibrium price of the commodity in this problem in which the supply and demand equations were given. Most of the candidates had correctly calculated the equilibrium price for part (i). Some of them had made arithmetical mistakes in using (+) / (-) signs for figures.

- (ii) In calculating the equilibrium quantity, some candidates had committed errors in substituting the equilibrium price and mathematical calculations. Candidates should ensure attending this type of calculation by substituting formulas correctly. Most of the candidates had obtained full marks for parts (i) and (ii).
- (b) Many candidates had successfully answered. This was an easy question to which full marks could be obtained. Some candidates could not obtain full marks because of their failure to explain correctly and clearly. They had merely stated the facts, which they could have obtained from general knowledge.

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Common facts to consider in order to improve the competency level of the exam candidates:

1. Study of the syllabus completely and thoroughly and paying high concentration on new subject matters.
2. Should not write unnecessary explanations/details when it is expected to write certain and direct answers after reading the question several times.
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 related to this subject.
5. Proper naming and explanation of graphs.
6. Build competencies that are necessary to correctly identify and compare fundamental theoretical concepts, when answering.
7. Should ensure that hand writing is legible and question numbers are placed accurately and accordingly.
8. Adhere to the instructions given in the paper.
9. Improve your knowledge by referring past papers and answers.
10. Should be able to structure the differences between the Economic concepts relatively by a correct understanding of these concepts.
11. Proper time management.
12. Properly check whether question numbers are placed accordingly before handing over of the answer scripts.
13. Sit for the exam with prior a preparation and an utmost expectation of getting through.

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