Examiner's Report

AA1 Examination - January 2018

(AA13) ECONOMICS FOR BUSINESS & ACCOUNTING

It was noted that a majority of candidates had provided satisfactory answers to this Question Paper. However, on an overall consideration it was clear that certain shortcomings were these in the answers provided by many candidates. The observations of examiners who evaluated the answers are shown below:

SECTION A

Objective Test Questions (OTQs)

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

This section carried 40% of the total marks covering an overall wide range of the syllabus. It comprised of basic economic theories and concepts according to the weightages in the syllabus. The question was set on a simple format from Q. No. **1.1** to **1.10** to select the correct answer out of given answers, Q. No. **1.11** to **1.15** to state whether True or False based on the given statements and Q. No. **1.16** to **1.20** to fill the blanks by selecting the correct answer out of the given two answers.

Most of the candidates had provided satisfactory answers to this question and appeared to have obtained a well performed level of marks. However, some shortcomings were observed on answers to some of the questions.

Some of those errors / weaknesses are set out below:

1.1   Limited availability of resources to meet human needs and wants is known as Scarcity and considered as the basis of economics. Majority of the candidates had answered correctly and obtained 2 marks. But instances were seen where some candidates had selected a wrong answer as opportunity cost.

1.2   Although most candidates had identified all the characteristics as relating to indifferences curve and provided correct answers, some who did not know that had gone wrong marking some of them.

1.3   Although answer No. (4) "It earns normal profits in the short run" was the one that is not a characteristic of perfect competition, other wrong answers had been selected by candidates. Candidates should know that an institution in perfect competition earn supernormal profits in the short run equilibrium and could earn only normal profits in the long run.

1.4   A question set to test the knowledge on the concept of production and cost. Due to lack of knowledge of candidates that all factors become variable factors and that there are no factors considerable as fixed factors in the long run, most of the candidates had not been able to provide correct answers. This suggests that their theoretical knowledge is at a low level.

1.5 Most of the candidates had correctly answered this question as broad money supply, while some had written answer (1) monetary base which is incorrect. Candidates should understood that the aggregate of Narrow Money Supply and time and saving deposits held by the public at commercial banks is known as Broad Money Supply.

1.6 Majority of the candidates had correctly understood the currency issue and management is not a function of commercial banks. But some candidates had selected wrong answers due to misunderstanding of "is not" in the question as "is".

1.7 Majority of candidates successfully provided answers that cost motive is not a motive for demanding money under the concept of money and price level, which indicated that they had a proper understanding of this topic.

1.8 It appeared that some candidates had selected answers (1) and (4) as instruments of quantitative control for the monetary policy of the Central Bank of Sri Lanka without understanding the question properly. However, there was a considerable number of candidates who selected (3) Bank rate policy which was the correct answer.

1.9 Some candidates had selected answer (1) and (4) erroneously for this question. It appeared that the knowledge on the subject was not adequate. Only a few candidates had select (2) liquidity and profitability as the correct answer.

1.10 Although this was a question to test the practical knowledge relating to per criteria income in Sri Lanka according to Central Bank report 2016, it appeared that perusal of reports associated with the subject, such as Central Bank Reports had been minimal, because answers (2) and (3) had been selected as correct answers. These was only a few candidates who selected correct answer (4).

1.11 - 1.15 The answers to these questions had to be indicated by stating True of False. Although the overall performance on these questions was satisfactory, a large number of candidates had provided incorrect answers to Q. No. **1.12** and **1.14**. As regards Q. No. **1.12** on Marginal Cost, candidates had given wrong answers stating "True", without theoretical understanding of the subject and stated "False" to Q. No. **1.14** relating to Marginal Cost and Marginal Revenue which was incorrect. This indicates that knowledge on cost concept and studying of texts are minimal.

1.16 - 1.20 The correct answers had to be selected out of given answers. Candidates had provided correct answers to Q. No. **1.16, 1.17** and **1.20**. these problems envisaged testing of knowledge on market products, cost concept and economic development. Due to lack of knowledge and understanding some candidates were unable to obtain marks for parts **1.18** and **1.19**.

With regard to Q. No. **1.18,** although the difference between the equilibrium price of a commodity and the price at which the supplier is prepared to sell is the produces surplus, a considerable number of candidates had erroneously identified it as consumers' surplus.

What was required by Q. No. **1.19** was calculation of the economic growth rate for the 2016, based on data provided for the years 2015 and 2016. A considerable number of candidates had selected 2%, instead of the correct answers of 4%.

SECTION B

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

Question No. 02 – 10 marks
(Compulsory Question)

(a) This is a question testing knowledge on factors of production (economic resources). Majority of the candidates had correctly and explained the four (4) factors of production and earned full marks. Those who only stated the factors of production and not explained have failed to obtain full marks. A few candidates had not been able to correctly explain capital.

(b) Having correctly simplified the two demand and supply equations using the given figures and arriving at the equilibrium price as Rs.30/- and the equilibrium quantity as 40 units, the question had been solved correctly. It appeared that a few candidates had not been able to simplify the equations and arrive at the equilibrium price and to arrive at the equilibrium quantity by substituting the equilibrium price. This question could be considered as an easy one to which full marks could have been obtained.

Question No. 03 – 10 marks
(Compulsory Question)

(a) It was expected of this question to explain what is meant by in "Law of Diminishing Marginal Utility" with an example. Although a similar question to test theoretical knowledge of candidates on consumer behaviour had been set every year, candidates had not provided correct answers. If candidates had studied properly this question would easily have been answered. Only a lesser number of candidates had correctly indicated that when total utility is increased by diminishing rate, marginal utility is positive eventhough marginal utility is diminishing. Some candidates had failed to give examples for diminishing marginal utility.

(b) A question that can easily be answered by candidates. A majority of candidates obtained the full 4 marks providing correct determinants of demand. A few had written 3 or 2 determinants. Some candidates had written irrelevant answers such as the cost to be incurred on production factors and producers expectations, instead of factors affecting demand.

Question No. 04 – 10 marks
(Compulsory Question)

(a)   Under this the main characteristics of the government budget have been tested. Many candidates had written only about categories of Expenditure and that the budget depended on taxes. Their presentation of matters appeared to be without proper understanding, stating the incorrect facts that the budget is to present facts about a deficit budget and budget relates to previous year. They have not understood that the budget is prepared for a future year.

Some other candidates had written incorrect explanations that it is a document about financial policy and determination of interest rates and expenses for this year. Only about half the number of candidates could only obtain full marks.

(b)   Most of the answers to this question set to explain the consequences of imposing a unit tax for a commodity had been unsuccessful. Many candidates have mentioned matters like decrease of demand, increase of prices, increase of government tax income in the economy after imposing of the tax-which are not main matters. The shifting of the supply curve to left after imposing the tax which is a main consequence have been mentioned by only few candidates in the answers.

Some candidates although the graph had been drawn and named correctly, had not explained about the same. Some other candidates, although had classified the taxes and written about shifting of taxes, the consequences of imposing a tax had not been explained. It could be considered as a question for which most candidates could not provide proper answers. The understanding of candidates had been very low and only a very few earned full marks.

Question No. 05 – 10 marks
(Compulsory Question)

(a)   This question referring to basic concepts of international trade tests knowledge on the difference of comparative advantage and absolute advantage. Candidates who obtained low marks for this question were in the majority. Most candidates answered this question unsatisfactorily. Some candidates had mixed up comparative advantage and absolute advantage and written the answers.

Only a few candidates had provided the correct answer that identifying whether a certain country has comparative advantage in producing a certain commodity could be done by its ability to produce a commodity or service at a lower opportunity cost than any other country. Candidates should understand that absolute advantage is the ability of a country to produce a commodity or service at a cost lower per unit than the cost at which any other country produces that good or service.

(b)   For this question that requires to explain 3 disadvantages of international trade full marks were earned by a lesser number of candidates. A large number of candidates had obtained 2 to 4 marks. Many candidates have written general matters such as bringing in drugs into the country, inability to protect industries in the country outflow of money by imports. But they had not been able to write specific matters such as import of harmful products, over specialization, rising competition among countries, deterioration of domestic industries because they had not studied these aspects properly.

SECTION C

Question No. 06 – 20 marks
(Compulsory Question)

(A)   This was a question relating to national Accounts. It was required to make calculations using hypothetical information relating to national accounts of or given one year period.

    (a)   Gross Domestic Expenditure had to be calculated. Most of the candidates earned the full marks allocated to this question. Some of the candidates had to forego total marks because of utilizing only a portion of the data, while some lost marks due to mathematical errors such as mistakes in additions. A considerable number had disregarded Gross Domestic Capital Formation in calculating the Gross Domestic Expenditure.

    (b)   Some of the candidates failed to adjust net exports in calculating Gross Domestic Product at market prices. Some candidates had mixed up the relevant concepts that had to be adjusted.

    (c)   It was required to calculate the Gross National Product at market prices. The answers of some candidates to this part were incorrect, because instead of adding Net Factor Income from abroad to Gross Domestic Product at market prices they had deducted it.

    (d)   Although Net National Product at market prices should be obtained by deducting capital Depreciation, some candidates had erroneously added it and as a result the answers were incorrect. However, most candidates had adjusted it correctly.

There were candidates who obtained correct answers with proper adjustments to all the 4 parts (a), (b), (c) and (d), while the reason for unsatisfactory answers in the case of the others appeared to be lack of experience in solving these types of questions. Some candidates did not seen to have a proper understanding of the equation $E = C+I+G+(X-M)$ relating to national expenditure. There were candidates who obtained the full 10 marks, by adjusting the data step by step in an orderly manner. This was a question to which marks could have been easily earned without devoting much time, by candidates who perused the subject matter in a proper manner.

(B)   It was required to explain what is meant by Fiscal Policy with an example for a Fiscal Policy instruments. Most candidates due to lack of proper understanding had mixed up with the monetary policy which is stated in the beginning of the question and Fiscal Policy due to not studying properly. Several candidates was successful in providing correct answers and earning full marks.

(C)   (a)   Demand Pull Inflation had been tested and most of the candidates had provided satisfactory answers to this part of the question. Some of the candidates had mentioned about cost push inflation also because that was started in the statement of the question. The reason for this appears to be not properly reading and understanding the question.

    (b)   Some candidates had not provided proper answers relating to steps to be taken by a country for reducing inflation. Matters such as having more direct taxes, cutting down government expenditure implementation of price control policies, granting subsidiaries for production, etc. had been satisfactorily mentioned only scarcely. Some candidates had provided incorrect answers such as, levying of a production tax and increasing the money supply. It could be concluded through the answers provided by them that their understanding of the subject matter was at a minimum level.

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

(1) Study the syllabus completely and thoroughly and paying high concentration to 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 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 preparation and an utmost expectation of getting through.

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